Issuer Filing Information

Intesa Sanpaolo S.p.A.

ISSUER FILING INFORMATION

Type of Information:	Issuer Filing Information
Date of Filing:	15 April 2020
Company Name:	Intesa Sanpaolo S.p.A.
Name and Title of Representative:	Fabio Francesco Ferrari, Head of Funding and Counterbalance Capacity
Address of Registered Office:	Piazza San Carlo, 156, 10121 Turin, Italy
Telephone:	+39-011-5551
Liaison Contact:	Attorney-in-Fact: Eiichi Kanda, Attorney-at-law Chihiro Ashizawa, Attorney-at-law Yu Nimura, Attorney-at-law Clifford Chance (Gaikokuho Kyodo Jigyo) Address: Palace Building, 3rd floor 1-1, Marunouchi 1-chome Chiyoda-ku, Tokyo 100-0005 Telephone: 81-3-6632-6600
Financial Instruments Exchange Market:	Not applicable
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Notes to Investors:

1. The TOKYO PRO-BOND Market is a market for professional investors, etc. (*Tokutei Toushika tou*) as defined in Article 2, Paragraph 3, Item 2(b)(2) of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Notes listed on the market ("**Listed Notes**") may involve high investment risk. Investors should be aware of the listing eligibility and timely disclosure requirements that apply to issuers of Listed Notes on the TOKYO PRO-BOND Market and associated risks such as the fluctuation of market prices and shall bear responsibility for their investments. Prospective investors should make investment decisions after having carefully considered the contents of this Issuer Filing Information.

2. The regulatory framework for the TOKYO PRO-BOND Market is different in fundamental respects from the regulatory framework applicable to other existing exchange markets in Japan. Investors should be aware of the rules and regulations of the TOKYO PRO-BOND Market, which are available on the website of Japan Exchange Group, Inc.

3. Tokyo Stock Exchange, Inc. does not express opinions or issue guarantees, etc. regarding the content of this Issuer Filing Information (including, but not limited to, whether this Issuer Filing Information contains (a) a false statement or (b) lacks information on: (i) important matters that should be announced or (ii) a material fact that is necessary to avoid misleading content) and shall not be liable for any damage or loss.

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shall constitute the Issuer Filing Information stipulated in Article 27-32, Paragraph 1 of the FIEA.

INTESA SANPAOLO

Annual Report 2019

Consolidated Financial Statements

Parent Company's Draft Financial Statements

Ordinary Shareholders' Meeting of 27 April 2020

Report and consolidated financial statements of the Intesa Sanpaolo Group 2019

Report and Parent Company's financial statements 2019

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 9,085,663,010.32 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups

Contents

The Intesa Sanpaolo Group

The Intesa Sanpaolo Group: presence in Italy

Banks

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,033	Fideuram	96
	Banca IMI	1
	Banca 5	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
881	Fideuram	56

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
739	Fideuram	42
	Banca IMI	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
638	Fideuram	26

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
228	Fideuram	10

Figures as at 31 December 2019

Product Companies

Bancassurance and Pension Funds

Asset Management

Fiduciary Services

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK بنك الإسكندرية | BANCA IMI | BANCA INTESA | BANCA INTESA Beograd

CIB BANK | EXIMBANK | FIDEURAM BANK LUXEMBOURG | FIDEURAM INTESA SANPAOLO PRIVATE BANKING

INTESA SANPAOLO BANK Albania | INTESA SANPAOLO BANK LUXEMBOURG | INTESA SANPAOLO BANK Romania | INTESA SANPAOLO BANK

INTESA SANPAOLO BANKA Bosna i Hercegovina | INTESA SANPAOLO BANK IRELAND | INTESA SANPAOLO BRASIL SA | INTESA SANPAOLO PRIVATE BANK SUISSE Morval

PRAVEX BANK | PRIVREDNA BANKA ZAGREB | VÚB BANKA

AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

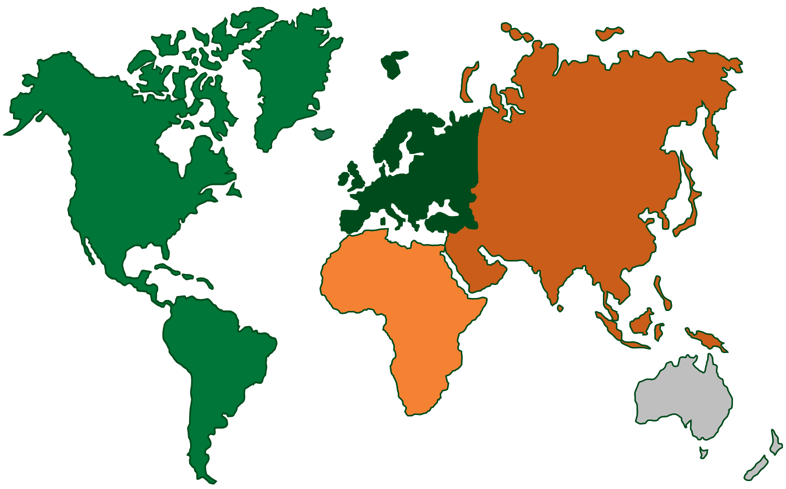
Representative Offices
Sydney

ASIA

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

EUROPE

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



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	35
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	48
Croatia	Privredna Banka Zagreb	181
Czech Republic	VUB Banka	1
Hungary	CIB Bank	64
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram Bank Luxembourg	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	33
Russian Federation	Banca Intesa	29
Serbia	Banca Intesa Beograd	155
Slovakia	VUB Banka	192
Slovenia	Intesa Sanpaolo Bank	49
Switzerland	Intesa Sanpaolo Private Bank (Suisse) Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex Bank	45
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Bank (Suisse) Morval	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	175

Figures as at 31 December 2019

(1) European Regulatory & Public Affairs

Product Companies

PBZ CARD

E-money and Payment Systems

CIB LEASING | INTESA LEASING Beograd | PBZ LEASING | VÚB LEASING

Leasing

EURIZON ASSET MANAGEMENT | FIDEURAM ASSET MANAGEMENT IRELAND | INTESA INVEST Beograd

INTESA SANPAOLO LIFE | VÚB ASSET MANAGEMENT | 意才 YI TSAI

Wealth Management

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

Board of Directors

Chairman	Gian Maria GROS-PIETRO
Deputy Chairperson	Paolo Andrea COLOMBO
Managing Director and Chief Executive Officer	Carlo MESSINA [(a)]
Directors	Franco CERUTI Anna GATTI Corrado GATTI [(1)] Rossella LOCATELLI Maria MAZZARELLA Fabrizio MOSCA [(*)] Milena Teresa MOTTA [(*)] Luciano NEBBIA Bruno PICCA Alberto Maria PISANI [(**)] Livia POMODORO Andrea SIRONI [(2)] Maria Alessandra STEFANELLI Guglielmo WEBER Daniele ZAMBONI Maria Cristina ZOPPO [(*)]
Manager responsible for preparing the company's financial reports	Fabrizio DABBENE
Independent Auditors	KPMG S.p.A.

(a) General Manager
(*) Member of the Management Control Committee
(**) Chairman of the Management Control Committee
(1) On voluntary suspension effective 13 December 2019
(2) Was co-opted as a Director on 2 December 2019 replacing outgoing Director Giovanni Gorno Tempini

Letter from the Chairman

Distinguished Shareholders,

economic growth was weak in 2019, also due to non-economic factors including trade conflicts, such as the tariff war between the United States and China, armed confrontations in various areas of the world, and natural disasters, some of which appear to be rooted in climate change.

The start of 2020 saw an easing of trade tensions between the United States and China. However, a new disturbance factor has emerged, the COVID-19 epidemic, whose potential effect on world growth cannot yet be quantified.

In Europe, tensions between and within countries seem to have eased at least temporarily, and the new European Commission is now busy at work, also in handling the management of the Brexit process. The European integration project needs to be updated to take account of the changes that have taken place since its design, as well as popular demands, and the economy is still weak, also due to uncertainty about the evolution of the current epidemic.

Awareness has grown worldwide of the need to make economic and social wellbeing compatible with environmental protection. The achievement of this goal will require changes to be made to many of the existing production cycles, energy systems and logistical systems. Significant new investment will be required, which will contribute to reviving real growth in the world economy. Our Group, which has chosen to be a driver of sustainable and inclusive growth, is making a concrete contribution to these developments through its commitment to ESG activities: we are included in the "Climate A List 2019" of the Carbon Disclosure Project, and are the only Italian bank present in the MSCI, Dow Jones Sustainability, Corporate Knights 2020 Global 100 Most Sustainable Corporations in the World. We are already funding the necessary investments with an initial fund of 5 billion euro for the Circular Economy, and we will support the European Green Deal, with a programme of disbursements of 50 billion euro in Italy over the coming years.

Markets are significantly influenced by current technological trends, as well as socio-economic developments, and by the actions of governments and regulatory and supervisory authorities. The use of digital solutions is rapidly expanding in financial and banking services: over 70% of transactions is already carried out through direct channels. Intesa Sanpaolo has invested significantly in digital solutions, apps and internet banking: 5.5 million customers use the new mobile app, through which they make 50% of their purchases and sales in financial markets, for example. 85% of our products are available on multi-channel platforms, where digital sales represent 9.2% (+88% on the previous year). Making these channels easily accessible, effective and satisfactory for our customers, in addition to being secure, requires new physical structures, new skills, and major investment in IT systems and data management and protection. Digitisation not only makes the interaction with our customers more effective, but it also improves the Bank's overall efficiency. This is the path of growth that Intesa Sanpaolo has adopted for many years now and in which we will continue to invest.

On the one hand, this evolution is linked to significant economies of scale that are changing competition structures and, on the other hand, to significant opportunities for services, arising from the possibility of generating a variety of offers from the data held by the Bank. This is something customers appreciate all the more because these offers come from the same institution, which is able to develop integrated services and prevent their personal data from being disclosed to a variety of operators that are not very reliable, in addition to providing a guarantee of trust that becomes increasingly solid as it becomes more extensive and diversified.

Asset management plays a major and increasingly important role in our business, and our Group is the leader in this sector in Italy, with around one trillion euro in savings deposited, held under administration or managed, of which 426 billion euro in direct deposits from banking business and 166 billion euro in direct deposits from insurance business and insurance reserves. The increase in liquid and similar assets held by our customers gives them the opportunity to transfer part of those assets (as they are in fact doing) to our wealth management services, an area in which Intesa Sanpaolo excels.

We are the top life insurance company in Italy and we are growing in P&C non-motor insurance business. We intend to continue this expansion, which is why we are developing a hub in Turin where we are concentrating our resources aimed at expanding our range of insurance offers for our customers.

Serving our customers well, and efficiently, means working with the most effective structures and some market functions may be better performed by structures serving a variety of operators. We are seeking agreements with segment operators that have scale and broad outreach. We have done this with Nexi, a leader in the payment systems sector, and with SisalPay, which provides us with a network of 50,000 contact points with customers. We are enhancing our offer range with value-added services, which are appreciated by those who receive them as they are provided by specialist structures, capable of producing value at much lower costs than non-specialist operators. These include our offering of medical services, which we will expand with the acquisition of RBM, and the offering of specific services to smaller companies, as we do with For Value, a structure that relieves smaller companies from the burden of tasks that take up valuable time of their executives and can now be assigned to our specialist operators, in line with the practice adopted by larger companies.

Our commitment to innovation has a threefold objective: developing innovations to improve our services, developing innovations for corporate customers, and promoting innovations to be offered on the market. The Innovation Center is able to cover all three objectives. It works with the major Universities and the best Research Centres, in Italy and around the world. Through the financial structures linked to it, and in particular Neva Finventures, it is able to offer knowledge, applications, and opportunities in world markets for the financing and promotion of innovations, either under development or being implemented. It performs a supporting role for the Group in relation to the Green and Circular Economy.

The Group's activities in the Corporate segment are increasingly focused on the global markets. These activities have grown by expanding the Group's presence in the international markets with loans and financial transactions in favour of companies from Italy and other countries. The Group has gained a strong reputation and a very good profitability level in this sector.

The Group's subsidiaries and international branches contribute to our international presence. The most recent development of this presence is the fund distribution licence, obtained from the Chinese authorities, which is the first granted to a foreign-controlled company and enables us to participate in a large and rapidly growing wealth management market.

The Group is rapidly changing its structure, developing activities that are attracting the most market interest, and we are prioritising investments in these activities because they will make a major contribution to the future sustainability of our operations. Human capital is our most important resource, not only as a share of the resources generated by the operations it is allocated to, but, above all, as a key factor for our future development. We need to plan the current and future composition of our human capital, taking into account the evolution of the business models envisaged in the business plans. The aim is to ensure that we harmonise the evolution of demands and the availability of skills and experience in ways that reflect the sustainable personal development projects agreed with the people involved. This requires a long-term vision of our human capital needs and evolutionary planning of future demands, designed to offer our people suitable positions with attractive prospects. Our people's commitment, which is the foundation for our Group's success today, will be even more decisive in the future in enabling Intesa Sanpaolo to perform its function as a driver of sustainable and inclusive development for the communities in which it operates.

In February this year, our Company made a Public Exchange Offer for the entire share capital of UBI Banca. The effectiveness of this transaction is conditional upon the delivery of at least 67% of this share capital, although Intesa Sanpaolo has reserved the right to waive this condition if the offer is accepted by at least 50% of the share capital plus one share. The aim of the transaction is to consolidate two healthy banking groups, with very similar business models, strongly focused on financing the economic activities of businesses and households in the areas where they operate. The transaction would strengthen Intesa Sanpaolo's position, thanks to the acquisition of highly professional banking personnel and quality customers, which would have access to the resulting group's much greater investment capacity, organised with the aid of new local structures that would benefit from the professional expertise acquired. The new group would be in the best position to successfully leverage the opportunities offered by changing technology and markets, extending the benefits of its significant presence in the retail and corporate banking, asset and wealth management, and insurance markets, together with a rapidly expanding international presence, to the customers acquired. UBI shareholders have been offered 17 Intesa Sanpaolo shares for every 10 UBI shares. This transaction will be submitted to you, with the increase in Intesa Sanpaolo's share capital to be allocated to service the Public Exchange Offer, at the Extraordinary Shareholders' Meeting called for 27 April 2020, at the same date and venue as the Ordinary Shareholders' Meeting called to approve the financial statements as at 31 December 2019.

Intesa Sanpaolo is an essential element in the production of wealth in the economic and social system, both because it protects savings and channels them towards prudently selected and carefully monitored productive investments, and because it directly generates and distributes wealth. In 2019 alone, we facilitated the return to performing status of 18,500 companies (112,000 since 2014), safeguarding around 93,000 jobs (560,000 since 2014).

The economic value generated in 2019 – over 17 billion euro – has been, or will be, assigned as follows: 90% to stakeholders, of which 38% to the people that work for us. A share of the profit has also been allocated to support high social impact projects and help people suffering from significant social and economic vulnerability. In accordance with the ECB's recommendation, it is proposed to the Shareholders' Meeting that the approximately 20% initially proposed for the distribution of dividends – 3,362 million euro, against the Group's consolidated net income of 4,182 million euro and the Parent Company's net income of 2,137 million euro – be kept among the available reserves; it can be distributed when the conditions permit it. The remaining economic value was absorbed by suppliers, the government, entities, institutions and communities.

Gian Maria Gros-Pietro

Intesa Sanpaolo Group
Report on operations and consolidated financial statements

Introduction

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's Consolidated financial statements have been prepared in compliance with 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 EC Regulation 1606 of 19 July 2002. In particular, the first-time adoption of IFRS 16 - Leases from 1 January 2019 should be noted.
The Consolidated financial statements as at 31 December 2019 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015, with Regulation of 22 December 2005, which issued Circular 262/05, and subsequent updates. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.
The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows and the Notes to the financial statements and the related comparative information; the Report on operations on the economic results achieved and on the Group's balance sheet and financial position has also been included.
In support of the comments on the results for the year, the Report on operations also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments. The reclassified statements presented and commented on in this Report on operations have been amended slightly with respect to those published in 2018, in order to take into account the adoption of IFRS 16.
The Report on operations contains financial information taken from or attributable to the Consolidated financial statements, as well as other information – for example, figures on quarterly trends, and other alternative performance measures – not taken from or directly attributable to the Consolidated financial statements. In this regard, see the chapter Alternative Performance Measures in the Report on operations.
Information on corporate governance and ownership structures required by Art. 123 bis of the Consolidated Law on Finance is set forth, as permitted, in a separate report, approved by the Board of Directors and published together with these financial statements, which can be viewed in the Governance section of the Intesa Sanpaolo website, at www.group.intesasanpaolo.com.
The Consolidated Non-financial Statement prepared pursuant to Legislative Decree 254 of 30 December 2016, which describes the environmental, social and personnel-related matters, has been published – as permitted – as a separate report together with these financial statements and is available for consultation in the Sustainability section of the same website.
The information on remuneration required by Art. 123 of the Consolidated Law on Finance and the disclosure required by Basel Pillar 3 are also published and made available on the website in accordance with the related approval processes.

NOTICE

Following the Recommendation of the European Central Bank dated 27 March 2020 regarding dividend policy in the aftermath of the COVID-19 epidemic, the Board of Directors, at its meeting of 31 March 2020, modified the Proposals to the Shareholders' Meeting in respect of the allocation of the net income resulting from the Financial Statements as at 31 December 2019, that had been previously approved on 25 February 2020, as shown on page 591 of this document.
The information contained in the Report on operations concerning the economic value generated and distributed, the payout and the dividend yield has not been updated. Likewise, the regulatory capital and prudential ratios have remained unchanged, in line with the corresponding supervisory reporting submitted in February.

Report on operations

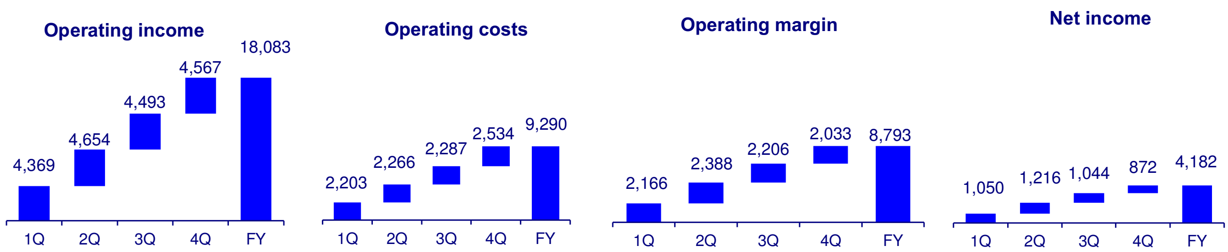
Overview of 2019

Income statement figures and alternative performance measures (*)

Consolidated income statement figures (millions of euro)	2019	2018	**Changes** amount	**Changes** %
Net interest income	7,005	7,271	-266	-3.7
Net fee and commission income	7,962	7,952	10	0.1
Income from insurance business	1,184	1,084	100	9.2
Profits (Losses) on financial assets and liabilities designated at fair value	1,928	1,472	456	31.0
Operating income	18,083	17,813	270	1.5
Operating costs	-9,290	-9,487	-197	-2.1
Operating margin	8,793	8,326	467	5.6
Net adjustments to loans	-2,089	-2,394	-305	-12.7
Net income (loss)	4,182	4,050	132	3.3

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

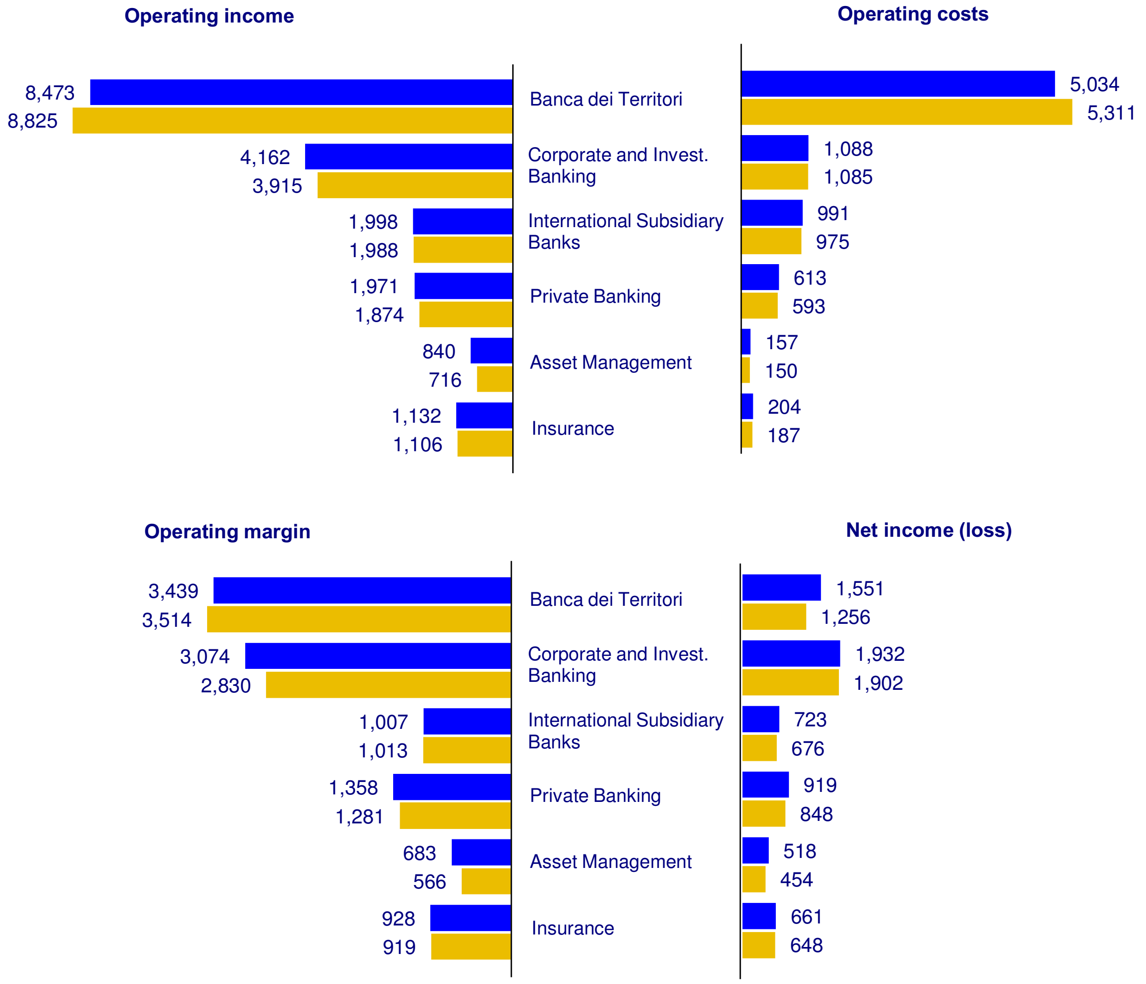
Quarterly development of main consolidated income statement figures (millions of euro)



2019
2018

(*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations in the financial statements.

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



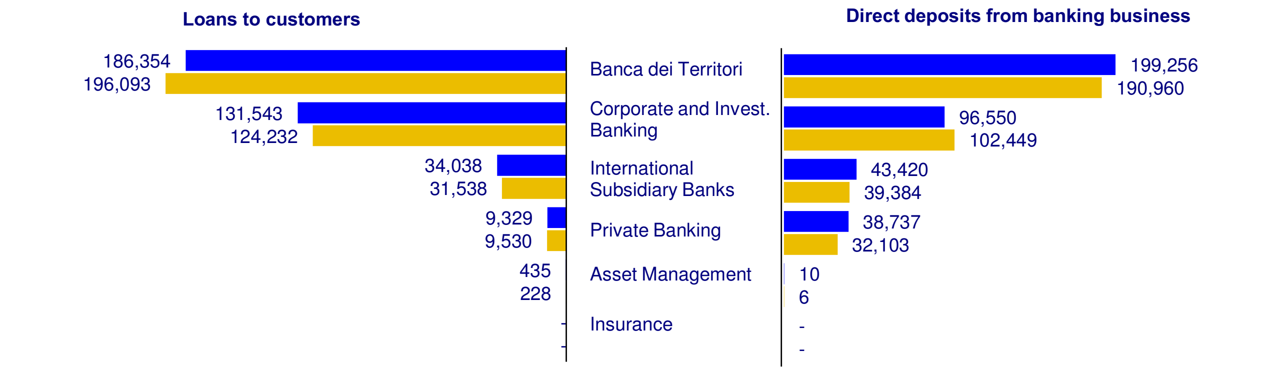
(*) Excluding Corporate Centre

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

Balance sheet figures and alternative performance measures(*)

Consolidated balance sheet figures (millions of euro)	31.12.2019	01.01.2019	Changes amount	Changes %
Financial assets	146,570	116,160	30,410	26.2
Financial assets pertaining to insurance companies measured pursuant to IAS 39	168,814	150,498	18,316	12.2
Loans to customers	395,229	393,550	1,679	0.4
Total assets	816,102	789,385	26,717	3.4
Direct deposits from banking business	425,512	415,082	10,430	2.5
Direct deposits from insurance business and technical reserves	165,838	149,358	16,480	11.0
Indirect deposits:	534,349	495,810	38,539	7.8
of which: Assets under management	*357,998*	*330,594*	*27,404*	*8.3*
Shareholders' equity	55,968	54,024	1,944	3.6

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



(*) Excluding Corporate Centre

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

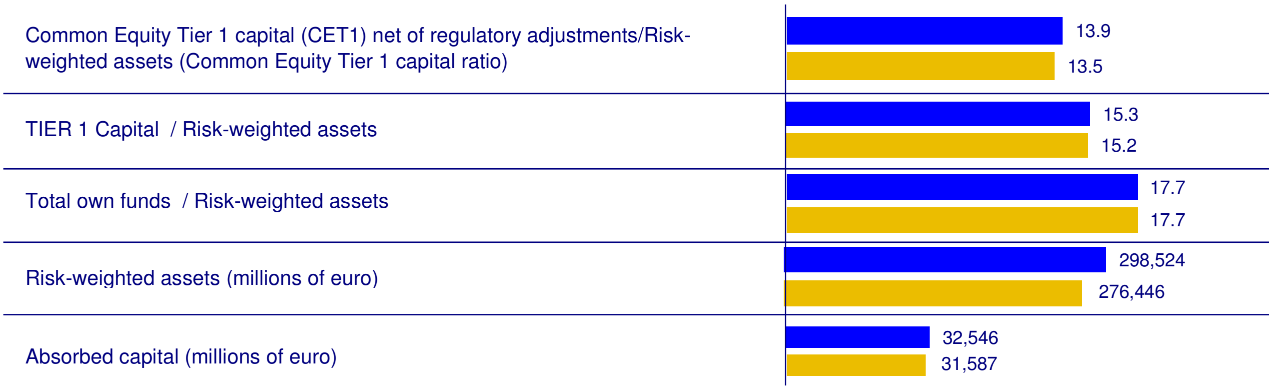
31.12.2019

01.01.2019

(*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations in the financial statements.

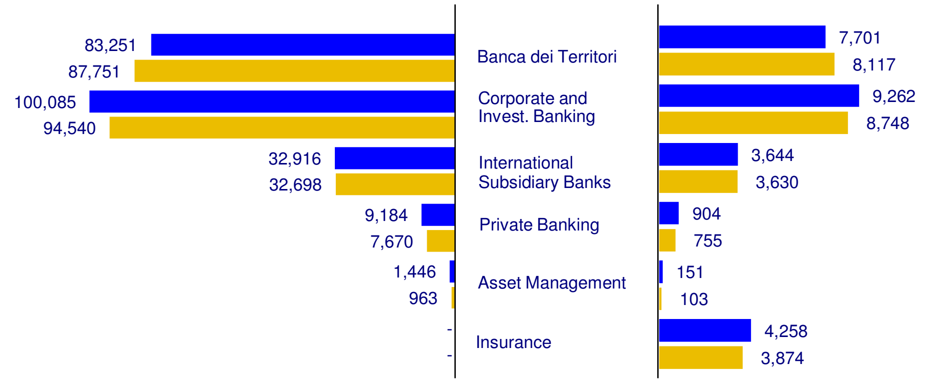
Alternative performance measures and other measures (*)

Consolidated capital ratios (%)



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

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



(*) Excluding Corporate Centre

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

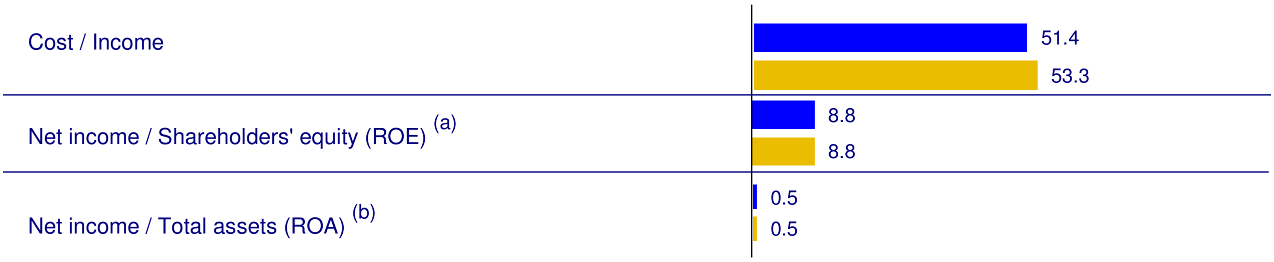
(*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations in the financial statements.

Information on the stock	2019	2018
Number of ordinary shares (thousands)	17,509,728	17,509,357
Share price at period-end - ordinary share (euro)	2.349	1.940
Average share price for the period - ordinary share (euro)	2.108	2.567
Average market capitalisation (million)	36,911	44,947
Shareholders' equity (million) (*)	55,968	54,024
Book value per share (euro) (*)	3.219	3.115

Long-term rating	2019	2018
Moody's	Baa1	Baa1
Standard & Poor's Global Ratings	BBB	BBB
Fitch	BBB	BBB
DBRS Morningstar	BBB (high)	BBB (high)

(*) Book value per share does not consider treasury shares.

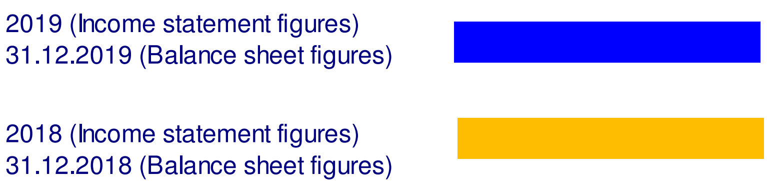
Consolidated profitability ratios (%)



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

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

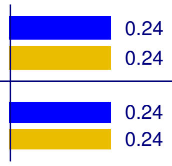
(b) Ratio between net income and total assets.



Earnings per share (euro)

Basic earnings per share (basic EPS) (c)

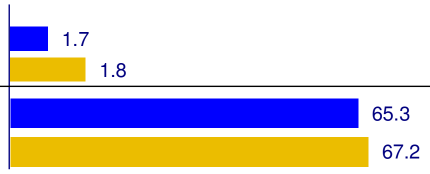
Diluted earnings per share (diluted EPS) (d)



Consolidated risk ratios (%)

Net bad loans / Loans to customers

Cumulated adjustments to bad loans / Gross bad loans to customers



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

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

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

Operating structure	**31.12.2019**	**31.12.2018**	**Changes amount**
Number of employees (e)	**89,102**	**92,241**	**-3,139**
Italy	65,705	68,435	-2,730
Abroad	23,397	23,806	-409
Number of financial advisors	**4,972**	**5,150**	**-178**
Number of branches (f)	**4,799**	**5,302**	**-503**
Italy	3,752	4,217	-465
Abroad	1,047	1,085	-38

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

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

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

2019 (Income statement figures)
31.12.2019 (Balance sheet figures)

2018 (Income statement figures)
01.01.2019 (Balance sheet figures)

Executive summary

Intesa Sanpaolo in 2019

Economic trends in 2019

The year 2019 was affected by the trade war between the United States and China, which led to a significant increase in tariffs and a sharp drop in trade between the two countries. The repercussions affected the rest of Asia and Europe. Global manufacturing continued to slow down until the autumn quarter, when it started to show signs of stabilising. The US economy has begun on a downward path. Unemployment has fallen to below 4%, but signs of wage pressure are still limited. Inflation is back below 2%. The Federal Reserve has responded to the risks of slowdown with three cuts in official rates, for a total of 75 basis points. The slowdown in the emerging countries, including India and China, continued, and Latin America felt the effects of the downturn in Mexico. In the countries where ISP subsidiaries are based, despite having slowed down growth was still strong in Hungary, whereas Slovakia and Slovenia experienced a significant downturn. The countries of South-Eastern Europe also slowed down, although Romania was able to maintain a better pace. Growth also slowed down in Russia, but picked up in Ukraine and Moldova. Egypt continued to stand out as a dynamic economy.
Growth slowed down in the Eurozone, due to the decline in manufacturing, particularly in Germany. Fiscal policy was eased off slightly, while consumption was boosted by rising household income. The unemployment rate fell to 7.5%. Inflation fell below 1%, a long way from the European Central Bank's target, bouncing back only at the end of the year. The Italian economy remained in a phase of substantial stagnation, with GDP growth estimated at just above zero. Industrial production decreased. However, the construction and, in particular, the services sectors posted stronger performance. The unemployment rate fell to 9.7% in November and inflation was 0.5% in December. The public finances performed better than expected: the deficit amounted to 2.2% of GDP, but the debt-to-GDP ratio was still on the rise.
The European Central Bank responded to the economic slowdown with a series of measures, including a new cycle of Targeted Long-Term Refinancing Operations (TLTRO III), a reduction in the deposit rate to -0.50%, and a resumption of net purchases of securities. As short-term rates fell further, medium and long-term rates declined. Government bond yields also fell. The spread of 10-year BTP on German securities remained very high until mid-August, almost always above 200 bps. After the change in parties with a political majority in Italy, this spread fell rapidly to 131 bps in September, settling to between 150 and 173 bps in the final months of 2019. On the currency markets, the euro lost ground against the dollar, although it only moved within a relatively narrow range and has showed signs of recovery since October.
Against this background, bank interest rates reached new lows. The year 2019 started with upwards adjustments to interest rates on new loans, although these were small and not seen across the board. From the summer, this phase gave way to renewed declines. In terms of annual average, the interest rate on outstanding loans fell slightly. The cost of the stock of customer deposits was lower than in 2018, due to the shifting of the aggregate towards less costly forms of funding, current account interest rates remaining at close to zero, and the decrease in bond interest rates. The spread between lending and funding rates in terms of annual average was unchanged on 2018.
In the credit market, the strong growth in loans to households continued, driven by mortgages and consumer credit. In contrast, loans to business fell again, against a background of continued sluggish demand and high liquidity. Banks have continued to make progress in reducing their risk assets, thanks to lower inflows of non-performing exposures, recovery activities, and securitisations. The stock of bad loans also fell. Customer deposits recovered more strongly than expected, driven by the performance of deposits, particularly for demand deposits. This was accompanied by a rapid improvement in bonds, where the decline in stock halted and issues resumed on wholesale markets. With regard to assets under management, net inflows to mutual funds and portfolio management schemes continued to be weak. In particular, the first half of the year was characterised by negative net inflows attributable to the overhang from the disappointing performance in 2018, followed by improvement in the second half. Nevertheless, assets under management grew robustly thanks to the very strong performance of the equity markets and the decline in the sovereign spread. Against this backdrop, collected premiums for life insurance were substantially resilient thanks to growth in traditional policies.

The results for 2019

IFRS 16 came into force on 1 January 2019. This new financial reporting standard, which replaces IAS 17, has an impact on the method of accounting for leases, as well as rental, hire, lease and loan agreements, introducing a new definition based on the transfer of the "right of use" of the asset leased. The new standard requires all leases to be recorded by the lessee in the Balance Sheet as assets and liabilities. It introduces a different method of recognition for the costs: in IAS 17, lease payments were reported under the Income Statement caption administrative expenses, whereas under IFRS 16, the expense is reported both through the amortisation of the asset related to the "right of use" and as an interest expense on the payable.
The chapter "Accounting policies" describes the qualitative and quantitative disclosure regarding the first-time adoption of the new standard, which highlights the nature of the changes in the accounting approach for leases, the main choices made by the Group, and the impacts of the first-time adoption.
With regard to the interpretation of the income statement results and the balance sheet figures, please note that from the first quarter of 2019 – and, therefore, also in this Annual Report – the reclassified statements were subject to marginal changes to take account of the adoption of the new standard. In particular, specific sub-captions have been added to the Balance Sheet, respectively, under property, equipment and intangible assets, to separately show the rights of use acquired through the

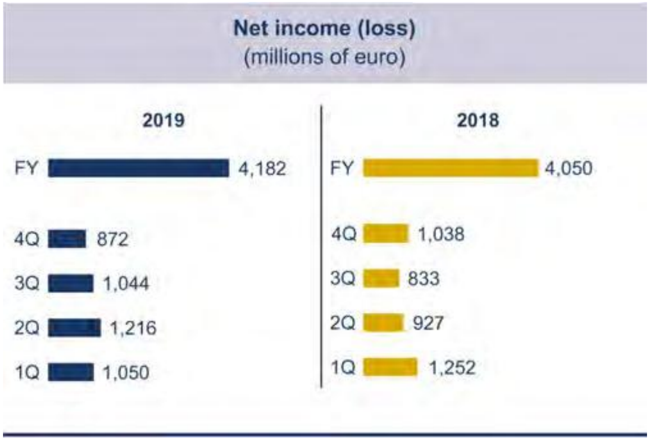
lease, and to the other liabilities, to separately show the lease payables. With regard to the comparative information, despite the Group's decision to use the modified retrospective approach for the first-time adoption of IFRS 16, which does not require the restatement of the comparative information, the income statement and balance sheet figures affected by the new standard have been restated – solely in the reclassified statements – to enable comparisons and comments on a like-for-like basis. Specifically, in the reclassified balance sheet and the related tables in the report on operations, the balance sheet figures as at 31 December 2019 are compared with the corresponding figures as at 1 January 2019, which include – where applicable – the effects of the first-time adoption of IFRS 16.

The Intesa Sanpaolo Group closed its income statement for 2019 with net income of 4,182 million euro, up by around 3.3% on 4,050 million euro for the previous year, which also included the positive effect of the sale of the interest held in NTV - Nuovo Trasporto Viaggiatori (246 million euro net of tax effect) and the net gain resulting from the signing of the agreement with Intrum for the strategic partnership regarding non-performing loans (438 million euro net of tax effect).
The change was driven by a rise in operating income, a fall in operating costs, and lower adjustments for credit risk. The amount of levies and charges for the banking system was still significant, although slightly lower than in 2018.

The detailed breakdown of the components of operating income shows net interest income of 7,005 million euro, which decreased at overall level (-3.7%), primarily due to lower interest on non-performing assets as a result of the reduction in NPLs, as well as the lower average volumes of loans and the smaller contribution from core deposits.
The contribution from net fee and commission income, which represents 44% of operating income, was marginally higher than in the previous year (+0.1% to 7,962 million euro). The overall performance was the result of a moderate decline in revenues from commercial banking (-1.9%) and other fee and commission income (-2.2%), entirely offset by growth in the management, dealing and financial consultancy segment (+1.5%).
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 1,184 million euro, up by around 9% on 2018, due to the increase in the technical margin. New business reached almost 18 billion euro.
The Profits (losses) on financial assets and liabilities at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, increased significantly on the figure for 2018 (+31%, to 1,928 million euro), which had benefited – as mentioned above – from the effects of the sale of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro). The caption includes the positive effect of the sale of debt securities, including securities measured at amortised cost as a consequence of the trends in the correlations for credit and interest rate risk in the second quarter that occurred prior to the EU elections, which offset the capital losses recognised, in the same aggregate, in respect of certificates issued by Banca IMI, as a result of the measurement of the DVA valuation component recognised in the period.

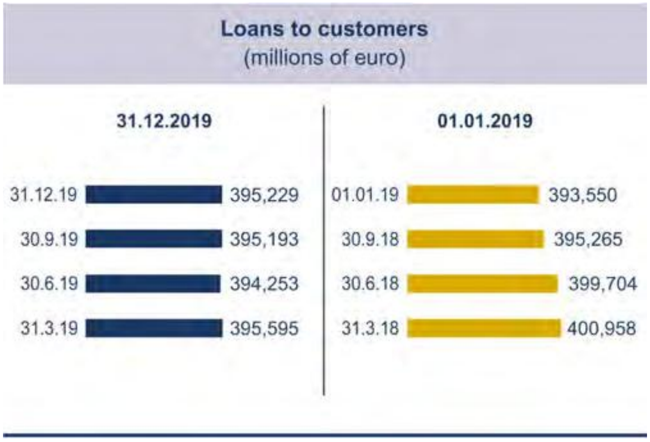
Other operating income and expenses – a caption which comprises profits on investments carried at equity and sundry operating income and expenses – were down overall on the figure for 2018 (4 million euro compared to 34 million for 2018) also due to the absence of the income generated by SEC Servizi, a subsidiary that was reclassified to assets held for sale and discontinued operations in the third quarter of 2018, with a view to its subsequent sale.
As a result of this performance, operating income for 2019 amounted to 18,083 million euro, up (+1.5%) compared to 2018.
Operating costs (9,290 million euro) were down (-2.1%), both for personnel expenses (-1.2%), due to the downsizing of the workforce, which more than offset the higher cost for incentives for growth, and for administrative expenses (-5%), which fell across all the main expense items. Amortisation and depreciation – which under the new IFRS 16 also includes the amount related to property and equipment and intangible assets under operating leases – was, overall, essentially in line with the same figure in 2018 (+0.1%).
The cost/income ratio for the period, which reflected the revenue performance, stood at 51.4% compared to 53.3% for 2018.
As a result of the revenue and cost trends, the operating margin amounted to 8,793 million euro, up by 5.6% compared to the previous year.
Net adjustments to loans fell overall to 2,089 million euro (approximately -13%), due to lower adjustments for stage 3 loans and for bad loans in particular, whose decrease was partly offset by higher adjustments on unlikely-to-pay loans and the "one-off" effect of the early adoption by the Group, from November 2019, of the new definition of default. This performance was also influenced by the recoveries on performing loans, which benefited from a better risk profile, also due to portfolio recomposition effects and the updating of customer ratings.
The cost of risk dropped from 61 basis points for 2018 to 53 basis points for 2019.

Other net provisions and net impairment losses on other assets increased overall to 254 million euro (187 million euro for 2018) due to higher net adjustments on securities measured at amortised cost and at fair value through other comprehensive income.
Other income (expenses), which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, amounted to 55 million euro, compared to 506 million euro for 2018, which – as already stated above – included the gain resulting from the signing of the agreement with Intrum for the strategic partnership regarding non-performing loans (443 million euro).
Income (Loss) from discontinued operations, amounting to 88 million euro (71 million euro for 2018 on a like-for-like basis), reflected the income effects, before tax, of the acquiring business line that will be transferred to Nexi in 2020 under the agreement signed with regard to payment systems described below.
As a result of the changes illustrated above, gross income increased (+4.3%) to 6,593 million euro.

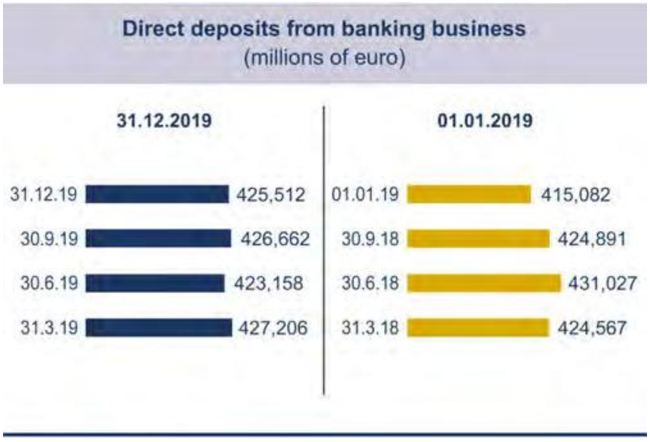


Taxes on income for the period, which were impacted by the realignment of the tax values in the first half, came to 1,838 million euro, with a tax rate of 27.9%.
Net of tax, charges for integration and exit incentives were recorded of 106 million euro, as well as the effects of purchase price allocation of 117 million euro.
The charges aimed at maintaining the stability of the banking industry, which are still significant, amounted to a total of 360 million euro after tax (378 million euro in 2018), corresponding to 513 million euro before tax, essentially consisting of ordinary and additional contributions to the resolution fund and the deposit guarantee schemes and the levies incurred by international subsidiary banks.
After allocating the losses attributable to minority interests of 10 million euro, the income statement for 2019 closed, as stated, with net income of 4,182 million euro, compared to 4,050 million euro for 2018 (+3.3%).

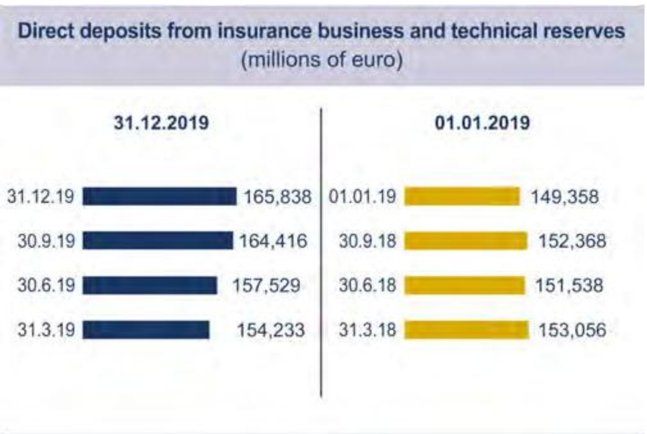
The income statement for the fourth quarter of 2019, in comparison to the previous quarter, showed growth in operating income (+1.6% to 4,567 million euro). In detail, net interest income in the fourth quarter was up marginally on the third quarter (+0.3%), while net fee and commission income increased sharply (+10.2%), driven by management, dealing and consultancy activities (+13.3%), in addition to the strong performance of revenues from commercial banking activities (+1.6%) and other fee and commission income (+15.3%).
Income from insurance business in the fourth quarter of 2019 was higher than in the third quarter (+2.3%), while profits (losses) on financial assets and liabilities designated at fair value decreased (356 million euro and 480 million euro respectively).
Operating costs in the fourth quarter increased compared to the previous three months (+10.8%) due to both administrative expenses (+21% approximately) and personnel expenses (+6.8%), according to the seasonal nature of these components in the last quarter of the year. Amortisation and depreciation also increased (+9% approximately).
As a result of the revenue and cost performance, the operating margin for the fourth quarter was lower than the margin in the third quarter (-7.8% to 2,033 million euro).
Adjustments to loans for the fourth quarter were higher than in the third quarter (693 million euro and 473 million euro respectively) primarily due to higher adjustments on bad loans and unlikely-to-pay loans and the, already mentioned, early adoption by the Group, from November 2019, of the new definition of default.
Other net provisions and net impairment losses on other assets were also up (+149 million euro) due to the higher net adjustments on securities measured at amortised cost and at fair value through other comprehensive income and on other assets.
The performance described above resulted in a decrease in gross income (-28% approximately), amounting to 1,247 million euro.
After the recognition of taxes on income, charges for integration and exit incentives, the effects of purchase price allocation, levies and other charges concerning the banking industry, and minority interests, the income statement for the fourth quarter closed with net income of 872 million euro, compared to 1,044 million euro for the previous quarter.



With regard to the balance sheet figures, as at 31 December 2019 loans to customers exceeded 395 billion euro, up slightly (+1.7 billion euro, or +0.4%) on the beginning of the year, due to the varying trends in the components that make up the aggregate. In particular, commercial banking loans were up overall (+2.2%), due to the favourable performance of advances and other loans (+9.1 billion euro, or +6.5%), which fully offset the much lower decrease in current accounts (-1.5 billion euro, or -6.7%), in the presence of substantially stable mortgage loans (-0.2 billion euro, or -0.1%). The decrease in non-performing loans (-2.4 billion euro, or -14.3%) – also attributable to the sale of a portfolio of unlikely-to-pay loans of the Corporate and SME segment, described further below – was offset by the increase in loans represented by securities (+0.7 billion euro, or +14.3%).
Lastly, the financial component represented by repurchase agreements was also down (-4.1 billion euro, or -12% approximately).



On the funding side, direct deposits from banking business totalled 426 billion euro at the end of 2019, up from the beginning of the year (+10.4 billion euro, or +2.5%). Within the components, current accounts and deposits continued the strong performance seen during the year (+26.2 billion euro, or +9%), due to customer appetite for maintaining high levels of liquidity. Bonds also increased (+3.2 billion euro, or +5.1%), along with other funding (+2.7 billion euro, or approximately +12%) as a result of growth in commercial papers and certificates, while subordinated liabilities (-1.5 billion euro, or approximately -14%) and certificates of deposit (-0.6 billion euro, or approximately -11%) declined.
Repurchase agreements declined sharply (-19.6 billion euro, or -81% approximately), largely due to the decline in operations with institutional customers.

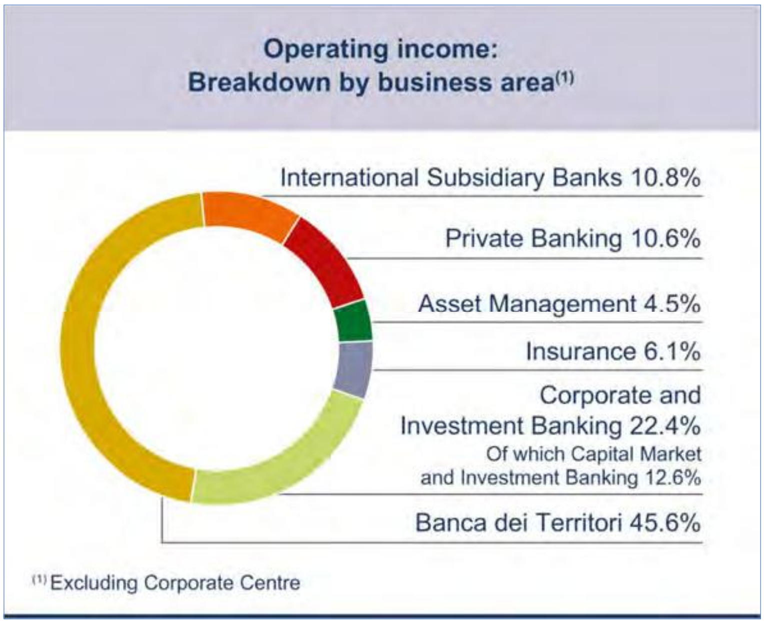


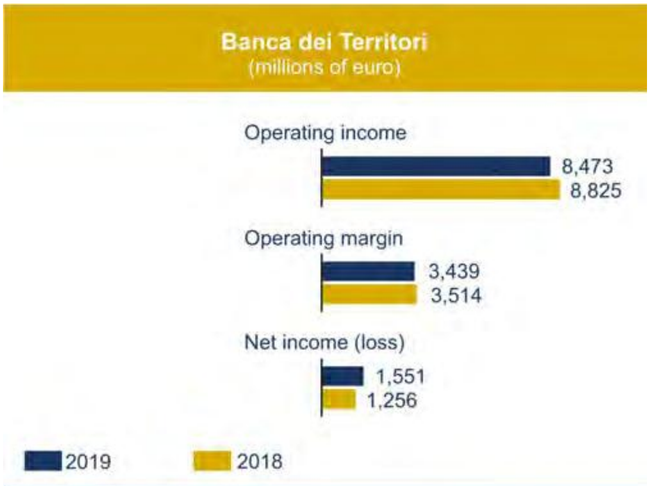
Direct deposits from insurance business – which also includes technical reserves – amounted to 166 billion euro at the end of 2019, up compared to the start of the year (+16.5 billion euro, or +11%). Specifically, there was an increase in both financial liabilities measured at fair value (+8.1 billion euro, or +12%), consisting of unit-linked products, and in technical reserves (+8.3 billion euro, or about +10%), which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk.

The Group's indirect customer deposits at the end of the 2019 amounted to around 534 billion euro, up since the start of the year (+38 billion euro, or +7.8%), due to the positive performance of all the components, also due to the more favourable market conditions.
In detail, assets under management – which represents two thirds of the total aggregate – increased by 27 billion euro (+8.3%), driven by all components: mutual funds (+7.7 billion euro, or +6.7%), technical reserves and financial liabilities of the insurance business (+11.7 billion euro, or +8.3%), portfolio management schemes (+3.8 billion euro, or +7.3%), pension funds (+1.5 billion euro, or +16.4%) and relations with institutional customers (+2.7 billion euro, or +20.4%). Assets under administration and in custody increased by 11.1 billion euro (+6.7%), primarily due to third-party securities and products.

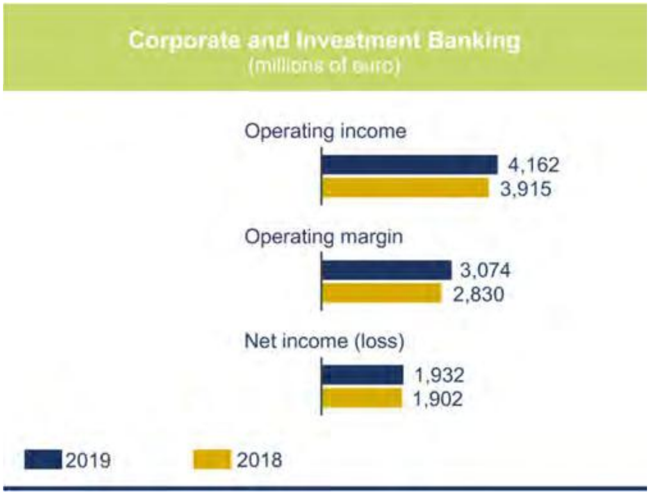
Results of the Business Units

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre, which is responsible for guidance, coordination and control of the entire Group, as well as for the Treasury and ALM operations.
The share of operating income attributable to each business segment confirms that commercial banking activities in Italy continue to account for the majority (over 45% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 22%), commercial banking activity abroad (approximately 11%), private banking (approximately 11%), insurance activity (6%) and asset management (approximately 5%).
Where necessary, the division figures for the comparative periods have been restated to reflect the changes in scope of the business units to enable a like-for-like comparison.

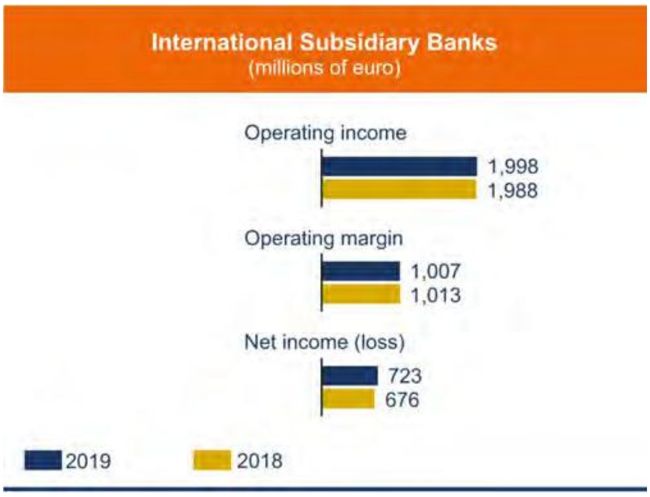




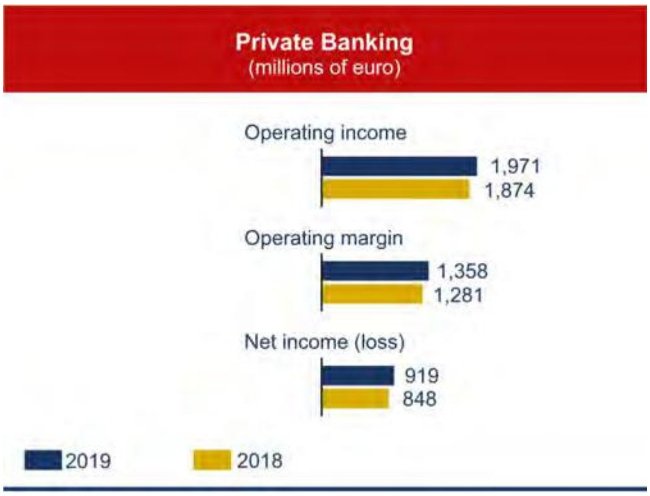
In 2019, the Banca dei Territori Division – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – recorded operating income of 8,473 million euro, which represents around half the Group's consolidated revenues, down 4% compared to 2018, as a result of the performance of net interest income (-5.6%, due to the lower contribution from loan volumes and the hedging of core deposits) and net fee and commission income (-2.4%, essentially attributable to the performance of assets under management and bancassurance). Operating costs, equal to 5,034 million euro, were down significantly (-5.2%) thanks to the savings in personnel expenses (-4.3%), attributable to the reduction in the average workforce, and in administrative expenses (approximately -7%), due to lower service costs, mainly for real estate and operations, also in relation to the rationalisation of the branch network. As a result of the changes described above, the operating margin, amounting to 3,439 million euro, was lower than in 2018 (approximately -2%). In contrast, gross income, which amounted to 2,423 million euro, was up 18.9% primarily due to lower adjustments for credit risk. Lastly, after allocation to the Division of taxes of 848 million euro, charges for integration of 23 million euro and the effects of purchase price allocation of 1 million euro, net income amounted to 1,551 million euro, up 23.5%.
The balance sheet figures at the end of 2019 showed substantial stability in overall intermediated volumes of loans and deposits from the beginning of the year (-0.4%). More specifically, loans to customers were down (-5% to 186.4 billion euro) due to the decrease in the both short- and medium-/long-term components. In contrast, direct deposits from banking business were up (+4.3% to +199.3 billion euro) in the amounts due to customers component, mainly due to the higher liquidity on deposits.



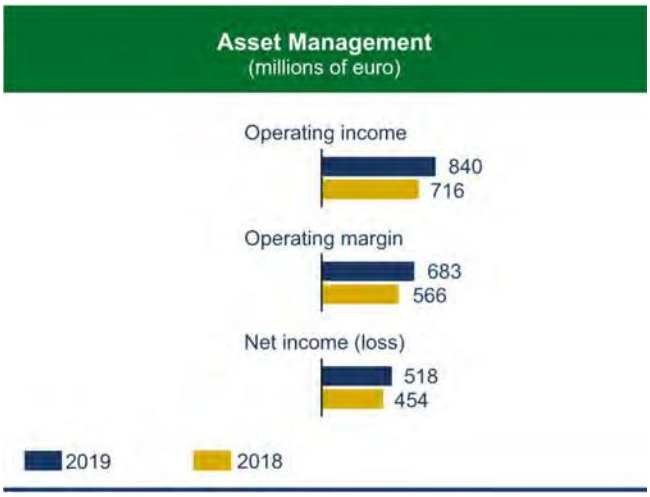
The Corporate and Investment Banking Division – which oversees corporate banking, investment banking and public finance in Italy and abroad – posted operating income of 4,162 million euro in 2019, up (+6.3%) on the previous year.
In detail, net interest income of 1,899 million euro was up (+7.1%). The increase was attributable to the Global Market segment, driven by the strong performance of the securities portfolio. In contrast, net fee and commission income, amounting to 1,029 million euro, fell (-4.5%), mainly due to the performance of the commercial banking segment.
Profits on financial assets and liabilities at fair value, totalling 1,232 million euro, were higher than the figure for 2018 (+17.3%), which also included the positive effect of 264 million euro resulting from the fair value measurement and subsequent sale of the investment in NTV. Operating costs amounted to 1,088 million euro, essentially stable with respect to 2018 (+0.3%). As a result of the above revenue and cost trends, the operating margin came to 3,074 million euro (+8.6%). Gross income, amounting to 2,825 million euro, was up 5.4% despite higher adjustments and provisions. After accounting for the Division's taxes of 888 million euro and charges for integration and exit incentives of 5 million euro, net income came to 1,932 million euro (+1.6%).
The intermediated volumes increased slightly compared to the beginning of the year (+0.6%). Specifically, loans to customers were up (+5.9% to 131.5 billion euro), mainly due to medium-to-long term structured finance transactions, while direct deposits, amounting to 96,550 million euro, were down (-5.8% to 96.6 billion euro), as a result of the reduction in the financial component of repurchase agreements.



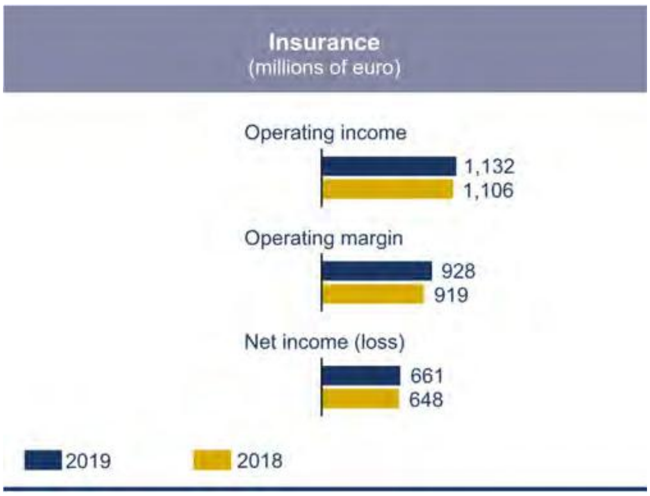
In 2019, the operating income of the Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates – came to 1,998 million euro, slightly up on the previous year (+0.5%, -1.3% at constant exchange rates). More specifically, compared to 2018, net interest income was up (+3.6% to 1,370 million euro), as was net fee and commission income (+2.5% to 537 million euro), whereas the profit from financial assets and liabilities at fair value, which in the previous year had also benefited from gains on the sale of securities, fell significantly (-28%, to approximately 124 million euro). Other operating costs, which were limited in amount, were also up (+10%, to 33 million euro).
Operating costs of 991 million euro were higher than in 2018 (+1.6%; +0.2% at constant exchange rates), both for personnel expenses (+1.5%) and for administrative expenses (+4.2%), while amortisation and depreciation was lower (-5.4%).
As a result of the above revenue and cost trends, the operating margin decreased slightly (-0.6%) to 1,007 million euro. In contrast, gross income, which amounted to 944 million euro, was up significantly (+10.4%), due to lower adjustments and provisions. Taking into account taxes (181 million euro) and charges for integration and exit incentives (40 million euro), the Division closed 2019 with net income of 723 million euro (+7%).
The intermediated volumes grew compared to the beginning of the year (+9.2%) owing to the significant increase in loans to customers (+7.9%) and direct deposits from banking business (+10.2%), in both amounts due to customers and securities issued.



The Private Banking Division – which is responsible for 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 – generated gross income of 1,335 million euro in 2019, up (+52 million euro, or 4.1%) compared with the figure for 2018, due to higher operating income (+5.2%), which fully offset the modest growth in operating costs (+3.4%) and higher net provisions and adjustments to assets (+17 million euro) and adjustments to loans (+7 million euro).
Specifically, the positive performance in revenues was due to the increase in net interest income (+22 million euro, approximately +14%), the higher contribution from net fee and commission income (+50 million euro, +3% approximately), and the higher profits on financial assets and liabilities designated at fair value (+28 million euro).
Operating costs increased (+3.4%), essentially due to the rise in personnel expenses (+2.6%), related to the incentive system supporting growth, and amortisation and depreciation (approximately +22%), mainly in the real estate area.
Lastly, net income – which takes account of the taxes of 394 million euro, charges for integration and exit incentives of 21 million euro and the effects of purchase price allocation of 2 million euro – amounted to 919 million euro (+71 million euro, or +8.4%).
As at 31 December 2019, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 203.5 billion euro (+23.8 billion euro compared to the beginning of the year). This trend was mainly due to the market performance, which had a favourable impact on assets and, to a lesser extent, to positive net inflows. The assets under management component amounted to 122.7 billion euro (+10.7 billion euro).



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and is present on the open market segment through the subsidiary Eurizon Capital and its investees – posted operating income of 840 million euro in 2019 (+17% approximately). The significant increase on the figure for comparison is attributable to higher fee and commission income (+14% to 98 million euro). Other revenue components, which are marginal in amount with respect to core revenues, nevertheless provided a positive contribution. The positive performance of income more than offset the higher operating costs (+4.7%), attributable to personnel expenses (approximately +16% in relation to the development of the business and incentives to support growth), in the presence of declining administrative expenses (about -7%).
As a result of the above revenue and cost trends, the operating margin came to 683 million euro, up approximately 21% on 2018.
After taxes of 165 million euro, the Division closed 2019 with net income of 518 million euro (+14.1%).
Overall, assets managed by the Asset Management Division amounted to 265.8 billion euro as at 31 December 2019, up 9.6% year-on-year, as a result of the contribution from net inflows and the revaluation of assets.



In 2019, the Insurance Division – which oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of developing the insurance product mix targeting Group customers – achieved income from insurance business of 1,144 million euro, up (+2.2%) on 2018. The improvement, achieved despite the lower financial revenues realised on the life insurance portfolio, was mainly attributable to the technical margin and growth in non-life business. Gross income, at 926 million euro, was also up (+1.3%), due to the positive performance of operating income (+2.4%). The increase in operating costs (+9% approximately) was mainly attributable to the initiatives linked to the development of the non-life business.
Lastly, net income, after the allocation of taxes of 247 million euro, charges for integration of 2 million euro and the effect of purchase price allocation for 16 million euro, amounted to 661 million euro (+2%).
Collected premiums for the protection business totalled

672 million euro (+33% on 2018). There was also significant growth in "non-motor" products, which are the focus of the 2018-2021 Business Plan and were up by 102%.

Highlights

During the year, the corporate simplification process envisaged by the Business Plan continued according to the established schedule.
Specifically, the deed of merger by incorporation of Intesa Sanpaolo Group Services into Intesa Sanpaolo was signed on 11 January 2019. The merger took effect with respect to third parties on 21 January 2019, while the operations conducted by the incorporated company were posted to the financial statements of the absorbing company, including for tax purposes, effective from 1 January 2019.
On 1 February 2019, the merger between Intesa Sanpaolo Private Banking (Suisse) S.A. and Banque Morval S.A. was completed. After obtaining the authorisations from the competent supervisory authorities, the new bank was renamed Intesa Sanpaolo Private Bank (Suisse) Morval S.A.. It was created to contribute to the strategic initiative outlined in the 2018-2021 Business Plan of the Intesa Sanpaolo Private Banking Division. The new company, which the London branch also reports to, is continuing the process of international expansion already begun by Fideuram – Intesa Sanpaolo Private Banking. The main branches (Geneva and Lugano) and the international network of private bankers will enable the expansion of the geographical footprint to high-potential countries, particularly in the Middle East and South America.
On 5 February 2019, the deeds were also signed for the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia into Intesa Sanpaolo, with an increase in the absorbing company's share capital of 64,511.72 euro through the issue of 124,061 ordinary shares without nominal value, and for the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze. The legal effects of the transactions started from 25 February 2019, while the accounting and tax effects started from 1 January 2019.
On 14 May 2019, the deed was signed for the merger by incorporation of Banca Apulia into Intesa Sanpaolo, with the issue of 247,398 Intesa Sanpaolo ordinary shares bearing regular dividend rights, without nominal value, and an increase in share capital from 9,085,534,363.36 to 9,085,663,010.32 euro. The deed of merger by incorporation of Banca Prossima into Intesa Sanpaolo was then signed on 24 May. The legal effects of these two operations started on 27 May 2019 and were posted to the financial statements of the absorbing company from 1 January 2019 also for tax purposes.
Finally, on 30 October, the deed was signed for the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo, with legal effects from 11 November and accounting and tax effects from 1 January 2019, while, on 11 December 2019, the deed was signed for the merger by incorporation of Intesa Sec. 3 and Intesa Sec. NPL into Intesa Sanpaolo, with legal effects from December 31 and accounting and tax effects recorded in the financial statements of the absorbing company from 1 January 2019.

On 8 February 2019, Intesa Sanpaolo received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 March 2019, following the results of the Supervisory Review and Evaluation Process (SREP).
The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.96% under the transitional arrangements for 2019 and 9.38% on a fully loaded basis.

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

On 30 April 2019, the Ordinary Shareholders' Meeting of Intesa Sanpaolo – in addition to approving the financial statements of the Parent Company, the allocation of the net income for the year and the distribution of the dividend to shareholders, the financial statements of the merged companies Intesa Sanpaolo Group Services and Cassa di Risparmio di Pistoia e della Lucchesia – appointed Ernst & Young S.p.A. as the independent auditors for the financial years 2021-2029, determining their fee. The Shareholders' Meeting also appointed the members of the Board of Directors and the Management Control Committee for financial years 2019/2020/2021 on the basis of slates of candidates submitted by the shareholders.
The Shareholders' Meeting then passed specific resolutions on the remuneration and own shares. Specifically, it:

- approved the remuneration policies in respect of the Board of Directors of Intesa Sanpaolo;
- determined the remuneration of the Board of Directors;
- approved the remuneration and incentive policies for 2019 and voted in favour of the procedures used to adopt and implement the remuneration and incentive policies, as described in the Report on Remuneration;
- approved the increase in the variable-to-fixed remuneration cap for personnel operating exclusively in the Investment Management units belonging to Intesa Sanpaolo Group Asset Management entities, both in Italy and abroad;
- authorised the purchase and disposal of own shares to service the 2018 Annual Incentive Plan.

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

The first sell-back of high-risk loans deriving from the Venetian banks in compulsory administrative liquidation was launched on 11 May 2019, following notification of Intesa Sanpaolo on 11 March 2019 from the Ministry of the Economy and Finance of the issue of the decree formalising the high-risk guarantee for a total of 4 billion euro. The high-risk positions reclassified as “bad loans” and/or “unlikely-to-pay loans” were sold back for 456 million euro, calculated in accordance with the contract on the basis of the gross carrying value of the reclassified high-risk loans, less (i) provisions at the date of execution and (ii) 50% of the impairment losses which under IAS/IFRS the Intesa Sanpaolo Group would have recognised had the Banks in compulsory administrative liquidation not had the obligation to purchase. Since the Intesa Sanpaolo Group had already reclassified the loans in question as discontinued operations at a carrying amount consistent with the above consideration, no differences between the net value of the loans sold and their sell-back price emerged.
On 12 October 2019, the second sell-back was finalised, based on the agreements between the Banks in compulsory administrative liquidation and SGA (now “AMCO”). It regarded a set of high-risk positions classified as “bad loans” and/or “unlikely-to-pay loans” from the fourth quarter of 2018 up to 30 June 2019, for a consideration equal to the net book value of 218 million euro.

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

In the first half of the year, the Group carried out the voluntary realignment of some tax values. Specifically, Intesa Sanpaolo exercised the option set out in Law no. 145/2018 (Budget Act 2019) to realign tax values to their higher carrying amounts, with regard to owned real estate assets, for which values to realign were identified for 1,955.6 million euro. These mainly derive from the revaluations carried out starting with the 2017 financial statements, following the adoption of the criteria for revaluation of the value of owner-occupied properties (IAS 16) and of the fair value for investment property (IAS 40). These correspond to a substitute tax of 269.4 million euro. At consolidated level, the exercise of this option resulted in: i) the recognition of substitute tax of 269.4 million euro, of which 93.9 million euro posted to the income statement for the period and 175.5 million euro to shareholders' equity; ii) the derecognition of net deferred tax liabilities of 622.6 million euro, of which 217.1 million euro through profit or loss and 405.5 million euro through shareholders' equity, with a positive impact on the income statement of the period of 123.2 million euro and an additional 230 million euro in shareholders' equity. The Board of Directors identified the share premium reserve in the financial statements to be classified as the suspended tax reserves, in an amount equal to the difference between the higher values realigned and the substitute tax due (approximately 1,685 million euro), which will be subject to ratification by the ordinary shareholders’ meeting of Intesa Sanpaolo for the approval of the 2019 Financial Statements.

On 31 July, Intesa Sanpaolo, through Banca 5, and Sisal Group, through SisalPay, signed an agreement to set up a NewCo, via contribution, which will offer banking products and payment and transactional services at over 50,000 merchants located throughout the entire country, which are visited by around 45 million individuals daily.
In a highly competitive scenario such as that of proximity payment, the new company - 70%-owned by Sisal Group and 30%-owned by Banca 5 - is the first Italian network with a “proximity banking” model, which, by integrating physical and digital channels, in accordance with the principles of social responsibility, provides significant benefits for consumers and the network of merchants involved in the agreement, by offering simple banking products and payment services.
The new network, which has been operational since the beginning of 2020, will add to the offering of products and services of Banca 5 and SisalPay, including:
- cash withdrawal up to a maximum of 250 euro per day;
- collections for participating entities (for example, refunds on behalf of large companies) and payment notices (such as payments by notice (MAV) and payment of fines/taxes by notice (RAV)) for Intesa Sanpaolo customers;
- payments of bills, taxes and “pagoPA” services for payments to the public administration;
- telephone and prepaid card top-ups;
- purchase of transport tickets and passes;
- purchase codes for the most common marketplaces and Apps.

After having obtained the authorisations from the Antitrust Authority and the Bank of Italy, the transaction was completed in December 2019.

On 9 September 2019, Intesa Sanpaolo received notification of the ECB's permission to calculate the Group's consolidated capital ratios applying the so-called Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019.

On 18 September 2019, Intesa Sanpaolo concluded an ordinary share buy-back programme. The programme executed a plan that assigned, for free, ordinary shares to the Group's employees; this covered the share-based incentive plan for 2018 reserved for Risk Takers who accrued a bonus in excess of the so-called "materiality threshold", as well as for those who, among Managers or Professionals that are not Risk Takers, accrued "relevant bonuses". In addition, the programme has been implemented in order to grant, when certain conditions occur, severance payments to Risk Takers upon early termination of employment. The purchases were made in accordance with the terms authorised by the Shareholders' Meeting of Intesa Sanpaolo of 30 April 2019. The pertinent subsidiaries also concluded their purchase programmes of the Parent Company's shares to be assigned, for free, to their employees. The programmes were approved by their respective corporate bodies within their remits and are analogous to the programme approved at the Parent Company's Shareholders' Meeting.
On the two days of execution of the programme (17 and 18 September 2019), the Intesa Sanpaolo Group purchased a total of 17,137,954 Intesa Sanpaolo ordinary shares, through Banca IMI (which was responsible for the programme execution), representing approximately 0.10% of the share capital of the Parent Company, at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro. The Parent Company purchased 12,393,958 shares at an average purchase price of 2.129 euro per share, for a value of 26,388,935 euro.

In October 2019, Intesa Sanpaolo concluded the purchase of a portfolio of performing mortgage loans for a nominal value of approximately 900 million euro from the Italian branch of Barclays Bank Ireland PLC. The mortgages, which are mainly for the purchase of primary residences, were granted to Italian customers and are backed by residential properties located in Italy.
In terms of liquidity, the portfolio has a high potential for self-financing through the ISP OBG Srl covered bond issuance programme and a risk profile which is further limited by the expected purchase of first-loss protection through the involvement of specialised capital market investors under the GARC (*Gestione Attiva Rischio di Credito* - Active Credit Risk Management) synthetic securitisation programme.
This transaction forms part of the credit strategies and dynamic management of the Group's loan portfolio set out in the Business Plan, and represents an opportunity to expand the household customer base and the consequent development of cross-selling and sustainable growth in revenues.

On 18 November 2019, Intesa Sanpaolo reached an agreement with ProntoPegno (a company connected with Banca Sistema) for the sale of the pledge lending business line. The closing for the transaction, subject to authorisation from the Bank of Italy and the completion of the trade union consultation procedure, is due to take place by 31 March 2020. Accordingly, in the financial statements as at 31 December 2019, the assets and liabilities pertaining to this business line have been reclassified to Non current assets held for sale and discontinued operations in accordance with IFRS 5.

After having received the necessary authorisations from the relevant authorities, at the end of November 2019 Intesa Sanpaolo and Prelios finalised the agreement concerning the strategic partnership in respect of loans classified as unlikely to pay (UTP), which was signed on 31 July 2019 and disclosed to the market on the same day.
The agreement, which entails the outsourcing of management of over 60% of the Group's current stock of UTP, will enable the Group to free up resources to focus on the prevention of credit deterioration and management of early delinquency. Moreover, this business partnership with a leading player in the UTP segment will further improve management performance, including through the use of real estate expertise and the ongoing support from Prelios' sector experts and the further acceleration of the digitisation of management through dedicated investments in platforms and advanced analytics. This strategic target is joined by the opportunity to assign to Prelios a portfolio of UTP worth around 3 billion euro of gross book value, at a price in line with its carrying value, in order to accelerate the non-performing loan reduction target set out in the 2018-2021 Business Plan.
More specifically, as stated, the agreement consisted of two transactions:
- a 10-year contract for the servicing of UTP Corporate and SME loans of the Intesa Sanpaolo Group to be provided by Prelios, initially covering a portfolio worth around 6.7 billion euro of gross book value, with terms and conditions in line with market standards and with a fee structure mostly composed of a variable component specifically aimed at maximising the return of positions to performing status;
- the disposal and securitisation of a portfolio of UTP Corporate and SME loans of the Intesa Sanpaolo Group amounting to around 3 billion euro of gross book value, at a price of around 2 billion euro, in line with the carrying value. The capital structure of the securitisation vehicle was determined as follows, in order to obtain the full accounting and regulatory derecognition of the portfolio:
  - A Senior Tranche equivalent to 70% of the portfolio price, underwritten by Intesa Sanpaolo;
  - Junior and Mezzanine Tranches equivalent to the remaining 30% of the portfolio price, underwritten to the tune of 5% by Intesa Sanpaolo and the remaining 95% by Prelios and third-party investors.

  Also as a result of the above-mentioned sale (for amounts of around 2.7 billion euro and 1.7 billion euro, respectively, as a result of the collections made in the meantime), at the end of December 2019, the NPL to total loan ratios decreased to 7.6% and 3.6%, respectively, in gross and net book values, and over 80% of the target set for the entire four-year period for reducing non-performing loans set in the 2018-2021 Business Plan has already been achieved, at no extraordinary cost to shareholders.

The transactions were carried out in accordance with the Group's income statement and balance sheet targets and forecasts which have already been disclosed to the market for the 2018-2021 Business Plan. They do not affect the strategic partnership in place with Intrum.

On 26 November 2019, Intesa Sanpaolo received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 January 2020, following the results of the Supervisory Review and Evaluation Process (SREP). The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 9.18% under the transitional arrangements for 2020 and 9.38% on a fully loaded basis.

On 19 December 2019, Intesa Sanpaolo and Nexi – the leading Italian firm in the payments sector operating in merchant acquiring, card issuing and digital banking solutions – reached a strategic agreement in respect of payment systems. Specifically, the agreement provides for:
- the transfer to Nexi of the Intesa Sanpaolo business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. Intesa Sanpaolo shall retain the sale force dedicated to acquiring new customers;
- a long-term partnership, with Nexi to become the sole partner of Intesa Sanpaolo in the acquiring activities and the latter to distribute the acquiring services provided by Nexi and maintain the relationship with its customers.

The business line will be transferred through contribution to a Nexi subsidiary for 1,000 million euro. Intesa Sanpaolo will sell the shares received from the contribution to Nexi for a corresponding cash consideration and will then use part of this consideration to purchase shares of Nexi from the latter's reference shareholder, Mercury UK HoldCo Limited, for an amount of 653 million euro, equal to a 9.9% shareholding of Intesa Sanpaolo in the share capital of Nexi.
The transaction will enable Intesa Sanpaolo to extract proper value from the acquiring activities currently carried out internally, through the contribution of its business line – taking into account that operating efficiently in this sector, in a competitive scenario of international scope, requires greater investment and economies of scale – while retaining an interest in a business with significant growth prospects.
The transaction is expected to be completed by 2020 and is subject to the usual authorisations from the competent authorities.

On 19 December 2019, the Board of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita approved the acquisition of a controlling interest in RBM Assicurazione Salute, a company founded in 2007 by the RBH Group and wholly owned by the Favaretto family.
Subject to obtaining the necessary authorisations from AGCM and IVASS, Intesa Sanpaolo Vita will purchase 50% plus one share in cash at the price of 300 million euro by July 2020. Subsequently, in the three-year period 2026-2029, the shareholding will be increased to 100%, with the purchase price predetermined using a mixed formula (equity and income) based on the achievement of pre-set growth targets.
RBM Assicurazione Salute – the only independent player – is the third largest operator in Italy in the health insurance market with a 17.7% share and net income of around 37 million euro in 2018, in addition to partnerships with over 130 supplementary healthcare funds and care assistance funds in Italy.
The new company – which, thanks to RBM's distinctive offering of collective policies, has a total of 606 million euro of premium income in the healthcare business and a market share of 20.8% – will be called Intesa Sanpaolo RBM Salute and will target both RBM's traditional customers and the Bank's retail and corporate customers, adding its healthcare services to the current "XME Protezione" product developed by Intesa Sanpaolo Assicura.
With the acquisition of the largest company in Italy specialising in health insurance in terms of gross premium income (515 million euro) and number of policyholders (almost 5 million), the Intesa Sanpaolo Group has significantly strengthened its domestic positioning in the high value-added non-life, non-motor sector, which grew by 8.8% in Italy from 2015 and 2018, with prospects for further growth.

Since December 2019, having obtained the Fund Distribution License from the Chinese Local Authorities, Intesa Sanpaolo is the first foreign bank to provide Wealth Management services in China through its own company, YI TSAI ("Talento Italiano"), belonging to the International Subsidiary Banks Division.
The company, established in 2016, can now start full operations, having completed the pilot stage conducted in the area of the City of Qingdao, the Pilot Zone for the development of Wealth Management operations in China. In March, Intesa Sanpaolo had signed an important Memorandum of Understanding with the Municipality of Qingdao for the development of the above-mentioned Pilot Zone, in the presence of President Xi Jinping and the Italian Prime Minister Giuseppe Conte at the time of the Chinese President's state visit to Italy.
The company, which started operations on 12 December, is a wholly-owned subsidiary of Intesa Sanpaolo and represents the core of the strategy for the offering of financial products to high-profile customers in the People's Republic of China, which will be gradually expanded to the other provinces. Under the license obtained, YI TSAI will distribute Public Funds and Privately Distributed Funds, carefully selected from the offerings of Penghua (an investee company of Eurizon Capital) and the best asset management companies in China. The distribution activities will be assigned to YI TSAI's Financial Advisor network, organised and governed based on the best practices of the Intesa Sanpaolo Group.

With regard to the stake in the Bank of Italy's share capital, in 2019 further stakes equal to a total of approximately 2.3% of the capital were sold – at nominal value, coinciding with the carrying value – for a price of approximately 172 million euro. Following the completion of the transactions, the Group's stake in the Bank of Italy's share capital decreased to 22.75%. In this regard, after the year end, further stakes equal to a total of approximately 2.7% of the capital of the Bank of Italy were sold – again at nominal value – for a price of approximately 199 million euro.

The 2018-2021 Business Plan

The 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for Shareholders and to build the number 1 Bank in Europe.
The Group also aims to strengthen its leadership in Corporate Social Responsibility and leave a positive impact on society, while also increasing its own internal inclusion, without any discrimination.
In a new highly digitalised and competitive world, the Bank will continue to pursue its goals by leveraging its values and the proven ability of a results oriented delivery machine.

The pillars of the 2018-2021 Business Plan are:
- Significant de-risking at no cost to Shareholders;
- Cost reduction through further simplification of the operating model;
- Revenue growth capturing new business opportunities.

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

De-risking

In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to optimise the risk-return ratio for the total loans, both through asset disposals and risk mitigation strategies.
After having finalised the strategic partnership with Intrum, in 2018, for the management of the Group’s bad loans through the establishment of the servicing platform (51% owned by Intrum and 49% by Intesa Sanpaolo) and having completed the securitisation of the portfolio sold, in 2019 the partnership went ahead in accordance with the plans established.
With regard to unlikely-to-pay (UTP) loans, in 2019 – as already mentioned – Intesa Sanpaolo entered into an agreement with Prelios for a strategic partnership. The arrangement consists of a 10-year contract for the servicing by Prelios of UTP loans of the Group’s Corporate and SME segment, with an initial portfolio of around 6.7 billion euro of gross book value, together with the disposal and securitisation of a portfolio of UTP Corporate and SME loans of the Group amounting to around 2.7 billion euro of gross book value, at a price of around 1.7 billion euro, in line with the carrying value.
These loan disposals, together with the internal Proactive Management, reduced the Group’s gross NPL stock, at no cost to shareholders, to 31.3 billion euro (5.2 billion euro less than in 2018): as a result, the gross NPL ratio fell to 7.6% (8.8% in 2018), while the cost of credit stood at 53 basis points (61 basis points in 2018). In particular, the stock of SME/Corporate gross unlikely-to-pay loans amounted to 7.7 billion euro, down 3.3 billion euro from the beginning of the year.
Specifically, the proactive management of the SME loan portfolio aims to strengthen the control of debt positions to prevent significant increases in risk or transition into non-performing status. The activities carried out in 2019 included the development of a loan monitoring system and the completion of a series of initiatives specifically dedicated to the Stage 1 and Stage 2 portfolios.
The Pulse Platform introduced a centralised method of management of credit risk in the Retail segment, from the very first signs of increased risk, aimed both at preventing impairment, by proposing negotiation solutions to customers in difficulty, and at re-insourcing part of the outsourced collection activities. Following the release of the formalisation (renegotiation) platform in 2018, in 2019 operations were started on the collection platform for Individual Customers. In the Individual Customers segment, the volumes routed to the Pulse Platform increased to 50% of the monthly past due flow.
As part of the active management of the loan portfolio and with a view to creating value for the Group, the Active Credit Portfolio Steering structure has been set up, which has carried out significant credit risk transfers aimed at facilitating access to credit for businesses, by reducing the capital absorption.
The new credit strategy framework has also been established to support lending to the most attractive economic sectors in terms of risk/return.

Cost reduction

Cost reduction is the Second Pillar of the Plan, through which the Group aims to reduce the level of both fixed and variable costs on the income statement.
The staff reduction and renewal project sets a series of coordinated objectives in terms of reduction in labour costs and personnel, reskilling and staff renewal. In 2019, labour costs fell further to 5.7 billion, while the total workforce stood at 89,102 people. The reskilling process involved over 2,000 people (3,000 since the beginning of the Plan), while the renewal process resulted in the hiring of 400 specialist professionals (850 since the beginning of the Plan). The workforce has also been increased through the new “Lavoro Misto” (flexible work) contract, through which around 150 people have been hired and around 200 traineeships have been set up.
The Branch strategy project involves the streamlining and renewal of the network of bank branches, accompanied by the integration with the Bank’s alternative physical and virtual channels and non-captive networks. With regard to the actions involving the distribution network, 423 retail branches were closed in 2019 (885 from 2018, reducing the number of retail branches in Italy to 3,159 at the end of the year), the layout of 221 branches was renewed, with the introduction of welcome areas and co-working spaces, and the “Counter Service Development” project continued (around 52% of branches close at 1 p.m. and around 12% of branches are dedicated exclusively to advisory services).
Banca 5’s network includes around 16,600 non-captive points of sale with advanced customer service terminals. The number of customers, who have access to an ever-expanding range of services, is continuing to grow, as evidenced by around 56,000 users that have downloaded the Banca 5 app and around 45,300 customers that have a prepaid card.

The partnership with SisalPay will expand Banca 5's network to over 50,000 points of sale and its widespread coverage throughout Italy will enable the potential reduction of Intesa Sanpaolo's branches in excess of the target set in the Business Plan.
Work on the Bank's virtual channels included the expansion of the "XME" product line, the completion of the migration from the physical O-Key to the virtual O-Key, accompanied by the process of certifying mobile phones of customers (both individuals and legal entities), the expansion of operations of the Online Branch, the development of the Remote Relationship Manager project (counting 141 resources as at 31 December 2019), the development of Digital Advertising and Proximity Marketing, consisting of a new series of products and services for business customers, and the launch of the investment section for Individual customers in the Investo App.
Finally, with regard to non-captive networks, a series of initiatives are under way to develop the business partnership with Poste Italiane (BancoPosta Mortgages and Loans).
Overall, the Branch strategy activities made it possible to expand the Group's coverage of the Italian population up to 91% of the total.
The Real estate scale back project aims to optimise the Group's physical presence in Italy through the disposal of redundant spaces and the identification of less costly locations. In 2019, the scale back of real estate resulted in the release of spaces in 15 premises, for a total of 78,000 square metres of surface area, and the renegotiation of 977 lease contracts, in addition to the already mentioned closure of 423 retail branches for a total of 135,000 square metres of surface area.
The process of corporate simplification of the Group's banking networks continued with six mergers into the Parent Company (Banca CR Firenze, CR Pistoia e Lucchesia, Carisbo, Banca Prossima, Banca Apulia, and Mediocredito Italiano) and the Board of Directors of Intesa Sanpaolo has already approved the merger of Banca IMI, scheduled for the third quarter of 2020.
Lastly, the plan to reduce administrative expenses continued with the development of ICT synergies (the integration of the former Venetian banks into the target IT systems was completed, with the termination of the related contracts), the improvement in the efficiency of structure costs, the monitoring of advisory fees, the centralisation of purchasing decisions, the dematerialisation of processes, and the extension of internal best practice to the Group's international subsidiary banks.

Revenues

The third Pillar of the Business Plan seeks to increase Operating Income by capturing significant business opportunities in all the Divisions.
To achieve its objective of becoming one of the top four P&C Italian insurance companies and the first in retail non-motor, the Group is currently reviewing its strategies for the offering of products and their distribution, and after-sales and claims management. In 2019, the Division focused on the development of new features for its policies, together with the implementation of marketing and communication initiatives in support of its sales to the public, the continuation of the New ISA project (evolution of the new multi-channel digital platform and optimisation of operating processes), and the continuous improvement of the efficiency of after-sales service to guarantee customer support.
Special attention was given to the development of the new features for the "XME Protezione" policy, involving the integration of the sales channels into the remote and out-of-branch offering, the implementation of an evolution of the sales engine, also supported by a new communications plan, and the completion of the lifecycle feature (upgrade and downgrade), which enables flexible management of the insurance cover. The expansion of the offer to SMEs involved the marketing of the "Tutela Business Manifattura" product and the release of the "Pronto Intervento" service, which limits property damage following a claim (for example, remediation or restoration and subsequent rebuilding), in addition to the expansion of the range of target companies that can take out insurance using the Corporate products. The motor product range and the mortgage protection product were redesigned, also through an update to the price strategy and commercial initiatives supporting sales. The "XME Salute" policy was enriched with additional services, to offer customers the option to book doctors' appointments online, also benefiting from significant discounts on healthcare services. A training programme was established for newly appointed and existing Network and Specialist personnel (updates on products and soft skills) and numerous initiatives were implemented, designed to ensure better after-sales management, which included the strengthening of the organisational structure (500 additional FTE staff planned by 2021), the use of Instant Customer Feedback, to continuously and immediately record customer satisfaction, and assistance to relationship managers and customers for operational and process-related issues.
In December, the Boards of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita approved the acquisition of a controlling interest in RBM Assicurazione Salute[1], the third largest operator in Italy in the health insurance market, whose customers are large Italian companies, contractual supplementary health funds, welfare funds, public entities and professional bodies. The transaction will strengthen the Group's positioning in the health protection business – which is a rapidly expanding sector – also thanks to the expansion of the product range, which will give Intesa Sanpaolo's retail customers access to RBM's health care cover and will give companies access to tailor-made welfare products and collective policies.
With regard to the international expansion of Private Banking operations, the merger of ISPB Suisse and Morval, the migration of the UK branch to the scope of business of the "International Swiss Hub" and the transfer of Private Banking operations to Luxembourg have all been completed. The new range of products has also been launched and a single price list has been defined.
With regard to the so-called "Bankers Factory", the sales force has been scaled up with new hires and the first flexible banking contracts has been activated.[2] The marketing of new products and services has been successfully launched, with the placement of alternative funds and products dedicated to international customers. The service models are also being upgraded for the various customer segments of Intesa Sanpaolo Private Banking and Fideuram, expanding the HNWI

[1] Once the necessary authorisations have been obtained from AGCM and IVASS, Intesa Sanpaolo Vita will directly purchase 50% plus one share in cash at the price of 300 million euro by July 2020. Subsequently, the shareholding will be progressively increased from 2026 to 2029 to 100% at a purchase price set using a mixed formula (equity and income) based on the achievement of pre-set growth targets.

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

(HighNet Worth Individual) structure for Private Banking and defining differentiated service models for each customer segment for Fideuram.
With regard to the development of the new digital channels, with a view to creating the Digital Bank model, activities continued for the migration of banking services (NDCE) to the target platform, both for Intesa Sanpaolo Private Banking (ISPB) and for Fideuram. Specifically, for ISPB the planned operations were completed to provide Group internet banking customers with the necessary customised features and assistance and training of customers and the network were managed. The new app was released and the mass migration was carried out of ISPB customers from the previous MyKey contract, which involved the disposal of the physical token, in compliance with the provisions of the PSD2. With regard to Fideuram, integration is under way of Alfabeto (the current portal for interacting with customers) with NDCE.
With regard to Asset Management, during the year the Eurizon offering for the Banca dei Territori and Intesa Sanpaolo Private Banking Divisions was extended and international operations were stepped up. The Banca dei Territori Division carried out several project initiatives, including the "Valore Insieme" advanced consulting platform, the new "Risparmio Digitale" smart services, the "Robo-4-Advisor" and "Robo Advisory" infrastructure, and the introduction of the flexible banking contract.
The offering to Banca dei Territori customers benefited from the redesign of the product range, which was enriched with thematic funds (which invest in companies that can have an impact on the thematic areas "planet, population and innovation"), "tactical" solutions (which seek to achieve moderate growth in the capital invested while minimising the probability of loss of the capital invested) or solutions aimed at enhancing liquidity. The offering of investment solutions and services to third-party networks was also expanded, while the positioning in the institutional business was strengthened through growth in the Foundations and Pension Funds segment.
Greater focus was placed on products for Personal customers, including the launch of a Portfolio Management solution with a main component that has lines with customisable benchmarks and optional multi-manager components.
The offering for institutional and wholesale customers was also revised and expanded with solutions based on ESG (Environmental, Social and Governance) investment criteria and with Low Tracking Error products, which closely track the benchmark movements. The Eurizon Italian Fund - ELTIF, the first closed-end Italian fund dedicated to the Italian stock market that complies with the European Long-Term Investment Funds EU regulations was launched.
With regard to the "Valore Insieme" model of advanced advisory services, the functionality for the Out-of-Branch Offering was released, the training of 200 selected managers and specialists continued, and surveys were conducted to assess customer satisfaction.
As part of an extensive programme of digitalisation of the commercial offering, "Risparmio Digitale" services are being developed to enable customers to invest via apps, with an initial focus on basic investment products.
Under the three-year distribution agreement between Poste Italiane and Intesa Sanpaolo for Group financial products, the collaboration is continuing with BancoPosta SGR, with the activation of new investment solutions and services in favour of the latter.
Lastly, the international expansion of Eurizon Capital benefited from the opening of a sales office in Switzerland and a representative office in Madrid, pending the establishment of a branch. The commercial structure in Germany was also expanded.
The offering for businesses and mid-corporates seeks to provide a distinctive range of products and services to support the growth of Italian SMEs, by strengthening the relationship management teams and enhancing the structured and extraordinary finance services, and to support the international expansion of businesses, through dedicated services and offers and by facilitating access to foreign markets, in addition to increasing the offering of non-financial services and developing a support platform for the relationship management model.
Solutions dedicated to the circular economy have been developed, involving the release of the pilot phase of the credit line with subsidised funding in favour of circular economy investments by domestic and international Enterprises and Retail Businesses. The relationship managers were assisted in commercial development actions by product specialists capable of supporting them in advising customers.
The "Impresa 4.0" initiative (to support investments by companies in technological upgrades of plants and capital assets), which aims to increase the disbursement of loans also thanks to tax incentives, was enhanced, and "Convertibile Impresa" was launched. This is a medium/long-term product for innovative start-ups with the option for the Bank to convert the debt into an equity investment in the company.
The marketing was launched for the electronic invoicing service "Digifattura", the new service that enables Banca dei Territori customers to meet the legal requirements for electronic invoicing.
The service model was upgraded to ensure more effective coverage of customers based on their specific characteristics, reorganising the activities of specialist international lending at the branches with a sales focus and defining new management methods dedicated to Public Entities and Treasuries. This also involved the release of a survey to record the level of satisfaction of customers handled out-of-branch.
A new service model has been implemented to provide greater support for the international expansion of Banca dei Territori's corporate customers, which includes the leveraging of synergies with the International Network of the Corporate & Investment Banking Division and with the Group's international subsidiary banks. This was accompanied by the promotion of information and advisory campaigns to guide and support businesses interested in accessing international markets.
The "Dialogo Industriale" platform was completed and released on the entire distribution network of the Banca dei Territori Division in support of the new model for relations with business customers: this approach helps relationship managers liaise with entrepreneurs on a more informed basis, improving their ability to listen and understand customer needs. Additional functionalities were added to favour coordination between sales and lending structures, while the use of the "Dialogo Industriale" platform was extended also to facilitate the acquisition of new customers, in addition to enhancing the information assets linked to the business supply chains. Lastly, the information set automatically made available to managers was enlarged and new features were implemented to identify priorities and business actions to be implemented.
The first offers were activated for the new "Impresa Plus Modulare", an integrated solution of Bank products that meet shared needs of business customers. The "Dipendenti Plus" offer is specifically targeted to companies that intend to take care of the well-being of their employees, with regard to the issues of welfare, pensions, protection and training.

With a view to strengthening its leadership position on the Italian market, the Banca IMI Unit dedicated to Corporate Finance of Banca dei Territori corporate customers is now operational. The release of the New Corporate Portal was completed for all customers, enriched with new functionalities and capable of supporting customer internationalisation.
To develop international business, the Corporate and Investment Banking Division completed the hiring of 72 specialists, and the hiring plan is being updated to identify the priority positions to be filled in order to strengthen the coverage and skills of the international network.
The new Originate to Share model – aimed at the origination of loans that are in line with the Bank's Risk Appetite and are also attractive for sale to third-party operators, given the dual objective of holding and selling shares – is operational, and the first transactions are underway, with the dual objective of maximising returns on capital and increasing the contribution of net fee and commission income to total revenues. Relationships have been set up with a selected number of international and domestic counterparties, with regard to both origination and distribution, for the establishment of collaboration and partnership agreements. The partnership was launched with Rubicon Capital Advisors, a leading independent investment banking advisory firm, to jointly develop international business opportunities in the origination sector of the infrastructure and energy markets.
Work continued on the development of a new strategy for the International Subsidiary Banks, aimed at optimising the international presence and maximising synergies within the Group: the main activities involved the ongoing digital evolution, through the renewal of the offering and the introduction of new online sales processes, the convergence of the operating and IT platform, and the strengthening of the service model through the development of a multi-channel model and the expansion of wealth management and life insurance services.
As part of the process of extending the HUB approach, the first process to reposition Intesa Sanpaolo Bank Slovenia in the SEE HUB was completed, moving the headquarters to Ljubljana. The alignment of the operating model and the strengthening of commercial synergies continued for the CE HUB, while the integration of the Moldovan subsidiary Eximbank (former Veneto Banca) into Intesa Sanpaolo was completed and the refocus plan is underway in Ukraine.
The migration to the Core Banking System (Constellation) was successfully completed in Serbia and the implementation in the Czech Republic and the feasibility analysis in Slovakia continued.
The Group's target distribution model is being extended to the sales networks in Slovakia, Croatia, Serbia, Hungary, Slovenia and Romania and the analysis, with a pilot phase, has been launched in Albania and Bosnia.
The adoption of the wealth management advisory model for the affluent segment in Croatia, Slovenia, Slovakia and Hungary is also continuing, together with the analysis for its extension to the private and the upper mass segments. Activation continued of the new features and services for the digital channels at the participating banks (Croatia, Hungary, Egypt and Albania) and its implementation was completed in Slovenia; a feasibility study is being completed in Romania and a feasibility study has been initiated for Slovakia.
With regard to the development of wealth management services in China, in October the wealth management company Yi Tsai was granted the fund distribution license by the local regulatory authority and in November the business permit was issued for the distribution of mutual funds. This was followed by the launch of the business and the consolidation of the operating model, with an ambitious development plan.
With regard to the formation of the securities company, in October the authorisation was received from the ECB/Bank of Italy for the formation of the company and the preparation is now underway of all the documentation necessary to obtain the license, in addition to the fine-tuning of the business model and business plan.

People and Digital Transformation

The Group's people continue to be Intesa Sanpaolo's most important resource and, in line with the strategy of the Business Plan, the Group has implemented a series of initiatives dedicated to them.
The People Care project, which is one of the first actions aimed at improving employee satisfaction and has the goal of increasing employee engagement, continued. Following the mapping and analysis of the internal offering of services, the main needs expressed by colleagues and the best experiences at both national and international level, the services offered to Group employees are progressively being expanded, also through partnerships with entities and companies specialising in psychological support, welfare and legal services, through the pilot project "Ascolto e Supporto del Disagio" (listening and support for distress).
Several project streams were also initiated for the Diversity and Inclusion project, aimed at supporting greater inclusion (with respect to gender, age or other personal characteristics) and create the conditions for a significant presence of women in managerial roles. For example, the HR processes and policies have been reviewed to ensure they are fair and Pay Gap monitoring has been set up per structure, banding and professional level. In addition, initiatives have been promoted to create equal opportunities and encourage a high level of people engagement (Back@Work, Disability Management, Ageing) and numerous initiatives have been launched aimed at listening, spreading awareness of these issues, and strengthening inclusion skills.
The International Talent Program continues to foster the potential of the Group's young talent through training programs, managerial support and personalised career paths. The first job rotation for participants of the second edition has been completed and more than 250 people are involved in the program.
The enhancement of employee skills involved the provision of around 11 million training hours, an increase of 20% compared to last year, also thanks to the new online learning platforms that offer targeted training content.
In line with best international practice, the Global Banding has been introduced, aimed at strengthening the spread of a Global Company culture, with the creation of uniform HR management systems at Group level, which ensure greater attractiveness and retention for talented individuals and top management, in addition to reducing organisational complexity and providing greater internal flexibility.
Around 17,200 employees signed up for the smart working initiative, including personnel in Serbia, Albania, Slovakia and Hungary. This method of working optimises the use of company spaces, while also improving employee productivity and satisfaction, and strengthening their sense of responsibility and promoting a better work-life balance.

Lastly, the progressive digital transformation of HR services involved, among other things, models and processes for the enhancement of human resources, the dematerialisation and centralisation of administrative procedures, and the ability to access all services via mobile apps.
The Business Plan includes significant investment in Digital Transformation. In 2019, with 9.2 million multi-channel customers, 5.5 million App users, and around 52,000 customers managed by 141 remote relationship managers of the Online Branch, Intesa Sanpaolo gained additional ground in multi-channel and digital banking. Products available on multi-channel platforms accounted for around 85% of the total, while sales through remote channels reached around 9%.
The new features made available to customers included open banking services such as Apple Pay and Google Pay, electronic payment systems such as electronic invoicing for SMEs, integrated debit/credit cards such as the dual-circuit XME card (Pagobancomat and Mastercard/Visa), security standards such as facial recognition for the XME online account, and dedicated apps such as Investo for Private customers.
The data management projects, in particular the advanced analytics and artificial intelligence projects, pursue objectives strictly coordinated with commercial objectives, such as service customisation, process automation (for example for the Robot Process Automation for asset management) and de-risking. The extension of the target cyber security model also continued, which currently comprises over half the Group companies. The Digital Transformation actually involves all areas of the Group’s operations, including those not directly related to business activities, such as the corporate consolidation and integration, or Planning and Control processes, or Human Resource management. Overall, the level of digitisation of operations reached over 34% (compared to 17.8% in 2018).
To maintain innovation beyond the period of the Plan, and promote an innovation culture within the company, initiatives have been launched such as the Monitoring Centre for the most important trends in technology and finance, the Fintech Ecosystem for identifying best practices and possible innovative partners in the market, the Innovation Funnel for analysing the challenges and responses demanded by new technologies, the Innovation Scale for setting the efficiency threshold for investments, the Service Design Methodology for the implementation of end-to-end projects, and the Innovation Forum, which provides opportunities for exchanging information with the participation of colleagues and customers. With specific regard to Fintech partnerships, these include the Group’s investments in Yolo (insurtech), BacktoWork24 (equity crowdfunding), Diamanti Inc. (containers for cloud and open source environments), and MatiPay (online payments from vending machines).

Projects

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

Digitisation of Group Core Processes

The digitisation of Core Processes continued, via the Digital Factory in co-location mode, with the new Digital Business Partner structures. The objective continues to be evolving the operating model through innovation and the use of the new customer-driven and internal and external collaboration and co-creation based working practices. Since the inception of the initiative, 17 processes have been completed, including the following:

- Digital Wallet and Payment Engine: the project which has given rise to the XME Pay section, built into the Intesa Sanpaolo Mobile App.
- Dialogo Industriale: the project, which led to the creation of a tool that allows Corporate Relationship Managers to improve the effectiveness of their dialogue with corporate customers, by promoting knowledge of the business environment in which the customers operate, has been completed.
- NPL phase 2: the development has been completed for the Single Platform, which has been created to support Specialists in the management of non-performing loans, with a focus on corporate customers, in assessing the sustainability of debt restructuring taking into account future cash flows. The platform provides a structured view of the customer’s current situation and the market environment, by simulating future scenarios based on bank strategies and rules in support of the negotiation strategy.

Work continued on the Insurance Wallet, Remote Relationship Manager and Digital Collaboration projects:

- Insurance Wallet: thanks to the release of “XME Protezione” in the Branch Network, customers can include cover for different types of risk (health, family, assets) in a single policy, with the possibility of adding and eliminating the cover during the lifecycle of the contract.
- Remote Relationship Manager: this project continues with the aim of offering a new remote advisory service to customers that, for business or personal reasons, cannot go to the Branch and prefer interaction through remote channels using a dedicated help service with extensive hours of availability. The pilot phase involves a group of remote relationship managers in the rooms of the Online Branch in Moncalieri, Padua and Milan.
- Digital Collaboration: alongside the Remote Relationship Manager project, the Digital Collaboration project has been launched, which will enable the development over the three-year period of the collaboration tools available to the Online Branch and Remote Relationship Manager, as well as the Network Branches. The first release step is scheduled for 2020.

Big Financial Data (BFD)/Big Data Engine

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

G20 Reforms Project
The G20 Reforms project is intended to continuously ensure the alignment of the operating model for the Group in response to regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments.
In relation to the European Market Infrastructure Regulation (EMIR), in 2019 the implementation continued of the IT interventions aimed at improving the quality of regulatory reporting, together with the revision of the methods for performing controls, with particular focus on reconciliations. Following the publication of the EMIR Refit regulatory update, project activities were launched to ensure the Bank's compliance with the clearing obligations (in force from 18 October 2019) and the reporting obligations (in force from 18 June 2020).
With regard to the Dodd Frank Act (DFA), in February 2019 the National Futures Association (NFA) initiated an examination of the compliance of DFA obligations of Intesa Sanpaolo, in its capacity as a Swap Dealer, and the results of the examination were issued in August. At the beginning of September, the Bank sent its response to the NFA presenting the corrective measures, and preparatory analyses are underway for any further developments.
The project activities necessary to guarantee the activation of the system for managing the Initial Margin exchange also continued. The regulatory start date for the obligation was 1 September 2019. That obligation was established both by the EMIR regulation and the rules of the Dodd Frank Act.

Cyber Security Program
In line with the new Security Regulatory Framework, the Intesa Sanpaolo Security Plan has been drawn up, which also includes the details of the Cybersecurity Business Plan for the period 2018-2021, its underlying strategy and the investments needed to support it.
In particular, this Plan envisages the implementation of the Group Cybersecurity Strategy, with several priority objectives: (i) strengthening and devising security measures for the "digitalisation" of the Group's services; (ii) extending the measures already implemented at Parent Company level to the Group entities; (iii) implementing integrated management of cyber risks, in line with the Group's Risk Appetite Framework (RAF); (iv) systematically employing the most innovative technologies; and (v) adopting a proactive role as an influencer in relation to cyber security issues at international level.
The main projects launched in 2018 continued, including the roll-out of the new IT Security Model; the monitoring of the extension and evolution of the security structures (Security by design); the identification of the logical and technological framework and target architecture for the Single Digital Identity; the launch of activities regarding the assessment of security and the monitoring of the performance of suppliers; the extension of the Global Security Operation Center; the feasibility study for the strengthening of business continuity resilience; the awareness and training programme; the update of the Security Regulatory Framework; and the strengthening of national and international strategic and operational collaborations on cyber security.

Processes Integrated Governance
In 2019, the new classification of the Group processes was extended to the companies ISP Casa, ISP Forvalue, and ISP Agents4You. Work also continued on the plan for the streamlining, simplification and rewriting of the process rules, taking into account the impacts of the ongoing project initiatives, the reorganisations of the related structures and the needs for further analysis expressed by the process owners, while also maintaining a high level of control over the general consistency of the Group's process regulations, ensured through the assistance provided to the companies. A total of 367 processes were worked on during the year, of which 352 were published, out of 376 in the scope.

Banca 5 Project
The process of integration of Banca 5 into the Group, while preserving the company's distinctive characteristics, was completed with regard to the implementation of the regulatory framework and the adaptation, where necessary, to the specific features of Banca 5. In 2019, the work was completed for the centralisation within the Parent Company of the Treasury, Procurement, Audit and Legal functions, the Second-Level Control functions (Compliance, Risk and Anti-Money Laundering), and the Privacy, Corporate Secretariat, Operations and Administration, and Financial Reporting functions.

Data Collection on Credit/Credit Risk (AnaCredit)
The aim of the project is to adapt the Bank's systems to comply with the regulatory reporting to the ECB (EU Reg. 2016/867), which consists of collecting granular (loan-by-loan) and harmonised data (compliant with the FinRep and CoRep requirements) to create a centralised analytical archive on loans granted by banking operators in the EMU/SSM area with the aim of obtaining an analytical view of the credit risk of those banks. This initiative, carried out as part of the Big Data Engine Programme, involves a variety of interventions both in terms of input sources and new engines.
After having completed the creation of the new reporting system, during the third and fourth quarters all the regulatory deadlines for sending new reports to the Bank of Italy were successfully achieved. The follow up phase was also activated to apply the reporting system throughout the Bank, bringing the new reporting fully on stream. The preparation of the process rules has also been completed.

"Lavoro Misto" flexible work (Minotauro Project)
The objective of the project is to implement the innovative working method, referred to as "Lavoro Misto" (flexible work), with the aim of providing a service more oriented to the diverse customer needs and expanding business opportunities.
A "flexible" employment framework was created, for work both as a permanent part-time employee and as a contractor for out-of-branch financial advisory services, to be offered to people from outside the Group, as well as the current Relationship Managers at the Banca dei Territori Division. To date, there are around 130 Financial Advisors on mixed contracts. The selections, which are currently under way from the participants in the "MAKE IT REAL" programme, entail a Branch internship and tutoring to obtain a financial advisor licence and a subsequent job in the company with a flexible contract. The implementation of the mixed contract for ISP Casa is also being evaluated.

Procurement Centralisation Project – Phase 2
The project was launched during 2018 with the aim of completing the activation of the Group's Centralised Procurement Model. Specifically, for the main Italian companies, the project seeks to complete the centralisation of the current procurement functions reporting directly to the Procurement Head Office Department, to reconfigure the authorities granted over time and to verify the operating model to be adopted, and, for the international companies, it aims to expand the process of guidance and control through advisory opinions and to centralise the sourcing of the most significant expenses. The project also envisages extending the Supplier Portal to the companies within the scope, which will help both in centralising sourcing and in qualifying and controlling all the suppliers, in addition to monitoring the contracts in Italy.
Work is underway for the implementation of the new Operating Model and for the project activities for the streamlining of the sourcing process and the censusing of the requirements on the "Supplier Portal" to adapt the application to the operational requirements arising from the integration of the merged companies.

ENIF – Enabling Integrated Financial Crime
The ENIF project aims to strengthen the control of anti-money laundering and embargoes, by implementing a radical revision of the organisational model and strengthening and rebalancing the staff employed at Group level, through the centralisation within Competence Centres of the main related activities carried out in branch and by the Anti Financial Crime Head Office Department. In line with the plan envisaged in Phase 2, the design has been completed for the core processes for Customer Due Diligence, Transaction Monitoring and Penalties-Embargoes. In the second half of 2019, the project priorities were reviewed from a risk-based perspective, with activities focused on the implementation of priority actions (adoption of a new operational model for transaction monitoring at the London branch and implementation of enhanced controls for embargoes in Italy and at European branches) and on the analyses for the preparation of the new 2020 plan. The planning of the releases at the London Branch was also consolidated and the analysis of the target model for Italy was initiated to identify the appropriate release strategies both for IT and organisational aspects.

PULSE
The project to set up a dedicated collection unit called "Pulse" was launched at the beginning of 2018. The unit was set up in the second half of the year together with the extension of the retail position management process to the entire network. The project continued with the release of the formalisation platform and, in 2019, with the release of the collection platform. Analyses are under way for subsequent process adjustments.

OMEGA
The project that led to the sale to Intrum Italy of a package of bad loans of the Intesa Sanpaolo Group, in addition to the establishment of a servicing platform which is 51% owned by Intrum and 49% by Intesa Sanpaolo, was launched in 2018.
In 2019, as part of the "Omega fase III" project, the fine-tuning continued of the processes, IT systems and post-closing legal and contractual activities.

Cost of Credit Assessment Processes Programme
The Programme for credit assessment and cost processes was launched in July 2018, with the following macro-objectives: strengthening the management of credit cost governance, systematic review of credit classification and assessment processes, completion of the IFRS 9 Stage 3 interventions, and strengthening of the monitoring and governance of the main loan aggregates.
In 2019, adjustments were made to the credit assessment process and the target changes to the applications were completed, which included the IT and process developments to support the differing treatment of add-ons. A new area of analysis was also released, designed to ensure more effective credit risk monitoring, which uses modular views to monitor the performance of the main loan aggregates, including non-performing loans, stage 2 and forbearance measures.

Mortgage loans - Poste
This initiative involves the creation of a dedicated proposal model, in which the Banca dei Territori Division acts as a "Product Unit" for third-party (non-Group) distribution networks that place Intesa Sanpaolo products while continuing to manage relations with their customers. This initiative includes the relaunch of indirect distribution channels through the establishment of commercial partnerships with approved networks outside the Group. The first partner identified is Poste Italiane and the first product under the partnership agreement concerns the mortgage range (Mutuo BancoPosta), already launched in October 2018, whose market offering is aimed at retail customers. In the second half of 2019, the personal loan process was designed and the product offering was launched, for which the related process rules were produced. In this regard, the Chief IT Digital Innovation Officer Area structures provide support for the definition and formalisation of the processes for the new business model, as well as for the supply of IT services and operations.

Originate to Share
This project is structured in a four-year programme whose objective is to implement the Originate to Share (OtS) model for the Corporate and Investment Banking Division mainly based on: i) new processes that entail a significant change in approach compared to current practice to capture new business opportunities; and ii) an IT platform dedicated to OtS that is fully integrated with the other Group systems. In line with the developments in the OtS project, this process will be further refined while the other related processes are being completed.

Brexit
The Brexit project was launched by the Parent Company with the aim of defining and implementing an action plan in line with the strategy identified by the Group to adequately respond to the United Kingdom's exit from the European Union, ensuring full operational and business continuity.
For more detailed information, see the specific paragraph in Part E of the Notes to the consolidated financial statements.

Credit Management Digitisation in the Chief Lending Officer Governance Area
At the end of 2018, the Chief Lending Officer Governance Area launched two main project initiatives, aimed at extending the digitisation to the various credit areas and processes:
- Credit Management Digitisation, and
- Credit Granting Digitisation.

In the Credit Management Digitisation process, the primary objectives were the revision of the instruments for the management and valuation of loans classified as unlikely to pay, in order to reduce working times and improve recovery performance in accordance with the objectives of the Business Plan. The project also included the measures required for the UTP Partnership with Prelios described in more detail below. The programme is multi-annual in duration and will complete the main actions in 2020.
The Credit Granting Digitisation is being developed through the New Credit Granting Programme, which is defining and implementing a new credit granting process, with an initial focus on Corporates. The Programme, which is also multi-annual in duration, with the main releases scheduled for 2020, is completely redesigning the credit process from a digital perspective, through an end-to-end approach that covers the entire credit cycle, from the proposal to the customer to the finalisation of the credit lines. The aim is to reduce response times and ensure more careful control of credit risk.

Chief Lending Officer Governance Area Reorganisation Programme
In the second half of 2019, the organisational transformation of the Chief Lending Officer Governance Area was initiated, which involved the creation of specialist structures and controls (and related process adjustments) dedicated to the various credit phases, to support the development of new businesses and the optimal management of de-risking initiatives, in line with the guidelines issued by the Regulators and international best practice.
The measures designed to make the reorganisation more effective and efficient will be completed in 2020, in conjunction with the UTP Partnership project referred to below, for the management of unlikely-to-pay loans.

UTP Partnership Project
In 2019, the project activities were completed that led to the signing of an agreement between Intesa Sanpaolo and Prelios for a strategic partnership concerning loans classified as unlikely-to-pay (UTP). The agreement consists of a contract for the servicing activities to be provided by Prelios aimed at maximising the return of positions to performing status, in addition to the securitisation and disposal of a portfolio of UTP Corporate and SME loans of the Intesa Sanpaolo Group. The project involved identifying and setting up organisational structures that perform the role of liaison with the Outsourcer, of validation of the management strategies proposed by the Outsourcer, and of providing credit-related decisions concerning the positions. These organisational changes were made in synergy and in coordination with the reorganisation of the Chief Lending Officer Governance Area.

Mediocredito Project
In line with the 2018-2021 Business Plan, and with a view to reducing complexity cutting costs by integrating subsidiary legal entities, in April the project was initiated for the merger of Mediocredito Italiano into Intesa Sanpaolo on 11 November 2019. The staff functions had already been integrated into Intesa Sanpaolo in 2015, whereas the Company had retained the commercial functions and business support and after-sales services related to the products managed: medium/long-term credit, subsidised credit, leases and factoring. The integration of Mediocredito Italiano maintained the distinctive features of the business, particularly in relation to the level of customer service and commercial effectiveness. The project involved the integration of the specialist Leasing, Factoring, and Structured and Subsidised Finance applications into Intesa Sanpaolo's target IT system, as well as the revision and harmonisation of the operating processes and rules related to Mediocredito's above-mentioned specific operations.

New Definition of Default
In its letter of June 2018, the European Central Bank invited banks with validated models for prudential purposes to take steps to adopt the new definition of default issued by the EBA, as governed by the guidelines issued by the EBA on the application of the definition of default under Article 178 of Regulation (EU) 575/2013 and the related regulatory measures.
The Group decided to adopt the new rules in advance and initiated a specific project from 2018, which required a detailed structured gap analysis and involved all the main functions of the Bank and its subsidiaries. The areas already aligned to the EBA guidelines were analysed and defined and those for which action was needed were identified. This enabled the identification of the main gaps in regulations, processes, and methodologies and the establishment of the related development plan, which also involved the development or revision of IT systems. The results of the gap analysis and the development plans produced, including details of the changes to the IT infrastructures involved, were submitted to the Supervisory Authority in December 2018, through the Application Package, in accordance with the instructions provided in the above-mentioned letter. The necessary additions were also incorporated into the Regulations (Rules and Process Guides), which were also subject to verification by the control functions and then submitted to the Supervisory Authority. Based on the request submitted by the Group and the subsequent verification by the Supervisory Authority, on 4 November 2019 the European Central Bank issued the authorisation decision that allowed the Group to implement the changes to the established rules, processes and systems.
The new Definition of Default has introduced more rigorous procedures for the classification of past due exposures, both corporate and retail, and, therefore, the Group has given considerable importance to internal management and training initiatives, in its planning, in order to ensure constructive customer relations, as well as issuing communications and information resources through its corporate website.
Further details regarding the changes introduced and the impacts identified are provided in the Notes to the financial statements – Part E – Non-Performing Credit Exposures.

Smart Lending

The project aims to define a mix of products/services that is better focused on the customer, to meet specific credit needs through a front-to-back digital process. In particular, a solution will be developed which leverages innovative (internal and external) customer data and the use of cutting-edge risk quantification algorithms (machine learning) to more accurately forecast credit risk.

This digital lending process will be capable of drastically reducing the time required (even to the point of immediate loans) through an automatic (or semi-automatic) engine. The project was launched in the last quarter of 2018 and has a long-term time horizon, envisaging gradual releases, consistent with the overall evolution of the technology/application framework of the Group in the area of loans.

Resolution Plan Project

The BRRD Directive requires that each financial institution subject to direct supervision by the European Central Bank (ECB) prepare a Recovery Plan and provide support to the Single Resolution Board (SRB) in drawing up a Resolution Plan. The objectives of a Resolution are:

– ensuring the continuity of critical economic functions and avoiding adverse effects on the financial stability of the system, specifically by preventing contagion;
– protecting public funds by minimising reliance on extraordinary public financial support and protecting depositors, through the Deposit Guarantee Scheme Directive (DGSD), and investors, through the Investor Compensation Scheme Directive (ICSD);
– protecting the funds and assets of customers.

Having analysed the numerous and significant obligations set out, in order to best fulfil them, the Group has addressed the issues identified through a structured, project-based approach, also considering the significant interconnections among the various areas of analysis involved in the Resolution Plan. The Chief IT, Digital and Innovation Officer (CITDIO) Governance Area is involved in relation to IT and process solutions already identified (with regard to the priority requirements stated in 2018) or being identified (with regard to those of 2019). During the year, the first process and IT solutions deliverables were released, consisting of an evolution of the templates to be provided to the SRB for the preparation of the Resolution Plan.

Product Governance

Over the last two years, the European Supervisory Authorities have issued new regulations on the governance and control of financial, banking and insurance products, both for producers and distributors, with the objective of increasing consumer protection through greater oversight of the design/development phase up to after-sales monitoring.

In this area, the Bank has launched the activities to align with the regulations, and has planned the start of a project that aims to complete the definition and formalisation of the implementing regulations of the Guidelines for the approval of new products, services and activities dedicated to specific target customers, define the requirements for developing a tool for automated process management and finalise/create after-sales monitoring dashboards for the various products.

The project activities initially focused on the implementation of the model for the Banca dei Territori Division, on the start-up of activities for the Corporate and Investment Banking Division, and on the involvement of the Private Banking, Asset Management and Insurance Divisions, and are due to be extended to the International Subsidiary Banks Division and the CIB International Department in the subsequent phases. In addition, for the Banca dei Territori Division, the first after-sales monitoring dashboards were created for financial and banking products, and the dashboards for insurance products were further improved.

Toret Project

The aim of the project is to drive growth within the Group in the management of multi-corporate venture capital closed-end funds, while also opening up to outside investors. This objective will be pursued by restructuring the current company IMI Fondi Chiusi SGR, a company vehicle whose structure is suitable for this transformation process, and by leveraging the current know-how of Neva Finventures, the Group’s corporate venture capital investment company. The company restructuring process involved a series of internal authorisation steps (Committee for transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group, Board of Directors of Intesa Sanpaolo, Board of Directors of Intesa Sanpaolo Innovation Center, etc.) carried out in December. Once the step involving the company bodies has been completed, the necessary documentation will be prepared for the submission of the authorisation application to the Bank of Italy (report on the organisational structure and programme of activities). The operational launch of the Company is planned for the second quarter of 2020.

Sustainability

The 2019 results enabled Intesa Sanpaolo to create sustainable value for all its stakeholders, in line with the commitments made in the 2018-2021 Business Plan and confirming that it is also a reference model in the areas of social, cultural and environmental sustainability, as also demonstrated by its positioning in the main sustainability indices and rankings. Indeed, Intesa Sanpaolo is the only Italian bank included in the Dow Jones World and Europe Sustainability Indices, in the CDP Climate A List and in the Corporate Knights ranking of the world’s 100 most sustainable companies.

In addition, in 2019, the Group’s commitment to sustainability was further strengthened by signing up to the UNEP FI Principles for Responsible Banking, a policy document that aims to bring the banking sector closer to the UN Sustainable Development Goals and the 2015 Paris Climate Agreement, by highlighting the contribution made to achieving them. A wide-ranging ESG[3] project has also been launched, involving the entire Group, which seeks to define new levels of ambition for Intesa Sanpaolo’s sustainability strategy, based on international mapping and discussion in relation to ESG issues.

[3] Environmental, Social and Governance.

Intesa Sanpaolo has confirmed its role as a driving force for Italy's real economy and sustainable and inclusive development, disbursing approximately 58 billion euro in 2019 in new medium/long-term loans, of which approximately 48 billion euro disbursed in Italy, with around 38 billion granted to households and SMEs. In addition, the Group facilitated the return from non-performing to performing status of around 18,500 Italian companies, with a positive impact on employment through the protection of approximately 93,000 jobs. In particular, approximately 3.8 billion euro (6.6% of total disbursements) consisted of high-social-impact loans: the Group's status as one of the most solid and profitable institutions in Europe enabled it to provide innovative and effective instruments capable of generating a positive and inclusive impact on society as a whole.

Financial inclusion

The core of Intesa Sanpaolo's commitment to Italy's growth is its focus on providing access to credit to people who are excluded from or unlikely to be included in traditional financial circuits. In its 2018-2021 Business Plan, Intesa Sanpaolo set itself the goal of becoming the world's leading Impact Bank and, with this in mind, it created the Fund for Impact, which enables the disbursement of 1.25 billion euro to categories of society that have difficulty in accessing credit despite their potential. The first initiative launched through the Fund for Impact was "per Merito", an unsecured loan aimed at all young university students living in Italy who study in Italy or abroad, which has funded 3,240 students so far, with around 28 million euro disbursed in 2019.
Intesa Sanpaolo's commitment to combating situations of hardship and difficulty has also been extended to communities and people affected by natural disasters and emergencies. Specifically, in 2019 the Group supported families affected by earthquakes and other natural disasters by suspending mortgages on affected properties for a total of 0.8 billion euro and providing subsidised loans of over 135 million euro (around 335 million euro since 2018). The Bank has also provided households and businesses affected by the collapse of the Genoa bridge with a credit line of 4.5 million euro for the unilateral cancellation of first home mortgages on properties declared uninhabitable (0.5 million euro has been written off) and a credit line of 50 million euro for reconstruction (4.6 million euro has already been granted). The Bank has also arranged for the subscription of the "Vicino a Te" Policy for children who lost one or both parents during the collapse. In addition, in 2019, the Group allocated a credit line of 100 million euro for households and businesses affected by the severe weather emergency in the Venice area and provided the possibility of requesting the suspension of loan instalments for 12 months. Employees of the former ILVA company and its suppliers who are customers of the Bank have also been given the possibility of suspending mortgage and personal loan instalments for a period of up to 12 months.
In 2019, over 200 million euro was granted to support social enterprises and the non-profit sector.

Promoting jobs and the right to education

Intesa Sanpaolo has always been keen to invest in young people, also with a view to promoting jobs and the right to education, and these aspects have now been fully taken into account in the 2018-2021 Business Plan. In collaboration with Generation Italy, the Bank launched the "Giovani e Lavoro" (youth and work) programme aimed at offering free training courses, over 3 years, to 5,000 young people aged between 18 and 29 who do not have a job, in order to help them gain the skills that companies are seeking and enable them to find companies that are looking to hire young people, with the objective of getting at least 75-80% of them hired. The program, launched in the geographical areas with the greatest potential for development, starting in 2019 with Naples, Rome and Milan, has so far attracted 9,300 young candidates for the program, with over 700 students accepted on the courses, with a recruitment rate of 80% for the initial graduating students, with the involvement of over 1,000 companies through locally-based meetings.

Innovation

The challenge of innovation in Italy plays a major role for the development of the new economy. The Group has a leading position in this area, with a market share of 24% in operations with start-ups and around 50% in operations with innovative small and medium-sized companies. In 2019, the Group continued its start-up development and enhancement programme, analysing around 720 start-ups (around 1,300 since 2018) and activating 6 acceleration programs for 124 start-ups (235 since 2018) which were presented to 850 selected investors and other players in the ecosystem (around 1,600 since 2018).

Sustainable investment products and sustainable insurance

Intesa Sanpaolo is also committed to further strengthening its offering of sustainable investment products, which combine financial criteria with environmental, social and governance (ESG) aspects. More specifically, Eurizon, which has adhered to the PRI (Principles for Responsible Investment) since 2015, has 37 funds focused on this type of investment. Following the launch, in 2018, of the Eurizon Absolute Green Bonds Fund, the first fund managed by an Italian asset manager specialising in the international bond markets that makes it possible to finance projects connected with the environment, Eurizon Global Trends 40, the new flexible Eurizon mutual fund, was launched at the end of 2019. This fund consists of three equity sub-funds that invest in companies that are sensitive to protection of the planet, human wellbeing and technological innovation.
At the end of 2019, the total assets of Ethical and ESG funds managed by Eurizon and Fideuram amounted to 8.45 billion euro.

With regard to insurance, the commitment to operate in a sustainable manner was officially confirmed in 2019 when Intesa Sanpaolo Vita signed up to the United Nations Principles for Sustainable Insurance (PSI). Intesa Sanpaolo Vita has enhanced the financial offering of the Open Pension Fund "Il Mio Domani" with three new ESG benchmark sub-funds aimed at supporting investments in companies that are attentive to protecting the planet's resources, respect for workers, and proper business management.

Contributions to the community

In keeping with its commitment to society and to the community, the Group has made over 86 million euro in contributions to the community, a figure that makes it one of the leading operators in the social sector in Italy.
The Charity Fund, through which the Bank allocates a portion of its profits to support solidarity, social welfare and human value projects, disbursed 12.9 million euro in 2019.
One of the major projects involved combating poverty and, in the period 2018-2019, by providing support to charitable organisations and associations, it enabled the distribution of 8.7 million meals and the provision of over 519,000 beds, around 131,000 medicines and 103,000 items of clothing.
Particular attention has been paid to children through local collaborations and projects, including the Intesa Sanpaolo Program for long-term inpatients.
"For Funding", Intesa Sanpaolo's online fundraising platform aimed at supporting social welfare projects promoted by non-profit organisations, received 25 thousand donations for 170 initiatives.
The Intesa Sanpaolo Onlus Foundation operates in the area of philanthropy and, in accordance with its charter, in addition to providing grants to employees in difficulty and for study purposes, it provides donations to support meal centres and dormitories.

Support for the green economy and the circular economy

The commitment continued in support of the green economy and the circular economy, for which loans totalling approximately 2.2 billion euro were disbursed (corresponding to 3.7% of the total disbursed).
Specifically, the Bank's commitment to the circular economy – developed in partnership with the Ellen MacArthur Foundation – involved the establishment, for the period 2018-2021, of a dedicated credit plafond of 5 billion euro and the launch of the Circular Economy Lab, first Italian workshop – held together with Fondazione Cariplo – aimed at creating value for the Group's customer companies by developing research programmes and through circular innovation. At the end of 2019 the credit plafond enabled the disbursement of around 760 million euro to 63 projects for the transition to the circular economy, out of 248 projects examined.
In 2017, Intesa Sanpaolo was the first Italian bank to issue a green bond, for an overall amount of 500 million euro to finance projects dedicated to renewable energy and energy efficiency in particular. The proceeds of the green bond financed 75 projects with annual savings of more than 353 thousand tonnes of CO_2 emissions.
The placement of the first 750 million euro sustainability bond was successfully completed in November 2019, against a demand of over 3.5 billion euro, and will be used to support loans granted by the Bank under the 5 billion euro credit line dedicated to the circular economy.

People

As stated in the paragraph on the Business Plan, the results were achieved through the contribution of the people who work for Intesa Sanpaolo. They continue to be the Group's most important resource and helping these people develop and strengthen their sense of belonging to the company is a key factor for achieving the Group's strategic objectives.
In 2019, also in line with and in support of the Business Plan, the Welfare, Safety and Sustainable Development Committee, set up under the Industrial Relations Protocol, promoted a series of measures and actions that contributed significantly to the development of issues related to inclusion, organisational wellbeing, disability and support for employees at particular times in their private and/or working lives. To this end, an increasing number of structures and people throughout the Group were involved in flexible work, with around 17,250 participants at the end of 2019, also as a result of target set in the Business Plan, which envisages its extension to around 24,000 people in 2021.
In addition, this year the Group continued its activities designed to enhance diversity and inclusion, ranging from the creation of a structure dedicated to the management of these issues, through to the launch of specific projects to promote the growth of high-potential women, sessions on inclusive leadership dedicated to the Group's top management, training for women in management, and a program for employees on long-term absence aimed at establishing a close relationship during their absence and promoting their successful return to work. In 2019, a KPI, equal to 10% of the overall assessment, was also included in the performance sheets of around 1,100 managers, dedicated to enhancing female talent, extending the scope of the 900 managers involved in 2018.

Task Force on Climate-Related Financial Disclosures

Since October 2018, Intesa Sanpaolo has supported the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), committing itself to reporting on the risks and opportunities linked to climate change in a transparent manner. The key aspects are presented below and these are discussed in detail in the Consolidated Non-financial Statement and, for the governance aspects, in the Report on Corporate Governance and Ownership Structures.

Governance

The Managing Director and CEO submits the establishment of strategic guidelines and policies on sustainability (ESG), including combating climate change, to the relevant Board Committees and to the Board of Directors, with the support of the Steering Committee. The Board of Directors approves the strategic guidelines and policies on sustainability (ESG) – with the support of the Risk Committee – taking into account the objectives of solid and sustainable creation and distribution of value for all stakeholders, including the environment as stated in the Group's Code of Ethics. In addition, the Steering Committee – composed of the top management – meets quarterly to examine sustainability issues (ESG).

Strategy

Intesa Sanpaolo is aware of the significant influence that a large diverse financial Group – with revenues from lending, investment, insurance underwriting and asset management – has in terms of environmental and social sustainability, in the short- and long-term.

In addition to directly managing its energy consumption to increase efficiency and reduce greenhouse gas emissions in its buildings, the Group can exert an influence on the activities and behaviour of its customers and suppliers.

The main focus of the climate strategy is on promoting sustainable finance instruments to support the transition to a low-carbon economic model and to models based on the circular economy. Integrating climate concerns into the provision of financial services can have a significant impact and make a substantial contribution to combating climate change.

In confirmation of its commitment to the environment, the Group, which is already a supporter of the United Nations' Sustainable Development Goals, a subscriber to the Equator Principles (EP) and a member of UNEP FI, has also subscribed to the Principles for Responsible Investment (PRI) since 2015 and in 2019 it signed up to the Principles for Responsible Banking (PRB) and the Principles for Sustainable Insurance (PSI).

Management of risks and opportunities

Intesa Sanpaolo takes into account the ESG risks associated with the activities of its corporate customers and the economic activities it invests in and focuses in particular on examining sensitive sectors that are characterised by significant socio-environmental risk. In its socio-environmental risk assessment, the Bank focuses in particular on the risk arising from climate change.

The Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area, with the aid of a cross-functional working group, are responsible for identifying and analysing the range of risks and opportunities related to climate change, in order to include them into the ordinary risk assessment and monitoring processes, as well as the credit strategies, and to establish the related objectives and guidelines.

Within its Risk Appetite Framework, the Group has introduced a specific reference to climate risk, with a commitment to integrate it into its Enterprise Risk Management framework, particularly for credit risk and reputational risk. In 2019, work began on identifying the business sectors in the loan portfolio potentially most affected by climate change risk, in terms of financial materiality, arising from both transition risk and physical risk.

Since 2019 Intesa Sanpaolo has participated in the "TCFD Banking Sector Pilot - Phase II" working group, which involves more than 35 international banks, coordinated by UNEP FI, with the objective of developing methods for assessing climate change risks through the development of long-term scenario analysis. Specifically, this method of analysis is applied to certain sectors of the Group's loan portfolio that are sensitive to climate change, in order to quantify the impact of both transition risk and physical risk over the medium- to long-term.

With regard to the business opportunities related to climate change, Intesa Sanpaolo has been committed for many years to promoting sustainable financial instruments to support the transition to a low-carbon economic model, both in relation to loans for the green economy and the circular economy and to asset management where it offers a wide range of ESG funds.

Metrics and objectives

Intesa Sanpaolo reports climate change impacts and performance using the metrics of the Global Reporting Initiative (GRI) standard, the main benchmark for sustainability reporting.

- *Emissions*: The Intesa Sanpaolo Group's greenhouse gas emissions are reported in CO_2 equivalent, according to the GHG protocol. The Group reports Scope 1 and Scope 2, direct and indirect emissions, and part of the Scope 3 indirect emissions, such as those related to paper consumption, waste, and office machinery. The Group has set targets for the reduction of emissions at 2022 and 2037. The 2022 targets include a reduction in absolute emissions attributable to (direct and indirect) energy consumption of 37% with respect to 2012 and targets for the consumption and production of energy from renewable sources. CO_2 emissions (Scope 1 and Scope 2) decreased by 21% in 2019.
- *Loans*: In 2019, the Group disbursed around 2.2 billion euro in support of the green economy and the circular economy. For the circular economy, in its 2018-2021 Business Plan, the Group, which also has the support of the Ellen MacArthur Foundation, has made available a credit plafond of 5 billion euro for companies that adopt a circular business model and, in 2019, it disbursed 760 million euro for 63 projects. In the coming years, the Group will provide 50 billion euro to support green investments under the EU Green Deal. In 2019, 11 loans were screened for the Equator Principles and achieved financial approval, for an amount granted of 825 million euro. In addition, around 130 loan transactions with corporate counterparties were subject to an ESG/reputational assessment.
- *Funding*: In 2019 Intesa Sanpaolo issued the first sustainability bond focused on circular economy for 750 million euro. The bond follows on the first 500 million euro green bond issued in 2017, which enabled the funding of 75 projects, with a reduction of 353 thousand tonnes of CO_2.
- *ESG investments*: Intesa Sanpaolo is the leading operator in Italy in the area of sustainable funds, with assets of 8.45 billion euro and a market share of over 27%. Specifically, Eurizon Capital has brought its assets under management according to sustainable and ethical criteria to over 8.2 billion euro (approximately 12% of Italian-registered funds). In 2018, Eurizon launched the Eurizon Absolute Green Bonds Fund which, in September 2019, had invested in around 300 green and thematic bonds, helping to produce around 139 thousand Megawatt/hour from renewable energy installations and to save around 94 thousand tonnes of CO_2.

Economic value generated and distributed

The economic value generated by the Group during the year is calculated in accordance with ABI (Italian Banking Association) instructions and consistent with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required under Bank of Italy Circular 262.
The economic value generated, which in 2019 was over 17 billion euro, came from net income from banking and insurance activities – which therefore takes into account the impairment losses on loans and other financial assets – plus the realised gains and losses on investments in associates and companies subject to joint control, investments and other operating income. The amount of the economic value generated expresses the value of the wealth produced, most of which is distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. In particular:

- employees and other staff benefited from over 37% of the economic value generated, for a total of 6.5 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received 14% of the economic value generated, for a total of 2.4 billion euro in payment for goods and services;
- Government, Organisations and Institutions recorded a total flow of funds of 3.2 billion euro, around 18% of the economic value generated, almost 900 million euro of which referring to indirect taxes and duties, over 1.7 billion euro to taxes on income from continuing operations, and over 500 million euro to levies and other charges concerning the banking industry, consisting of contributions to resolution and guarantee funds. There were also numerous social and cultural initiatives and other actions taken to support the charity funds and issue disbursements by way of social and cultural contributions;
- approximately 21% of the economic value generated was allocated to Shareholders, holders of equity instruments and minority interests, largely in terms of the proposed dividend, for a total of around 3.6 billion euro.

The remaining amount, around 1.7 billion euro, was withheld by the corporate system and mainly comprises deferred tax assets and liabilities, amortisation and depreciation, provisions for risks and charges, and retained earnings. Self-financing is to be considered an investment that other stakeholder categories make each year to maintain efficiency and allow the sustainable development of the Bank as a whole.

Economic value	**millions of euro**	
Economic value generated	17,371	100.0%
Economic value distributed	-15,687	90.3%
Employees and collaborators	-6,513	37.5%
Suppliers	-2,437	14.0%
Government, Organisations and Institutions, Community	-3,167	18.2%
Shareholders, Holders of equity instruments and Third	-3,570	20.6%
Economic value retained	**1,684**	**9.7%**

ECONOMIC VALUE IN 2019

Sustainability and ESG issues are covered in depth in the Consolidated Non-financial Statement (CNFS) drafted in accordance with Italian Legislative Decree 254/2016, a separate report from the Annual Financial Report and available on the Group's website.
In September 2019, for the first time and on a voluntary basis, Intesa Sanpaolo published a Half-Yearly Consolidated Non-financial Statement containing the most relevant indicators.

Progetto Cultura and Gallerie d'Italia

The promotion of art and culture in Italy represents a commitment that is recognised and synonymous with the identity, role and mission of Intesa Sanpaolo. For several years now, the Business Plan has been accompanied by Progetto Cultura, assigned to the Art, Culture and Historical Heritage Department. This is an innovative three-year programme that plans the activities conceived, produced and organised by the Bank in the areas of art and culture, in partnership with the main national, European and international museums and institutions.
In addition, Intesa Sanpaolo, already a leading bank in the field of Corporate Social Responsibility, confirmed its role as an exemplary group in terms of social and cultural commitment, also through the Progetto Cultura initiatives, which contribute to consolidating the Group's reputation in Italy and abroad.

Gallerie d'Italia

In historic buildings in the heart of three Italian cities, Intesa Sanpaolo has created Gallerie d'Italia, the Bank's museum venues in Milan, Naples and Vicenza, which house 1,000 artworks selected from the Group's art collections (in addition to 197 artworks from the Fondazione Cariplo collections). The Gallerie d'Italia and the 36th floor of the Intesa Sanpaolo skyscraper in Turin host original temporary exhibitions, organised thanks to collaboration and loans from important Italian and international museums.
In 2019, there were 560,000 visitors to the various exhibition venues, where 10 major exhibitions and 8 dossier exhibitions were produced, in addition to 5 exhibitions organised in different venues (the Italian Cultural Institute in New York, Palazzo Madama and the Fondazione CAMERA in Turin, the Fondazione Pistoia Musei, and Palazzo Girifalco di Cortona for the Cortona On The Move Festival).
The following exhibitions ended in 2019: *Romanticism* with around 180,000 visitors (Milan, 26 October 2018 - 17 March 2019, in collaboration with the Poldi Pezzoli Museum of Milan); *Rubens, Van Dyck, and Ribera. The collection of a prince* with over 103,000 visitors (Naples, 6 December 2018 - 7 April 2019, in collaboration with Museo e Real Bosco di Capodimonte of Naples, and the "L'Orientale" University of Naples, with consultant curator Gabriele Finaldi, director of the National Gallery of London); *The triumph of colour. From Tiepolo to Canaletto and Guardi. Vicenza and the masterpieces of the Moscow Pushkin Museum* with around 41,000 visitors (Vicenza, 23 November 2018 - 5 May 2019, in collaboration with the Pushkin Museum in Moscow and the Musei Civici in Vicenza); *Juan Bautista Maìno. Adoration of the shepherds* with 11,400 visitors in 15 days (Turin, 23 December 2018 - 6 January 2019, the "Special Guest" from the Hermitage Museum of St. Petersburg).

Nine exhibitions were held at the Gallerie di Piazza Scala in Milan during the year:
- *From Clay to Algorithms. Art and Technology. From the collections of Intesa Sanpaolo and Castello di Rivoli* (31 May – 8 September, curated by Carolyn Christov-Bakargiev and Marcella Beccaria, and co-produced with the Castello di Rivoli Museum of Contemporary Art) investigated the influence of technological progress on artistic production through 70 artworks from Attic ceramics to the 2017 creations of Cally Spooner (around 24,000 visitors);
- *Canova/Thorvaldsen. The birth of modern sculpture* (25 October 2019 - 15 March 2020, curated by Fernando Mazzocca and Stefano Grandesso, in collaboration with the State Hermitage Museum in St. Petersburg and the Thorvaldsen Museum in Copenhagen): in an itinerary of over 160 sculptures, paintings and drawings from museums and private collections from all over the world, this major exhibition brought together the two geniuses of modern sculpture for the first time (over 93,000 visitors in the first two months of its opening alone).

The dossier exhibitions, held mainly in the Sala delle Colonne dedicated to contemporary art:
- *Franca Ghitti. Other alphabets* (15 January - 17 February) focused on the sculptural production of the artist from Brescia;
- *Contemporary Art Perspective. The Fondazione Fiera Milano collection* (14 March - 7 May) presented a group of 43 artworks by artists from all over the world, selected from the Fondazione Fiera Milano collection, to the public for the first time;
- *Balla. Futurist genius* (9 April - 12 May), dedicated to the monumental work produced by Giacomo Balla in 1925, from the Fondazione Biagiotti collection;
- *13 Stories from the street. Homeless photographers* (28 May - 1 September), a photographic exhibition co-produced with Fondazione Cariplo;
- *Called up. Bankers at the front in the Great War* (10 May - 9 June), a documentary exhibition with unpublished material from the Intesa Sanpaolo Historical Archives on the occasion of the Alpini Army Corps Rally in Milan;
- *Piero Dorazio. Form and colour* (10 May - 9 June), an exhibition in line with "Cantiere del '900", which presented 13 works by the Roman master from the Intesa Sanpaolo collections together with an artwork from the Fondazione Prada collection;
- *Maurizio Galimberti. Leonardo da Vinci's Last Supper* (20 November 2019 - 12 January 2020), for da Vinci's five hundredth anniversary, dedicated to the photographic reinterpretation of the *Last Supper*, Leonardo's masterpiece in Milan.

Three exhibitions were organised at Palazzo Zevallos Stigliano in Naples:
- *Sandro Botticelli. Lamentation over the Dead Christ* (22 June - 29 September) on the occasion of the 9th edition of the exhibition "Special Guest", with the presentation of the painting by the Tuscan master from the Poldi Pezzoli Museum in Milan, admired by almost 50,000 visitors;
- *Berlin 1989. Painting in Germany before and after the Wall* (11 October 2019 - 19 January 2020, curated by Luca Beatrice) celebrated the thirtieth anniversary of the fall of the Wall with 21 artworks by major German artists such as Baselitz, Richter, Polke and Kiefer, forming part of the series of exhibitions at the Gallerie d'Italia in Naples dedicated to the metropoles that influenced the course of art and society at the end of the twentieth century (around 61,000 visitors at 31 December 2019);
- *David and Caravaggio. The cruelty of nature, the scent of the ideal* (6 December 2019 - 19 April 2020, curated by Fernando Mazzocca), a dossier exhibition that, through a small group of paintings by the master of French

Neoclassicism, documented the profound influence of Caravaggio, whose last work, the *Martyrdom of Saint Ursula*, is kept in the Neapolitan museum.

Palazzo Leoni Montanari in Vicenza, the first home of the Gallerie d'Italia, celebrated the twentieth anniversary of its opening in 2019 with the refurbishment of the bookshop and a programme of 5 exhibitions:

- *Myth. Gods and Heroes* (6 April - 14 July, curated by Fernando Mazzocca, in collaboration with the National Archaeological Museums of Naples and Reggio Calabria), an exhibition that brought together the Palazzo's extraordinary baroque decorations, its own collections and loans from major Italian and international museums, around a set of mythological themes, presented through over 60 artworks from antiquity to the Neoclassical period (over 22,000 visitors);
- *Malika Favre. Most Illustrious* (18 May - 25 August, as part of the Illustrious Artists Festival of Vicenza) dedicated to 135 works, from pop art to optical art, by the internationally renowned French illustrator and designer (over 15,000 visitors);
- *Kandinsky, Gončarova and Chagall. The sacred and beauty in Russian art* (5 October 2019 - 26 January 2020, curated by Silvia Burini and Giuseppe Barbieri, an initiative in the project to promote the collection of Russian icons in collaboration with CSAR-Centre of Studies of Russian Art of the Ca' Foscari University of Venice). The exhibition showcased 19 icons in comparison with 45 masterpieces by Russian painters of the 19th and 20th centuries, mostly from the Tret'jakov Gallery in Moscow (27,010 visitors at 31 December):

two subsequent editions of the "Special Guest" program;

- *Jean-Michel Basquiat. Moses and the Egyptians* (12 September - 3 November), the tenth protagonist of the exhibition was the 1982 masterpiece of the American artist from the Guggenheim Museum in Bilbao, accompanied by fringe activities aimed particularly at young people and street artists (13,100 visitors);
- *Paul Gauguin. Tahitians in a room* (30 November 2019 - 8 March 2020), the eleventh "Special Guest" on loan from the Pushkin Museum of Fine Arts of Moscow, the painting is representative of the period of creative freedom experienced by the French master in Polynesia.

The 36th floor of the Turin Skyscraper inaugurated the 12th edition of the "Special Guest" initiative on 20 December 2019 (until 6 January 2020) with *Giovanni Bellini. Madonna of Alzano*, a Renaissance masterpiece from the Accademia Carrara of Bergamo. The display of this artwork at the Skyscraper was closely linked to the parallel exhibition *Andrea Mantegna*. *Reliving the ancient, building the modern* at Palazzo Madama, conceived and co-financed by Intesa Sanpaolo and Fondazione Torino Musei e Civita (12 December 2019 - 4 May 2020).

In 2019, the first six editions of catalogues were published with the publishing brand Edizioni Gallerie d'Italia | Skira *(Canova Thorvaldsen; Kandinskij, Gončarova, Chagall; David and Caravaggio; Berlin 1989; Paul Gauguin; Giovanni Bellini).*

Educational activities and relations with schools have always been at the centre of the cultural programme of Gallerie d'Italia. In 2019, almost 80,000 children and young people took part free of charge in educational workshops in the Bank's museums. For all visitors up to the age of 18, admission to Gallerie d'Italia is free. Particular focus is placed on people with special needs. The numerous projects dedicated to vulnerable individuals are aimed at ensuring the complete accessibility of cultural heritage and providing a vision of the museum as a space for participation and social integration (over 20 types of initiatives dedicated to the three museum venues, with over 6,000 participants).

Historical and Art Assets

One of the main objectives of Progetto Cultura is the conservation, enhancement and promotion of knowledge of the Group's art collections, consisting of over 30,000 artworks that retrace the history of Italian art, from the Attic and Magna Graecia vases of the 5th century B.C. to the forms of expression of the 20th and 21st centuries.

As part of the fair value measurement of the carrying amount of "valuable art assets" started in 2017, in 2019 the scenario analysis required by the valuation rules adopted by the Group was conducted in relation to the annual performance of the national and international art market, with particular regard to the prices of the higher-value artworks/collections in the Group's asset register, equal to around 75% of the total value of the "valuable art assets" (which currently consist of 3,500 artworks).

In April, Aragno published the white paper *Fair value measurement of Intesa Sanpaolo's historical art assets. Methodological notes and balance-sheet effects*, edited by Michele Coppola and Fabrizio Dabbene.

The sharing with the public of the beauty and value of the Bank's art assets is ensured not only through the permanent exhibitions at the Gallerie d'Italia, but also though loans for temporary exhibitions. In 2019, a total of 230 artworks from the corporate collections were promoted in exhibitions hosted in prestigious Italian and international museums.

The exhibitions in the Italian venues included:

- *Modern Italy 1945-1975. From reconstruction to protest. Works from the Intesa Sanpaolo collection* (Pistoia, Fondazione Pistoia Musei-Palazzo Buontalenti, 18 April - 25 August 2019 and 23 September 2019 - 3 January 2020), an exhibition divided into two parts and dedicated exclusively to a selection of 154 artworks from the "Cantiere del '900";
- *The nineteenth century. Art in Italy between Hayez and Segantini* (Forlì, San Domenico Museums, 9 February - 16 June), for which 2 major paintings by Boccioni and Previati were loaned;
- *Caravaggio. Naples* (Naples, Museo e Real Bosco di Capodimonte, 12 April - 14 July), which featured the *Saint Ursula* masterpiece from the Bank's art assets;
- two exhibitions focused on two masters of the Italian twentieth century, organised for the 58th Venice Art Biennale in collaboration with Fondazione Giorgio Cini, Fondazione Palazzo Albizzini Collezione Burri and Archivio Isgrò, hosted on the Island of San Giorgio Maggiore*: Burri. Painting, an irreducible presence* (10 May - 28 July) which featured 2 artworks by the painter in the Intesa Sanpaolo collection, and *Emilio Isgrò* (13 September - 24 November) an exhibition that also presented 4 works by the artist from the Bank's collections;
- *From the Earth to the Moon* (Turin, Palazzo Madama, 18 July - 11 November), an exhibition for the fiftieth anniversary of the moon landing, which also featured 3 artworks from the 20th century collections by Baj, Biasi, and Persico;
- *De Chirico* (Milan, Palazzo Reale, 25 September 2019 - 19 January 2020), which also exhibited the painting by the master *Manichini in riva al mare* from the Intesa Sanpaolo collection.

International loans are an important recognition of the historical artistic value of the Bank's collections and help strengthen relations with major institutions, also with a view to future collaborations. These included:

- the 23 artworks from the 20th century collections – including Fontana, Manzoni and Castellani – protagonists of the exhibition *Spatial Explorations. Lucio Fontana and the avant-gardes in Milan in the 50's and 60's* held at the Italian Cultural Institute in New York ("Highlights from the Intesa Sanpaolo Collection", 23 January - 6 March);
- the 2 masterpieces by Fontana on loan first to MET Breur in New York (23 January - 14 April) and then to the Guggenheim Museum in Bilbao (17 May - 29 September), for the two stages of the retrospective *Lucio Fontana. On the Threshold*;
- 2 landscape paintings by Gaspar Van Wittel participated in the exhibition *Van Wittel. Dutch master of the Italian cityscape* at the Kunsthal KAdE in Amersfoort (26 January - 5 May);
- a painting by Giovanni Boldini was loaned to the Fundación MAPFRE in Madrid for the exhibition *Boldini and Spanish painting at the end of the 19th century* (19 September 2019 - 12 January 2020);
- 15 artworks by Gemito, together with a painting by Morelli and a bronze sculpture by D'Orsi, took part in the exhibition *Vincenzo Gemito. Le sculpteur de l'âme napolitaine*, the first international exhibition dedicated to the great sculptor, organised with the support of the Bank at the Petit Palais Musée des Beaux Arts of Paris, in collaboration with the Museo e Real Bosco di Capodimonte of Naples (15 October 2019 - 26 January 2020);
- the previews of two Intesa Sanpaolo artworks in Italian embassies abroad are a demonstration of how the masterpieces owned by Intesa Sanpaolo are able to represent great Italian art throughout the world.
  A presentation was dedicated to Fontana's artwork Spatial Concept at the Italian Embassy in Moscow (Villa Berg, November 22), before taking part in the Lucio Fontana retrospective at the Multimedia Art Museum in Moscow (November 27, 2019 - February 23, 2020);
- the early sixteenth century painting *Madonna and Child, St. John and St. Jerome* by Francesco Francia, one of loans for the exhibition *Portrait of a Youth. In Search of the Lost Masterpiece* dedicated to Raphael at the National Museum in Warsaw (18 November 2019 - 20 January 2020), was presented at the Italian Embassy in the Polish capital (Palazzo Szlenkier, 15 November). Francia's work was also selected by the Ministry of Economic Development as the image of the stamp of the Italian Republic issued at Christmas 2019.

In 2019, a program was launched to promote the important Publifoto Archive, with the involvement of the Historical Archive that manages these photographic assets. The Fondazione CAMERA-Centro Italiano per la Fotografia of Turin, of which the Bank has been a founding partner since 2015, organised the exhibition *Nel Mirino. L'Italia e il mondo nell'Archivio Publifoto Intesa Sanpaolo 1939-1981* (13 April - 7 July, curated by Aldo Grasso and Walter Guadagnini), featuring 240 photographic works, and the exhibition *Human Landscape. Italy in the 20th century,* featuring 80 photographs selected from the Intesa Sanpaolo Archives, organised for the 9th edition of Cortona On The Move-International Photography Festival (11 July – 30 September) of which Intesa Sanpaolo has been a partner for some years. The photographs and content also made a significant contribution to the exhibition *Noi. Non erano solo canzonette* at the Promotrice delle Belle Arti in Turin (22 March - 7 July).

Another way for the public to enjoy the Bank's assets is through free loans. This allows the Bank to promote the artworks in owns, whilst also "returning" precious works of art to the communities where they came from. In 2019, the lending of over 500 artworks belonging to Fondazione Cassa di Risparmio di Pistoia e Lucchesia, merged into Intesa Sanpaolo, was finalised (17th Century Florentine paintings in the Bigongiari collection, the tempera wall paintings by Boldini, the 18th Century Pistoia works). Most of the artworks are on display at Palazzo dei Vescovi and Palazzo de' Rossi, the museum locations of Fondazione Pistoia Musei. At Palazzo de' Rossi in Pistoia, in particular, a group of 60 artworks of early twentieth-century Pistoia art has been displayed in a refurbished museum itinerary and in interaction with other collections. From 4 October, the monumental painting *Cesare Borgia in Capua*, a masterpiece by Gaetano Previati, which was added to the Bank's assets from the collections of the Cassa dei Risparmi di Forlì e della Romagna, was loaned, following its restoration and loan for the 19th century exhibition at the San Domenico Museums, to the Fondazione Cassa dei Risparmi di Forlì, which exhibits it in the Foundation's headquarters. The series of paintings in the ancient Oratory of the Compagnia di San Paolo, consisting of ten large canvases from the 17th century Piedmont, is housed in the Compagnia's new headquarters in Piazza Bernini in Turin.
Confirming the ongoing in-depth analysis conducted on the corporate collections and Italian art history, the 3rd edition of the conference *Linee di Energia*. *Produzione, conservazione e trasmissione dell'arte italiana del '900* (16-17 May) was held at the Intesa Sanpaolo Skyscraper in Turin, organised with Fondazione Centro Conservazione e Restauro "La Venaria Reale" and Associazione IGIIC (Italian Group - International Institute for Conservation), which has become an international opportunity for research and dialogue in the field of restoration of contemporary art.

Historical archive

Intesa Sanpaolo's Historical Archive, which is one of the most important corporate archives in Europe, represents not only the Group's memories but also a highly valuable collective cultural heritage for Italy's history. In 2019, the Archive continued its work of sorting, cataloguing, studying, restoring and digitising documentary material, to make it increasingly accessible to the public (in the study rooms in Milan and Rome; online, where tens of thousands of digitised documents are available; and at events, conferences, exhibitions, and festivals).
Activities aimed at promotion included the exhibition itinerary conceived by the Archives and dedicated to *Raffaele Mattioli (1895-1973). Banker, humanist, civil servant* (Lanciano, Chieti, Palazzo degli Studi Marcello De Cecco, 28 September – 14 October) inaugurated by the Governor of the Bank of Italy Ignazio Visco.
The focus continued on the digital theme in order to exploit the opportunities offered by new technologies to expand the use of primary sources: in addition to the Digital Archives Project (PAD), which concluded its pilot project phase in 2019, this theme was explored during the Milan Digital Week (13-17 March) and the "Archivissima" Festival (Turin, 12-15 April).

Considerable efforts have been made on the various fronts in relation to the base work (acquisitions, rejects and cataloguing), both for the assets managed internally and for the Group's Archives and those held in custody. This included the completion of the two-year inventory project on the documents relating to the requisition of Jewish assets.

The '*Restituzioni*' Programme

The year 2019 marked thirty years of operation of Restituzioni, the most important global restoration programme and an exemplary form of cooperation between public and private entities, thanks to which the Bank, in partnership with the Italian Ministry of Cultural Heritage and Activities and the local authorities responsible for protection, has restored 1,500 historical Italian works of art to their full beauty.
To celebrate the project's anniversary, the restoration was initiated of the famous *Supper of St. Gregory the Great*, the imposing canvas (4.5 metres x 8.8 and covering a total of around 40 square metres) by a great Renaissance master, Paolo Veronese, preserved in the sanctuary of Monte Berico in Vicenza, the town where the *Restituzioni* project was launched in 1989.
The 19th edition of the project, involving 200 works of art from all Italian regions, as well as a painting by Carpaccio from the Jacquemart André Museum in Paris, was launched early this year.

National and international partnerships

In 2019, we renewed our support to Italian museums and cultural institutions for the organisation of exhibitions, festivals, initiatives involving art, theatre, music, film, photography, books and literature. These project partnerships increase Intesa Sanpaolo's local impact in terms of art and culture initiatives and are a demonstration of the Bank's active involvement in the development of Italy's civil society and of its tangible contribution to the promotion of Italy's cultural heritage.
In keeping with Intesa Sanpaolo's international vocation, in 2019 the Bank also strengthened its relationships with museums and cultural institutions throughout the world, thus increasing awareness of the Progetto Cultura and Gallerie d'Italia also beyond national borders and testifying to the Bank's mission of affirming the importance of Italian culture globally.
The partnerships already mentioned (for the exhibitions held in the Bank's museums and exhibitions involving the Bank's art assets in various venues), included the support to:

- the 24th Miart-International Fair of Modern and Contemporary Art in Milan (5 - 7 April), during which the Bank's lounge hosted the dossier exhibition *Spazi immensi* curated by Luca Beatrice and featuring the young artist Paolo Bini, including, among others, the artwork *Paradise,* donated to Intesa Sanpaolo and added to the Bank's art assets;
- the 32nd edition of the International Book Fair in Turin (9-13 May) which received 148,000 visitors;
- the exhibition *Verrocchio, il maestro di Leonardo* (9 March - 14 July), at Palazzo Strozzi, with which Florence celebrated Da Vinci's five hundredth anniversary, visited by 140,000 people;
- the exhibition *Il Rinascimento parla ebraico* at the Museo Italiano dell'Ebraismo e della Shoah in Ferrara (12 April – 15 September);
- the photographic exhibition at the Museo Nazionale del Cenacolo Vinciano in Milan *The Last Supper in Images – 20th-century History in Photographs* (28 May - 8 December), as part of the da Vinci celebrations;
- the exhibition *In a new and extravagant way. Giulio Romano in Mantua* at the Palazzo Ducale in Mantua (6 October 2019 - 6 January 2020), whose exhibition itinerary begins with a short film from 1989 dedicated to Palazzo Te held in the Intesa Sanpaolo Historical Archives;
- the traditional Christmas exhibition organised at Palazzo Marino by the City of Milan, which in 2019 featured the presentation of Filippino Lippi's *Annunciation* from the Pinacoteca Civica in San Gimignano;
- the exhibition *Luca Giordano. Le triomphe du baroque napolitain* at the Petit Palais in Paris in collaboration with the Museo e Real Bosco di Capodimonte (14 November 2019 - 23 February 2020);
- at international level, the collaborations were also strengthened with the National Gallery in London, the Hermitage in St. Petersburg (with which a three-year partnership agreement was signed in 2018) and the Pushkin Museum in Moscow.

Publishing and musical initiatives

The Group's publishing and music initiatives continued and included the series dedicated to works of art, the Bank's historic buildings, the storytelling activities relating to the art collections for children, and history, economics and documentary, art and music publications. Worthy of note is the multimedia project "Vox Imago", which is now in its sixteenth edition with the performance at La Scala of *Don Pasquale* by *G. Donizetti* (conductor Riccardo Chailly and director Davide Livermore) and aims to spread the knowledge of opera using educational materials for teachers and students (17,000 boxes distributed and 8 educational seminars throughout Italy with the participation of 800 teachers and 100,000 students). In 2019, for the series "Artègioco", the audiobook edition was produced for *Antonio Canova. Favole di marmo*, the volume *Triennale Milano: La rete dei giacimenti del Design italiano* was published as part of the series "Musei e Gallerie di Milano", while *Carteggi Familiari II* was published as the 31st volume of the series "Edizioni nazionali A. Manzoni" (Centro Nazionale di Studi Manzoniani). Intesa Sanpaolo also makes significant efforts to promote musical culture. In collaboration with some of the most important and oldest musical organisations (Associazione Alessandro Scarlatti, Festival Pianistico Internazionale di Brescia e Bergamo, Milano Musica-Associazione per la Musica Contemporanea, Filarmonica del Teatro Regio di Torino, Società del Quartetto di Milano, Stresa Festival, and Palazzo Marino in Musica), innovative programs have been created to promote emerging young performers and composers in the music scene, also at international level.

Officina delle idee

In 2019, the projects aimed at offering training and professional opportunities to young people continued, including the "Euploos project", a program for the digitisation of drawings kept in the Gabinetto dei Disegni e delle Stampe of the Uffizi in Florence (5,000 documents catalogued during the year); the loan of artworks owned by the Bank to the laboratories of the "La Venaria Reale" Conservation and Restoration Centre, used for teaching purposes as part of the University Restoration courses held at the Centre (a work on paper by Giulio Turcato is the subject of a master's thesis in 2019-2020, with the planning and implementation of the restoration by the student accompanied by a team of lecturers and professionals); and "Careers in art", the program at the Gallerie d'Italia that forms part of the "alternanza scuola-lavoro" (work-study) projects, aimed at secondary school students and consisting of workshops and guidance for careers in the art sector (350 young people took part in 2019, with a total of 800 hours of activities).
In 2019, Progetto Cultura was the subject of an innovative international case study conducted by ALMED-Alta Scuola in Media Comunicazione e Spettacolo of Milan Catholic University. This study is unique in the framework of European and international case studies, which currently do not include any other cases focused on the strategic management of corporate cultural assets.

Main risks and uncertainties

The macroeconomic scenario and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base and prudent asset valuations.
Group liquidity remains high: as at 31 December 2019, both the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of December, the Central Banks eligible liquidity reserves came to 190 billion euro (175 billion euro at the end of December 2018), of which 118 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018) and unused.
The loan to deposit ratio at the end of December 2019, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.
In terms of funding, the extensive branch network remains a stable, reliable source: 80% of direct deposits from banking business come from retail operations (338 billion euro). In addition, the following bond issues were placed during the year:
- covered bonds backed by residential mortgages for 1 billion euro;
- unsecured senior Tokyo Pro-Bonds for 13.2 billion Yen;
- unsecured senior bonds for 3.50 billion euro and 2 billion USD;
- unsecured senior bonds for 250 million CHF;
- unsecured senior green bonds for 750 million euro, focused on the circular economy, under the ISP Sustainability Bond Framework.

With regard to the targeted refinancing operation TLTRO, at the end of December 2019, the Group's participation amounted to 49 billion euro: 17 billion euro of TLTRO III funding (within a maximum of 54 billion euro available), against a partial repayment of 29 billion euro of the amount received in the previous TLTRO II (60.5 billion euro).
The Intesa Sanpaolo Group's leverage ratio was 6.7% as at 31 December 2019.
The capital base also remains high and well above the regulatory requirements.
Own funds, risk-weighted assets and the capital ratios at 31 December 2019 have been calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circular 285.
At the end of 2019, total Own Funds came to 52,695 million euro, against risk-weighted assets of 298,524 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 17.7%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.9%.
As the regulatory conditions for its inclusion (Art. 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 capital includes net income for the year and, consequently, the related dividend proposed.
With regard to the insurance segment, consisting of the Intesa Sanpaolo Vita Insurance Group, including Fideuram Vita - which represent the same scope as the Insurance Division of the Parent Company Intesa Sanpaolo, in terms of entities - the Solvency Ratio as at 31 December 2019 was 238%.
In relation to market risk, the Group's average risk profile in 2019 was 151 million euro, compared to an average of around 74 million euro in 2018. The performance of this indicator derives from an increase in the risk measures, mainly attributable to financial risk operations, consistently with the 2019 Risk Appetite Framework.

The macroeconomic environment and the financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.
Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability. The Credit Risk Appetite (CRA) Framework, a specific Risk Appetite Framework for credit risk, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss.
Intesa Sanpaolo has developed a set of instruments which ensure ongoing monitoring of the relationships, in order to promptly detect any signs of instability and take corrective measures aimed at preventing the possible impairment of the portfolio of loans to customers and financial institutions, as well as the exposures subject to country risk.

The methods used to measure non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic context has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans are carefully assessed.
Bad loans and unlikely-to-pay loans had coverage levels of 65.3% and 38.7% respectively.
With regard to performing loans to customers, the "collective" adjustments, equal to 1,697 million euro, provide a coverage ratio of 0.5%, which is sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.
Constant attention has been paid to the valuation of financial items. The majority of the financial instruments are measured at fair value or are represented by hedging derivatives.
Excluding the insurance segment, whose financial assets are almost all measured using level 1 inputs, the fair value measurement of the remaining financial assets measured at fair value through profit and loss was carried out as follows: around 63% using level 1 inputs, around 30% using level 2 inputs and only around 7% using level 3 inputs.
Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 27 million euro during the year, whereas the hedge funds generated a profit of 7 million euro.
As regards taxes, deferred tax assets were posted in the consolidated financial statements for 13,751 million euro, of which 8,247 million euro can be converted into tax credits, along with deferred tax liabilities for 1,866 million euro.
In compliance with IAS 12, the amount of deferred tax assets must be tested each year to determine whether there is a qualified probability that they will be recovered and, thus, to justify their recognition and maintenance in the financial statements ("probability test"). The analysis conducted indicated a taxable base that was sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2019.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly important.
In 2019, no business combinations were finalised that resulted in the recognition of new amounts of specific intangible assets or goodwill. However, during the year several events occurred, summarised below, which resulted in a reduction or different allocation within the Group of total intangible assets recognised compared to 31 December 2018:

- in December 2019 the partnership between Banca 5 and SisalPay was finalised, which involved the establishment of a Newco controlled by SisalPay, to which Banca 5 contributed its business lines dedicated to payment activities and commercial operations. The transaction resulted in the derecognition from the financial statements of the goodwill previously allocated to Banca 5, and thus, to Banca dei Territori, which was recorded as a decrease in the capital gain deriving from the transaction;
- on 19 December 2019, Intesa Sanpaolo signed a strategic agreement in respect of payment systems, which provides, among other things, for the transfer to Nexi of the business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. The business line will be transferred through a Nexi subsidiary for a value of 1,000 million euro. Based on the provisions of IFRS 5, the goodwill attributable to the business line, as well as the specific intangible assets recognised in 2018, deriving from the acquisition from Nexi of acquiring contracts with customers of the former Venetian banks, were reclassified to discontinued operations;
- on 11 November 2019, the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo was also finalised, as envisaged by the 2018-2021 Business Plan. Following this operation, Leasing and Factoring operations for customers already classified as corporate customers were transferred from the Banca dei Territori CGU to the Corporate and Investment Banking CGU. Since the operation was an "internal" reorganisation, it did not change the overall value of the intangible assets at Group level and had no effects in the income statement: the change simply led to a different allocation of the value of goodwill to the Banca dei Territori CGU and the Corporate and Investment Banking CGU.

Moreover, it is also noted that in the fourth quarter of 2019 the acquisition of control of Autostrade Lombarde was recognised on a final basis, as permitted by IFRS 3, retrospectively adjusting several amounts recognised on a provisional basis at the acquisition date, in order to reflect the new information obtained on the facts and circumstances in place at that date which, if they had been known about at the time, would have influenced the process of Purchase Price Allocation (PPA). The recognition on a final basis of the PPA for Autostrade Lombarde resulted in an increase in the goodwill recorded on that CGU. In that regard, we remind you that in the 2018 Financial Statements Autostrade Lombarde was already identified as a separate CGU, considering the indications set out in IAS 36, and that the company operates in a sector extraneous to the Group, in addition to the fact that Intesa Sanpaolo does not exercise management and coordination on the company pursuant to Article 2497 of the Italian Civil Code.
Intangible assets with finite useful life (insurance portfolio and assets under management), the amounts of which (137 million euro and 96 million euro respectively) are being gradually amortised (with 33 million euro of amortisation recognised in the income statement for 2019), were analysed with respect to their volume, profitability and discount rates in order to detect any impairment indicators. These analyses did not identify any critical positions.
As regards intangible assets with an indefinite useful life, represented by goodwill (4,055 million euro, plus 49 million euro relating to the acquiring business line reclassified to discontinued operations) and brand name (1,882 million euro), for the 2019 Financial Statements the method for determining the value was the same used in previous years, based on the calculation of the Value in Use, i.e. the current value of future cash flows that the Group can expect to generate. The exceptions to the approach based on the Value in Use regard the goodwill recognised on Autostrade Lombarde and on the acquiring line that will be transferred to Nexi. More specifically, with regard to the testing of the goodwill recognised on Autostrade Lombarde, the fair value resulting from the valuation, updated to 31 December 2019 (carried out using the same method as the appraisal which was drawn up by an independent third party to determine the purchase price of Autostrade Lombarde pursuant to IFRS 3 in the 2018 Financial Statements) was used. With regard to the acquiring business line that will be transferred to Nexi and was reclassified to discontinued operations in the 2019 Financial Statements, in line with the provisions of IFRS 5, the latter was measured at the lower of the book value and the sale price, considering that the latter was significantly higher than the value of the assets of the business line, including goodwill.
The determination of Value in Use requires an estimate of the future cash flows that may be generated by each CGU. A period of five years was adopted as the forecasting period for this purpose, as in the previous Financial Statements, i.e. the five-year period 2020-2024. The economic and financial forecasts prepared in support of the 2019 Impairment test were based on the final 2019 data and 2020 budget data, taking into account the January 2020 update of the "Long-term

macroeconomic and banking estimates" released by the Research Department. In particular, the forward-looking estimates for 2021 confirm the strategic actions in the 2018-2021 Business Plan, while the quantitative forecasts were updated considering the macroeconomic projections envisaged by said scenario. For the following years, up to 2024, flows are determined through inertial tracking of the flows for 2021, always based on the forecasts relating to the macroeconomic scenario. Thus, the forecasts for the years 2021-2024 do not consider the effect of the new managerial leverage in relation to that envisaged in the Business Plan. Finally, we note that, for the year 2020, the cash flows considered for the impairment test exclude the expected capital gain deriving from the transaction with Nexi. Among various financial valuation techniques, such as that used for the estimate of the Value in Use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". With regard to the impairment test as at 31 December 2019, for the purposes of the Terminal Value, 2024, the last year of the analytical forecast, separating out the non-recurring components, was projected in perpetuity. The cash flows so determined have been discounted, net of the "g" long term growth rate, by applying a discount rate expressing the cost of capital and calculated as the sum of the returns on a risk-free investment and a risk premium, in turn dependent on the specific risks implicit in the business activities and in country risk. In defining the discount rates, given the extremely low market rates at present, associated with contingent expansionary monetary policies adopted by the ECB, for the purpose of the Terminal Value those rates were prudentially considered risk free and with country risk spreads globally higher by over 200 basis points compared to the current year-end values used for the discounting of flows for the "explicit" horizon.
As this valuation method has yielded values in use for the various CGUs which are higher than their respective book values, no value adjustments have been made to intangible assets with indefinite useful life.
Since the Value in Use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out. In particular, the impact on the Value in Use of an increase in discounting rates of up to 50 basis points or a decrease in the growth rate for Terminal Value purposes of 50 basis points was verified. In addition, analyses were conducted of changes in the Value in Use resulting from a 10% decrease in Terminal Value flows. These analyses show that such changes would not result in a Value in Use lower than the book value for any of the CGUs.
In terms of market values, there was a sharp increase in the price of the Intesa Sanpaolo stock over the course of 2019 (+21%). The performance of the price of Intesa Sanpaolo stock in 2019 moved in line with that of the Italian banking securities index, whereas it performed worse than the FTSE MIB index during the same period (around +28%). The target prices published by the main investment houses showed a divergence from price of the Intesa Sanpaolo stock, with a slight lowering of the forecasts for the price of the stock (-8%).
It is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as it has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, Value in Use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 200 basis points higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the "g" growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

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In general, the information on risks and uncertainties to which the Intesa Sanpaolo Group is exposed, briefly illustrated above, is provided in this Report on operations and in the Notes to the consolidated financial statements.

The risks associated with the trends in the global economy and financial markets are discussed in the introduction to the Report on operations, in the chapter on the macroeconomic scenario and in the following chapter on the forecast for 2019. The assumptions on which our valuations and forecasts are based with regard to the verification of the values of intangible assets and goodwill are described in Part B of the Notes to the consolidated financial statements, in the section on impairment tests. With regard to deferred tax assets, a description is also provided in Part B of the analysis conducted to verify the forecasts of future earnings sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carrying them (the probability test).

Capital soundness is discussed briefly in this chapter, whereas a more detailed discussion can be found in Part F of the Notes to the consolidated financial statements and in the Basel 3 Pillar 3 Disclosure.

Information on risks at a general level, and in particular on financial risks (credit risks and market risks), operational risks and the risks of insurance companies are detailed in Part E of the Notes to the consolidated financial statements.

With regard to the going concern assumption, the Directors of Intesa Sanpaolo re-affirm that they have a reasonable certainty that the company will continue in operational existence in the foreseeable future and consequently have prepared the financial statements for 2019 on a going concern basis. The Directors have not detected any uncertainties in the balance sheet and financial structure or in the performance of operations that question the going concern assumption.

The macroeconomic context and the banking system

The macroeconomic context and the banking system

The macroeconomic context

The economy and the financial and currency markets

The year 2019 was negatively affected by the trade war between the United States and China, which led to a significant increase in tariffs and, as a result, a sharp drop in bilateral trade between the two countries. The escalation was interrupted in October, when negotiations started up again, and the further increases in tariffs planned in the fourth quarter were suspended. The repercussions affected the rest of Asia and Europe. Global manufacturing continued to slow down until the autumn quarter, when it finally started to show signs of stabilising. The deadline for the exit of the United Kingdom from the European Union, another potential risk for economic activity, was postponed to 31 January 2020.
The US economy has started on a path of gradual slowdown, following the peak reached by growth in the first quarter. Unemployment fell to below 4%, but signs of wage pressure were still limited to the more highly qualified professions. Inflation is back below 2%. The Fed reacted to the risks of a slowdown in production by reducing the official rates in three stages, which decreased the target on Fed funds by a total of 75 basis points. Moreover, the Federal Reserve began new purchases of short-term securities to increase the excess reserves held by the banking system.
The growth trend slowed in the Eurozone. The decline in manufacturing, particularly sharp in Germany, cut the GDP growth rate to 1.2% year-on-year since the second quarter of 2019. Recession was avoided thanks to the resilience of the services sector, which continued to expand at a strong enough pace to offset the crisis in the industrial sector. Fiscal policy was eased off slightly, while consumption was boosted by continued positive household income. The improvement in the conditions of the labour market led to a reduction in the unemployment rate, which dropped to 7.5%, and favoured the acceleration of wage growth. Economic surveys showed the first signs of stabilisation in production in the fourth quarter, though industrial production was still lower than in the same period of the previous year. Inflation dropped below 1%, significantly far from the targets of the European Central Bank, bouncing back only in the final months of the year.

The European Central Bank reacted to the slowdown in the economy by announcing a new cycle of targeted longer-term refinancing operations (TLTRO III). It subsequently cut the deposit rate to -0.50%, extended the commitment to keeping official rates steady until robust signs are seen of the convergence of i nflation to the target and, lastly, announced the launch of net purchases under the Asset Purchase Programme (APP) at a monthly pace of 20 billion euro starting in November.
The cost of negative interest rates was mitigated by introducing a two-tier system for reserve remuneration, which excludes a pre-set multiple of the reserve requirement from application of the negative interest rate.
Given the additional drop in short-term rates, the performance of medium and long-term rates reflected the growing expectations of new monetary easing. The 5- and 10-year swap rates declined until mid-August, subsequently bouncing back. Compared to one year before, at the end of 2019 the five-year swap rate decreased by 30 basis points, falling to negative levels. Government bond yields also decreased significantly. The spread of 10-year BTP on German securities with the same maturity remained very high until mid-August, almost always above 200 bps. After the change in parties with a political majority in Italy, this spread fell rapidly to a low of 131 bps in September, settling to between 150 and 173 bps in the final months of 2019.
The Italian economy remained in a phase of substantial stagnation throughout 2019. Average annual growth is estimated at levels only marginally higher than zero. Industrial production decreased: in November it was still 0.6% lower than one year before. The construction and, above all, services sectors showed more favourable performance, which offset the weakness in the manufacturing sector. Despite the absence of GDP growth, employment continues to increase (0.7% year-on-year in the third quarter) and the unemployment rate decreased to 9.7% in November. Inflation stood at 0.5% in December. The public finances performed better than expected in 2019: the deficit amounted to 2.2% of GDP. Nonetheless, the debt-to-GDP ratio is still rising.
On the currency markets, the euro lost ground against the dollar, although it only moved within a relatively narrow range of 1.09 to 1.15, and has showed signs of recovery since October.

2019 featured a general increase in risk appetite of investors on international stock indices, which translated into generally positive performances of these stock indices, though with differing intensity in different geographical areas.
Among the supporting factors, firstly, a significant role was played by the monetary policies of central banks, which have returned to a decidedly expansive approach, to support a slowing down economic cycle. Bond yields, which decreased to negative ground on various instruments and maturities, drove investors to search for yields on riskier asset classes, such as equities.
Though occurring among signs of weakness in the economy and profit trends (specifically in the first half of the year), the seasons of corporate results in the Eurozone provided positive elements to investors, frequently confirming the guidance provided.
The n egative factors included the renewed tensions in international trade between the United States and China, partially mitigated by the resumption of negotiations in the second half, and the announcement of a preliminary agreement to be signed at the start of 2020.

The Euro Stoxx index closed 2019 up by 23.0%, the CAC 40 slightly outperformed at +26.4% at the end of the period, as well as the Dax 30 (+25.5%), while the IBEX 35 underperformed, also due to political uncertainties, closing the year at +11.8%. Outside the Eurozone, the Swiss market index SMI reported an increase of 25.9%, while the United Kingdom's FTSE 100 index underperformed (+12.1%), reflecting the uncertainties concerning Brexit.
In the US, the S&P 500 index closed the year up sharply (+28.9%), while the Nasdaq Composite technology stocks index outperformed it, closing at +35.2%. The main Asian stock markets also showed positive performance: the Nikkei 225 closed 2019 at +18.2%, while the Chinese SSE A-Share benchmark index slightly outperformed it (+22.4%).
The Italian stock market outperformed the main European benchmarks: the FTSE MIB index closed the period up 28.3%, almost double the growth in the first half (+15.9%), while the FTSE Italia All Share posted a slightly lower performance (+27.2%). Mid-cap stocks performed in line with blue chips: the FTSE Italia STAR index ended the period up 28%.

The European corporate bond markets ended 2019 positively, with risk premiums (measured as asset swap spreads - ASW) down compared to the beginning of the year.
2019 was marked by an overall positive tone, especially in the initial months of the year, while starting in June, the markets showed substantially lateral performance. The performance of the markets was influenced, on one hand, by the negative pressures deriving from the trade tensions between the United States and China and the events linked to the Brexit and, on the other, the confirmation of expansive monetary policies by both the Federal Reserve and the European Central Bank. Within a wider stimulus package, in November the ECB activated a new (non-financial) corporate securities purchase programme (CSPP programme). The central banks' policies reflected on the levels of interest rates and triggered the ensuing search for yields by investors which had positive impacts on all asset classes, with different levels of risk.
In this context, 2019 saw similar performance for IG and HY securities: according to the data provided by Refinitiv, spreads of the two asset classes tightened by around 40% since the beginning of the year. At sector level, the performances of industrial and financial bonds were substantially equivalent.
The dynamics of interest rates also had a positive effect on the primary market. The search for yields was reflected in strong volumes of demand also for domestic issuers, despite the volatility recorded in the BTP-Bund spread during the year.
In 2019, the trend of issuing securities linked to "sustainable finance", aimed at financing both projects with a positive impact on the environment ("green bonds") and projects with social aims ("social bonds"), gained strength. The trend regarded not only issuers in the utilities sector, but also financial institutions and industrial operators.

The emerging economies and markets

The phase of slowdown in economic activity in emerging countries which began in the second half of 2018 continued in 2019. With regard to a sample of countries that covers 75% of the GDP of emerging countries, year-on-year growth decreased from 5% in the first three quarters of 2018 to 4% in the same period of 2019. Based on preliminary estimates published by the IMF in January 2020, GDP performance for emerging countries is expected to be 3.7% for the entire year.
The main areas of the world contributed to the slowdown, with the exception of Sub-Saharan Africa, where the economy is expected to accelerate slightly from 3.2% in 2018 to 3.3% in 2019. Specifically, the rate of change in the GDP in Asia (where growth decreased from 6.4% to 5.6% over the two years) was impacted by the slowdown in India and, though in a less severe manner, in China. The figure for Latin America (from 1.1% to 0.1%), instead, was affected by the significant slowdown in Mexico. The MENA area (with growth slowing down from 1.9% to 0.8%) was influenced by the drop in the main oil-producing economies.
In the countries where ISP subsidiaries are based, in the Central & Eastern Europe (CEE) area, though slowing, the performance of the economy was still strong (3.9% year-on-year in the first three quarters of 2019 compared to 4.6% in the same period of 2018) due to the particularly positive performances of Hungary (5.1% year-on-year) and Poland (4.3% year-on-year), while there were significant slowdowns in Slovakia and Slovenia. In the countries of Southern & Eastern Europe (SEE), GDP performance in 2019 kept a pace only slightly lower than that of 2018 in Romania, while it slowed to a greater extent in the other countries. Outside the CEE/SEE region, in the countries of Eastern Europe it is estimated that the economy slowed down sharply in Russia and picked up in Ukraine and Moldova. In the fiscal year closed in June 2019, the Egyptian GDP rose by 5.5%, confirming Egypt among the most dynamic economies in the MENA region.
With regard to the same sample mentioned above, which covers 75% of the GDP of emerging countries, in 2019, the average inflation rate was unchanged on 2018, equal to 3.8%, but the annual rate increased, closing the year at 4.9% compared to 3.5% at the end of 2018. In the countries where ISP subsidiaries are located, the strong internal demand resulted in some pressure on prices in several countries in the CEE/SEE areas, largely balanced by the normalisation of previous increases in hydrocarbon prices. At the end of the year, the inflation rate fluctuated from a minimum of 1.1% in Albania to a maximum of 4.0% in Hungary and Romania, remaining within the target range of the central banks, though in the higher range in several cases, with the exception of the Czech Republic and Romania, where, instead, it was above this. Outside the CEE/SEE region, the increase in indirect taxes gave rise to a temporary rise in inflation in Russia, with the annual figure which closed the year at 3.0%, below the target value. With the elimination of the effect of the past depreciation of the exchange rate and the increases in tariffs, inflation slowed down significantly in Ukraine (at 4.1% at the end of 2019 from 9.8% at the end of 2018). In Egypt, inflation showed an erratic trend but closed the year substantially slowing (annual rate at 7.1%), far below the central value of 9% in the central bank's target range.
In 2019, many emerging country central banks cut their key interest rates. This easing approach of the central banks followed the change in outlook (more accommodating) of most of the central banks in advanced countries, the weakening of the internal cycle and the phase of easing on the international capital markets (save for tensions in Turkey, which soon normalised, and in Argentina).
In the countries where ISP subsidiaries are based, in the CEE/SEE areas, monetary policy remained accommodating overall. More specifically, in the countries of Central & Eastern Europe, key interest rates remained unchanged overall (0.9% in Hungary, 1.5% in Poland and 0% in Slovakia and Slovenia, part of the Eurozone) with the exception of the Czech Republic, where pressures on inflation led the central bank to increase the key rate by 25 basis points to 2.0% in May 2019 and continue in the phase of increases started in 2017. In the countries of Southern & Eastern Europe, Serbia once again cut its

key interest rate, by 75 basis points in 2019 (through three reductions of 25 basis points each, to 2.25%) to support the economy. In Albania the key interest rate remained unchanged at 1% and in Romania, following the increase in the rate of 50 basis points to 2.5% in 2018, the central bank suspended the cycle of increases in 2019. In the group of countries in the Confederation of Independent States (CIS), key interest rates were cut in both Russia (150 basis points overall) and Ukraine (450 basis points in total). The Central Bank of Moldova, which implemented the first increase in key interest rates since 2016 last June (+0.5%), inverted the direction of monetary policy at the end of the year, reducing the interest rate by 200 basis points to 5.5%. In the MENA area, the slowdown in inflation led the Central Bank of Egypt to cut the key interest rates by 450 basis points, bringing the maximum rate to 13.25%.

As regards the financial markets, in 2019 the MSCI emerging markets equity index grew by 15.1%, following the rise in the main international stock markets. With regard to the main emerging markets, significantly high increases were recorded by the Shanghai (+22.3%) and Sao Paulo (31.6%) stock markets, while Middle Eastern stock markets showed weaker performances than the index, penalised by regional tensions and the decrease in the average price of oil (average price down -10%).
Considering the countries where ISP subsidiaries are based, double digit increases were recorded in Croatia, the Czech Republic, Romania, Hungary and Slovenia in the CEE/SEE areas. Outside the CEE/SEE region, Russia benefited from a sharp rise in its stock index (+45.3%), while Egypt (+7.1%, due to the strong growth in the economy and the significant decrease in interest rates) outperformed the other markets in the MENA region.
The changed expectations regarding monetary policy in advanced countries - which resulted in a generalised reduction in the risk premium on the international capital market - offered support to the currencies of emerging countries. In 2019, the USD OITP index, which shows the value of the US currency against a basket of emerging country currencies, remained substantially unchanged (-0.3%), while in 2018 the US dollar appreciated by 10% on that same basket. Nonetheless, a significant depreciation was recorded both by the Argentine peso (-37.1%) and the Turkish lira (-11.2%), which were still dealing with tensions on the currencies.
In the countries where ISP subsidiaries are located, both the Russian rouble (+11%) and the Ukraine hryvnia (+16.4%) appreciated against the US dollar, supported by the high domestic interest rates and greater confidence in the continuation of stabilisation policies. The currencies of CEE countries appreciated slightly on the Euro (the Czech currency by 1.1% and the Polish currency by 0.5%), while the Hungarian forint depreciated by 1.6%. Among the SEE countries, in Romania, where the inflation rate was particularly high, in 2019 the currency depreciated by around 2.8% on the Euro. The other currencies in the region remained substantially stable, specifically in Croatia, where the stability of the exchange rate was favoured by the expectations regarding its future entrance in ERM II (the European Exchange Rate Mechanism). In the MENA area, the Egyptian pound gained strength on the US currency (+11.7%), benefiting from the currency inflows, both for the current portion (tourism, remittances, Suez Canal) and the financial portion.
In 2019, the aforementioned reduction in the risk premium resulted in a quite generalised drop in yields on the long section of the curve in emerging countries. With regard to the trend in the Credit Default Swap spread, in the countries where ISP subsidiaries are located this process involved both CEE/SEE countries (specifically, Slovakia and Slovenia in the Eurozone and Croatia and Romania among the other countries), and CIS countries and, in the MENA area, Egypt.

The Italian banking system

Interest rates and spreads

In 2019, bank interest rates reached new historical lows. The year started with upwards adjustments to interest rates on new loans, although these were small and not seen across the board, mainly applying to small loans to businesses and fixed rate mortgages. From the summer, this phase gave way to renewed declines. The annual average of interest rates applied to businesses on new loans of small amounts (up to 1 million euro) were essentially stable compared to 2018, while those on loans of larger amounts decreased. Spreads against the Eurozone remained in negative territory, following a temporary return to positive ground for rates on new small loans to business. Interest rates on mortgage disbursements to households also reached new record lows, especially those on fixed-rate contracts. Reflecting the evolution of interest rates on new loans, in the first part of 2019 the average rate on outstanding loans recovered slightly from the lows reached at the end of 2018, to then drop once again, and record a slight reduction in the average annual level.
With regard to the remuneration of deposits, the low levels of key interest rates and high liquidity on accounts justified the stability of rates on current accounts near zero, recording slight decreases at the most. Conversely, the average rate on new time deposits increased. The increase was above all the result of the rise in interest rates paid on the longest durations of new deposits from households. Though this trend inverted in the second half, its levels remained higher than the record lows reached in 2018. The figure for 2019 is higher also when comparing the annual averages. Nonetheless, the overall cost of the stock of customer deposits was lower than in 2018, due to the shifting of the aggregate towards less costly forms of funding and a further decrease in the average interest rate on outstanding bonds.
The repricing of interest rates on loans resulted in a slight recovery in the spread between lending and funding rates in the first half, followed by a new phase of reduction, so that the annual average was unchanged on 2018. For the eighth consecutive year, the mark-down on on-demand deposits confirmed its negative level, worsening from the summer, when the Euribor rates decreased further. The mark-up recovered slightly in the first half of the year, due to the effects of the temporary increase in short-term lending rates, to then move towards the levels of end 2018.

Loans

The credit market that took shape in 2019 had two sides. On one, the robust growth in loans to households continued; on the other, loans to businesses began falling once again, recording a deterioration in the negative trend near the end of the year. Though slowing slightly, the increase in loans to households maintained an average pace of around 2.5%, driven by loans for house purchase and consumer credit. Mortgage lending was down for most of the year, inverting the trend in September, marking the start of sustained growth, driven by the significant recovery in renegotiations, while in November, new contracts also returned to grow. The performance of mortgage loans to households was preceded by a drop in applications throughout the first half, then by a subsequent recovery in demand. Fixed-rate mortgages continued to predominate, and their importance increased further in the last half of the year, given the new lows reached in interest rates offered and the strong recovery in subrogations. Consumer credit disbursed by banks confirmed a growth rate of between 8% and 9% year-on-year with regard to the stock, while volumes of new transactions also continued to increase significantly. The performance of loans to non-financial companies continued to be characterised by different dynamics depending on sector, company size and geography. Though the slowdown was generalised, the drop was sharper for smaller companies in the Centre-North of Italy and less intense for those in the South and the Islands. Loans to the manufacturing industry and those to the services sector weakened, then began to fall in the last part of the year, while the sharp contraction in construction continued.

The performance of loans to businesses was the result of continued weak demand and an unchanged stance of the supply in the last quarter of the year, after being slightly expansive in the previous quarter. The credit survey conducted by the Bank of Italy showed that, throughout 2019, the expansive effect of competitive pressure among banks was offset by the moderately restrictive impact exercised by the greater perceived risk. During the year, business confidence in credit access conditions improved, following the slight restriction that arose in the first quarter and the last part of 2018. The liquidity situation remained very relaxed and was considered sufficient or more than sufficient by a large majority of companies. Based on the figures up to September, compared with the previous year, business debt as a percentage of GDP continued to decrease in 2019, though the trend stopped during the year.

In 2019, Italian banks consolidated a great deal of progress made in 2018 in reducing asset risk. The credit quality indices confirmed the improvements, due to the lower inflows of non-performing exposures, the more effective recovery activities and the sales and securitisation transactions. The stock of net bad loans decreased further, though by a smaller amount following the significant results achieved in the previous two years, to 30 billion euro in November 2019, more than halved compared to December 2017 and decreased by two-thirds versus the end of 2016. Net bad loans as a percentage of total loans decreased to 1.7%, down 3.2 percentage points compared to the peaks of 2015-2016. Despite the stagnation in the economy, the default rate in terms of flow of non-performing loans in relation to total performing loans decreased further to lower than pre-crisis levels, equal to 1.2% in the third quarter of 2019 on an annualised basis.

Direct deposits

During 2019, bank funding recorded a stronger recovery than expected, driven by the continuing highly robust dynamic of deposits, up for the eighth consecutive year, which was accompanied by the rapid improvement in bonds. Following almost eight years of continuous decrease, the drop in the stock of bonds came to an end near the end of 2019. In the area of deposits, the sharp increase in the on-demand component continued, accelerating in the second half of the year, when business overnight deposits regained momentum and those of households showed a stronger growing trend. It is worth noting the interruption of the drop in the stock of time deposits, after around five years of continuous negative change. The recovery was achieved mainly as a result of the inflows during the first half of the year, while the trend subsequently weakened. The recovery in bank issues on the wholesale bond market benefited from the significant reduction in the risk premium on sovereign debt which occurred during the summer months. Overall, also considering the use of Eurosystem refinancing, which decreased slightly year-on-year, and funding from non-residents, which on the contrary increased, total funding grew by 1.9% on average year-on-year in the eleven months from January to November.

Indirect deposits and asset management

For assets under administration, the decline in debt securities held in custody by banks on behalf of households continued in 2019, interrupted only temporarily in the spring months. The continuation of the trend reflected the ongoing decline in bank bonds held by retail customers.

The asset management business saw the continuation of weakness in net inflows to mutual funds and portfolio management schemes. In particular, the first half of the year was characterised by negative net inflows attributable to the overhang from the disappointing performance in 2018, followed by improvement in the second half. For mutual funds, the more significant net outflows were recorded by flexible and equity funds, not offset by the inflows to bond and balanced funds and despite highly positive results in terms of performance. In addition, the Individual Savings Plans segment was negatively impacted by the restrictions introduced at the beginning of 2019. Despite the weakness in inflows, assets under management grew robustly thanks to the effect of highly positive performance due to the favourable results recorded by the financial markets and the decline in the sovereign spread.

Against this backdrop, collected premiums for life insurance were substantially resilient thanks to growth in traditional policies, which confirmed their status as a defensive product, offset by the sharp drop in subscriptions of unit-linked policies. Nonetheless, in the closing months of the year, there was a recovery in unit-linked policies, following on the improvements that concerned the asset management markets. Multi-line products continued to support growth in the overall new business for life insurance in 2019 as well.

Income statement and balance sheet aggregates

Economic results

General aspects
A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary and material, also to account for changes in the scope of consolidation.
The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.
In particular, the comparative figures have been restated on a like-for-like basis to reflect not only the transition to IFRS 16, but also the change in the scope of consolidation due to the inclusion of Morval Vonwiller Holding and Autostrade Lombarde, as well as the outsourcing of the servicing of bad loans to Tersia within the framework of the strategic partnerships with Intrum. Restatement was also applied to the levies and other charges concerning the banking industry borne by the international subsidiary banks operating in Slovakia, Serbia, Bosnia and Albania, which upon review of the local legislation were determined to be similar to the contributions paid by European banks to the resolution and deposit guarantee funds, and have therefore been classified to the specific caption. The restatement pursuant to IFRS 5 of the 2018 income statement results attributable to the business unit contributed to Nexi under the agreement signed in December 2019 has also been included.
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 to the financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.
In summary, the reclassifications and aggregations of the consolidated income statement are as follows:

- dividends relating to shares or units in portfolio, which have been reallocated to the item Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on financial assets and liabilities pertaining to insurance companies (measured pursuant to IAS 39, by virtue of the Group's exercise of the option to defer application of IFRS 9), which include the shares of Net interest income, Dividends and Income from financial assets and liabilities relating to insurance business, have been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific item Income from insurance business, to which the effect of the adjustment of the technical reserve has also been attributed, in respect of the component borne by the insured parties, relating to the impairment of the securities held in the portfolios of the Group's insurance companies;
- differentials on derivatives, classified to the trading book and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, fair value adjustments in hedge accounting, profits (losses) on financial assets and liabilities measured at fair value through profit or loss, profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on sale or repurchase of financial liabilities, which have been reallocated to the single item Profits (losses) on financial assets and liabilities designated at fair value;
- the share of the premium on the issue of the certificates paid to the networks for their placement, which is reclassified from Profits (Losses) on assets and liabilities designated at fair value to Net fee and commission income;
- the return components of the insurance policies taken out to cover contractual indemnities and retention plans for financial advisors, which are deducted directly from Profits (Losses) on financial assets and liabilities designated at fair value, in accordance with the valuation effect of the assets in question, rather than being presented – as attributable to the advisors – among Other net provisions and net impairment losses on other assets (for valuation effects) or among Net fee and commission income or Other operating income (expenses), depending on the type of insurance policy used (for effects from realisation);
- the operating income of Autostrade Lombarde and Risanamento and their respective subsidiaries, reallocated to Other operating income (expenses), in view of the fact that the entities concerned are not subject to management and coordination within the framework of the Group and operate in sectors entirely distinct from banking and finance;
- the recoveries of expenses, taxes and duties have been subtracted from Other administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of financial assets measured at amortised cost (loans and debt securities), which have been allocated to Net adjustments to loans;
- Net adjustments/recoveries for credit risk associated with financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the effects on the income statement of the changes in contracts and the net provisions for risks and charges for credit risk relating to commitments and guarantees given, attributed to the single item Net adjustments to loans;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which was included among Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows, in keeping with the treatment of the time value of financial assets measured at amortised cost;
- Net losses for credit risk associated with financial assets measured at amortised cost other than loans and net impairment losses on equity investments, as well as property and equipment and intangible assets (including property and other assets, such as those resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges – the valuation effects of

the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified to Impairment (net of tax) of goodwill and other intangible assets;

- realised profits (losses) on financial assets measured at amortised cost other than loans, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans. This caption also includes the amortisation of the intangible asset relating to the motorway concession held by Autostrade Lombarde (through its subsidiary Brebemi), in view of the particular nature of the said concession;
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Other administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;
- the Effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
- levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
- Goodwill impairment and impairment losses on other intangible assets, which – where present – are shown, as stated above, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	2019	2018	Changes	
			amount	%
Net interest income	7,005	7,271	-266	-3.7
Net fee and commission income	7,962	7,952	10	0.1
Income from insurance business	1,184	1,084	100	9.2
Profits (Losses) on financial assets and liabilities designated at fair value	1,928	1,472	456	31.0
Other operating income (expenses)	4	34	-30	-88.2
Operating income	**18,083**	**17,813**	**270**	**1.5**
Personnel expenses	-5,744	-5,812	-68	-1.2
Other administrative expenses	-2,488	-2,618	-130	-5.0
Adjustments to property, equipment and intangible assets	-1,058	-1,057	1	0.1
Operating costs	**-9,290**	**-9,487**	**-197**	**-2.1**
Operating margin	**8,793**	**8,326**	**467**	**5.6**
Net adjustments to loans	-2,089	-2,394	-305	-12.7
Other net provisions and net impairment losses on other assets	-254	-187	67	35.8
Other income (expenses)	55	506	-451	-89.1
Income (Loss) from discontinued operations	88	71	17	23.9
Gross income (loss)	**6,593**	**6,322**	**271**	**4.3**
Taxes on income	-1,838	-1,650	188	11.4
Charges (net of tax) for integration and exit incentives	-106	-120	-14	-11.7
Effect of purchase price allocation (net of tax)	-117	-156	-39	-25.0
Levies and other charges concerning the banking industry (net of tax)	-360	-378	-18	-4.8
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	10	32	-22	-68.8
Net income (loss)	**4,182**	**4,050**	**132**	**3.3**

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

Quarterly development of the reclassified income statement

(millions of euro)

	2019				2018			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,747	1,741	1,761	1,756	1,736	1,844	1,838	1,853
Net fee and commission income	2,166	1,966	1,965	1,865	2,007	1,939	1,996	2,010
Income from insurance business	308	301	284	291	238	271	281	294
Profits (Losses) on financial assets and liabilities designated at fair value	356	480	634	458	205	209	448	610
Other operating income (expenses)	-10	5	10	-1	-11	-11	26	30
Operating income	**4,567**	**4,493**	**4,654**	**4,369**	**4,175**	**4,252**	**4,589**	**4,797**
Personnel expenses	-1,518	-1,421	-1,418	-1,387	-1,518	-1,415	-1,447	-1,432
Other administrative expenses	-731	-605	-596	-556	-753	-637	-608	-620
Adjustments to property, equipment and intangible assets	-285	-261	-252	-260	-287	-259	-254	-257
Operating costs	**-2,534**	**-2,287**	**-2,266**	**-2,203**	**-2,558**	**-2,311**	**-2,309**	**-2,309**
Operating margin	**2,033**	**2,206**	**2,388**	**2,166**	**1,617**	**1,941**	**2,280**	**2,488**
Net adjustments to loans	-693	-473	-554	-369	-698	-519	-694	-483
Other net provisions and net impairment losses on other assets	-168	-19	-37	-30	-76	-25	-35	-51
Other income (expenses)	50	-2	1	6	507	-2	3	-2
Income (Loss) from discontinued operations	25	22	22	19	19	19	16	17
Gross income (loss)	**1,247**	**1,734**	**1,820**	**1,792**	**1,369**	**1,414**	**1,570**	**1,969**
Taxes on income	-317	-536	-449	-536	-173	-432	-504	-541
Charges (net of tax) for integration and exit incentives	-27	-27	-30	-22	-54	-31	-16	-19
Effect of purchase price allocation (net of tax)	-12	-37	-28	-40	-48	-38	-26	-44
Levies and other charges concerning the banking industry (net of tax)	-22	-96	-96	-146	-69	-90	-93	-126
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-
Minority interests	3	6	-1	2	13	10	-4	13
Net income (loss)	**872**	**1,044**	**1,216**	**1,050**	**1,038**	**833**	**927**	**1,252**

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

Operating income

Operating income amounted to 18,083 million euro, up by 1.5% on 2018 due to the significant performances of profits (losses) on financial assets and liabilities designated at fair value, the increase in income from insurance business and the stability of net fee and commission income. By contrast, net interest income and other net operating income declined.

Net interest income

(millions of euro)

	2019	2018	Changes	
			amount	%
Relations with customers	7,392	7,622	-230	-3.0
Securities issued	-2,073	-2,406	-333	-13.8
Customer dealing	**5,319**	**5,216**	**103**	**2.0**
Instruments measured at amortised cost which do not constitute loans	345	268	77	28.7
Other financial assets and liabilities designated at fair value through profit or loss	125	90	35	38.9
Other financial assets designated at fair value through other comprehensive income	868	755	113	15.0
Financial assets and liabilities	**1,338**	**1,113**	**225**	**20.2**
Relations with banks	**79**	**70**	**9**	**12.9**
Differentials on hedging derivatives	**-724**	**-339**	**385**	
Non-performing assets	**905**	**1,156**	**-251**	**-21.7**
Other net interest income	**88**	**55**	**33**	**60.0**
Net interest income	**7,005**	**7,271**	**-266**	**-3.7**

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

Net interest income of 7,005 million euro declined by 3.7% on the previous year. Against the backdrop of interest rates which remain in negative territory, performance was conditioned by lower interest on non-performing assets due to the gradual reduction of NPLs, the asset size effect attributable to lower average loans and the more limited contribution of hedging of core deposits, included in differentials on hedging derivatives. Net interest income on customer dealing increased to 5,319 million euro (+2%), driven by the decrease in the cost of funding in the form of securities issued and by higher interest on financial assets of 1,338 million euro (+20.2%). Net interest income on relations with banks increased to 79 million euro (+12.9%) due to the lower cost of interbank debt.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Relations with customers	1,806	1,851	1,859	1,876	-2.4	-0.4	-0.9
Securities issued	-464	-545	-521	-543	-14.9	4.6	-4.1
Customer dealing	**1,342**	**1,306**	**1,338**	**1,333**	**2.8**	**-2.4**	**0.4**
Instruments measured at amortised cost which do not constitute loans	84	89	92	80	-5.6	-3.3	15.0
Other financial assets and liabilities designated at fair value through profit or loss	33	35	20	37	-5.7	75.0	-45.9
Other financial assets designated at fair value through other comprehensive income	200	232	223	213	-13.8	4.0	4.7
Financial assets and liabilities	**317**	**356**	**335**	**330**	**-11.0**	**6.3**	**1.5**
Relations with banks	**20**	**27**	**16**	**16**	-25.9	68.8	-
Differentials on hedging derivatives	**-189**	**-195**	**-175**	**-165**	-3.1	11.4	6.1
Non-performing assets	**231**	**221**	**230**	**223**	4.5	-3.9	3.1
Other net interest income	**26**	**26**	**17**	**19**	-	52.9	-10.5
Net interest income	**1,747**	**1,741**	**1,761**	**1,756**	**0.3**	**-1.1**	**0.3**

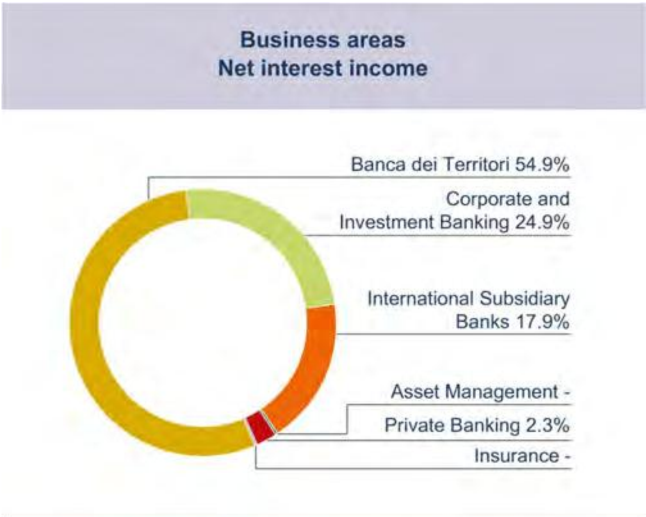
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

Net interest income in the fourth quarter 2019 stood at the same levels as in the other quarters of 2019.

(millions of euro)

	2019	2018	Changes	
			amount	%
Banca dei Territori	4,187	4,437	-250	-5.6
Corporate and Investment Banking	1,899	1,773	126	7.1
International Subsidiary Banks	1,370	1,322	48	3.6
Private Banking	177	155	22	14.2
Asset Management	1	-	1	-
Insurance	-	-	-	-
Total business areas	**7,634**	**7,687**	**-53**	**-0.7**
Corporate Centre	-629	-416	213	51.2
Intesa Sanpaolo Group	**7,005**	**7,271**	**-266**	**-3.7**

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



The Banca dei Territori Division, which accounts for 55% of business area results, recorded a decrease (-5.6%, or -250 million euro) in net interest income owing to the lesser contribution from loan volumes, particularly in the short term, and the more limited contribution of the hedging of core deposits. By contrast, the net interest income of the Corporate and Investment Banking Division recorded an increase (+7.1%, or +126 million euro) attributable to the Global Markets segment, driven by the positive performance of the securities portfolio. Net interest income also increased for the International Subsidiary Banks Division (+3.6%, or +48 million euro) and, finally, for the Private Banking Division (+14.2%, or +22 million euro), which in relative terms has a lesser impact on the consolidated accounts. The increase in the net interest expense of the Corporate Centre was mostly attributable to the absence of the time value effect and contractual interest following the deleveraging of bad loans undertaken at the end of 2018.

Net fee and commission income

(millions of euro)

	2019			2018			Changes	
	Income	Expense	**Net**	Income	Expense	**Net**	**amount**	**%**
Guarantees given / received	341	-112	229	353	-82	271	-42	-15.5
Collection and payment services	681	-213	468	658	-214	444	24	5.4
Current accounts	1,222	-	1,222	1,260	-	1,260	-38	-3.0
Credit and debit cards	631	-306	325	620	-308	312	13	4.2
Commercial banking activities	**2,875**	**-631**	**2,244**	**2,891**	**-604**	**2,287**	**-43**	**-1.9**
Dealing and placement of securities	960	-196	764	929	-183	746	18	2.4
Currency dealing	52	-3	49	53	-3	50	-1	-2.0
Portfolio management	3,110	-739	2,371	3,028	-724	2,304	67	2.9
Distribution of insurance products	1,441	-	1,441	1,462	-	1,462	-21	-1.4
Other	316	-52	264	296	-41	255	9	3.5
Management, dealing and consultancy activities	**5,879**	**-990**	**4,889**	**5,768**	**-951**	**4,817**	**72**	**1.5**
Other fee and commission	**1,068**	**-239**	**829**	**1,105**	**-257**	**848**	**-19**	**-2.2**
Total	**9,822**	**-1,860**	**7,962**	**9,764**	**-1,812**	**7,952**	**10**	**0.1**

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

Net fee and commission income in 2019, which makes up approximately 44% of operating income, came to 7,962 million euro, slightly above (+10 million euro) the figure recorded in 2018, due to an increase in management, dealing and financial consultancy activities, which trended upwards over the year, particularly in the fourth quarter. In particular, there were increases in fee and commission income on individual and collective portfolio management schemes (+2.9%) and the dealing and placement of securities (+2.4%). On the contrary, fee and commission income on traditional banking business declined, with decreases in guarantees given/received and in current accounts, only partly offset by the growth in collection and payment and ATM and credit card services. Finally, other fee and commission income fell (-2.2%) due to the lesser contribution of income on factoring transactions and other services.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Guarantees given / received	60	58	56	55	3.4	3.6	1.8
Collection and payment services	127	113	118	110	12.4	-4.2	7.3
Current accounts	304	304	306	308	-	-0.7	-0.6
Credit and debit cards	82	89	80	74	-7.9	11.3	8.1
Commercial banking activities	**573**	**564**	**560**	**547**	**1.6**	**0.7**	**2.4**
Dealing and placement of securities	199	190	195	180	4.7	-2.6	8.3
Currency dealing	12	13	12	12	-7.7	8.3	-
Portfolio management	697	571	561	542	22.1	1.8	3.5
Distribution of insurance products	391	363	361	326	7.7	0.6	10.7
Other	68	69	65	62	-1.4	6.2	4.8
Management, dealing and consultancy activities	**1,367**	**1,206**	**1,194**	**1,122**	**13.3**	**1.0**	**6.4**
Other net fee and commission income	**226**	**196**	**211**	**196**	**15.3**	**-7.1**	**7.7**
Net fee and commission income	**2,166**	**1,966**	**1,965**	**1,865**	**10.2**	**0.1**	**5.4**

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

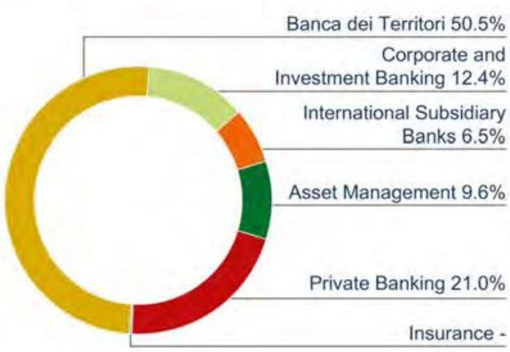
At the quarterly level, fee and commission income was up sharply in the fourth quarter of 2019, primarily due to the greater fee and commission income on management, dealing and financial consultancy activities, driven by a favourable market performance.

(millions of euro)

	2019	2018	Changes	
			amount	%
Banca dei Territori	4,212	4,314	-102	-2.4
Corporate and Investment Banking	1,029	1,077	-48	-4.5
International Subsidiary Banks	537	524	13	2.5
Private Banking	1,746	1,696	50	2.9
Asset Management	799	701	98	14.0
Insurance	-	-	-	-
Total business areas	**8,323**	**8,312**	**11**	**0.1**
Corporate Centre	-361	-360	1	0.3
Intesa Sanpaolo Group	**7,962**	**7,952**	**10**	**0.1**

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

Business areas
Net fee and commission income



With regard to business areas, the Banca dei Territori Division, which accounts for over half the fee and commission income of the business units, recorded a decrease (-2.4%, or -102 million euro) in fee and commission income, specifically that deriving from asset management and bancassurance. A decrease was also recorded in Corporate and Investment Banking (-4.5%, or -48 million euro), mainly due to the performance of the commercial banking segment. By contrast, fee and commission income increased for Asset Management (+14%, or +98 million euro), the Private Banking Division (+2.9%, or +50 million euro) and the International Subsidiary Banks Division (+2.5%, or +13 million euro).

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

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 2019	Total 2018	Changes	
										amount	%
Guarantees given	85	228	33	1	-	-	-6	341	353	-12	-3.4
Collection and payment services	404	83	179	7	-	-	8	681	658	23	3.5
Current accounts	1,063	29	122	8	-	-	-	1,222	1,260	-38	-3.0
Credit and debit cards	370	3	242	8	-	-	8	631	620	11	1.8
Commercial banking activities	**1,922**	**343**	**576**	**24**	**-**	**-**	**10**	**2,875**	**2,891**	**-16**	**-0.6**
Dealing and placement of securities	1,142	488	23	198	274	-	-1,165	960	929	31	3.3
Currency dealing	39	5	4	3	-	-	1	52	53	-1	-1.9
Portfolio management	127	9	17	1,521	1,685	-	-249	3,110	3,028	82	2.7
Distribution of insurance products	825	-	23	593	-	-	-	1,441	1,462	-21	-1.4
Other	31	48	12	167	-	-	58	316	296	20	6.8
Management, dealing and consultancy activities	**2,164**	**550**	**79**	**2,482**	**1,959**	**-**	**-1,355**	**5,879**	**5,768**	**111**	**1.9**
Other net fee and commission income	**382**	**447**	**67**	**24**	**111**	**-**	**37**	**1,068**	**1,105**	**-37**	**-3.3**
Fee and commission income	**4,468**	**1,340**	**722**	**2,530**	**2,070**	**-**	**-1,308**	**9,822**	**9,764**	**58**	**0.6**
Fee and commission expense	**-256**	**-311**	**-185**	**-784**	**-1,271**	**-**	**947**	**-1,860**	**-1,812**	**48**	**2.6**
Net fee and commission income	**4,212**	**1,029**	**537**	**1,746**	**799**	**-**	**-361**	**7,962**	**7,952**	**10**	**0.1**

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

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

Income from insurance business

(millions of euro)

Captions (a)	**2019**			**2018**			**Changes**	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**185**	**159**	**344**	**134**	**129**	**263**	**81**	**30.8**
Net insurance premiums (b)	9,623	524	10,147	7,779	401	8,180	1,967	24.0
Net charges for insurance claims and surrenders (c)	-6,544	-175	-6,719	-8,612	-103	-8,715	-1,996	-22.9
Net charges for changes in technical reserves (d)	-4,497	-2	-4,499	81	-2	79	-4,578	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	1,751	-	1,751	1,072	-	1,072	679	63.3
Net fees on investment contracts (f)	322	1	323	329	-	329	-6	-1.8
Commission expenses on insurance contracts (g)	-476	-144	-620	-495	-120	-615	5	0.8
Other technical income and expense (h)	6	-45	-39	-20	-47	-67	-28	-41.8
Net investment result	**791**	**12**	**803**	**842**	**14**	**856**	**-53**	**-6.2**
Operating income from investments	10,084	12	10,096	-1,962	14	-1,948	12,044	
Net interest income	*1,741*	*3*	*1,744*	*1,803*	*3*	*1,806*	*-62*	*-3.4*
Dividends	*254*	*2*	*256*	*239*	*3*	*242*	*14*	*5.8*
Gains/losses on disposal	*1,815*	*7*	*1,822*	*451*	*8*	*459*	*1,363*	
Valuation gains/losses	*6,352*	*-*	*6,352*	*-4,381*	*-*	*-4,381*	*10,733*	
Portfolio management fees paid (i)	*-78*	*-*	*-78*	*-74*	*-*	*-74*	*4*	*5.4*
Gains (losses) on investments pertaining to insured parties	-9,293	-	-9,293	2,804	-	2,804	-12,097	
Insurance products (j)	*-1,768*	*-*	*-1,768*	*-1,017*	*-*	*-1,017*	*751*	*73.8*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-19*	*-*	*-19*	*-39*	*-*	*-39*	*-20*	*-51.3*
Investment products (l)	*-7,506*	*-*	*-7,506*	*3,860*	*-*	*3,860*	*-11,366*	
Income from insurance business gross of consolidation effects	**976**	**171**	**1,147**	**976**	**143**	**1,119**	**28**	**2.5**
Consolidation effects	37	-	37	-35	-	-35	72	
Income from insurance business	**1,013**	**171**	**1,184**	**941**	**143**	**1,084**	**100**	**9.2**

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

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

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

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

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

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

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

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

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

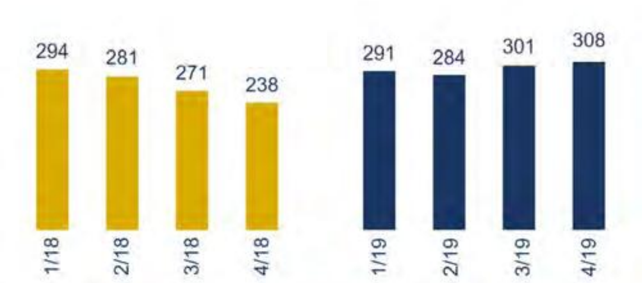
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

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

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

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

Quarterly development
Income from insurance business
(millions of euro)



In 2019 income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was up 9.2% on the previous year to 1,184 million euro. The decrease in the net investment result of the life business, driven by the greater retrocession of the returns on investments to policyholders in relation to operating income from investments, was amply offset by growth of the technical margin of both the life and the non-life business.

(millions of euro)

Captions (a)	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Technical margin	**104**	**91**	**89**	**60**	**14.3**	**2.2**	**48.3**
Net insurance premiums (b)	2,812	2,572	2,258	2,505	9.3	13.9	-9.9
Net charges for insurance claims and surrenders (c)	-1,782	-1,382	-1,667	-1,888	28.9	-17.1	-11.7
Net charges for changes in technical reserves (d)	-1,223	-1,455	-788	-1,033	-15.9	84.6	-23.7
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	399	423	364	565	-5.7	16.2	-35.6
Net fees on investment contracts (f)	58	109	59	97	-46.8	84.7	-39.2
Commission expenses on insurance contracts (g)	-148	-166	-139	-167	-10.8	19.4	-16.8
Other technical income and expense (h)	-12	-10	2	-19	20.0		
Net investment result	**196**	**209**	**192**	**206**	**-6.2**	**8.9**	**-6.8**
Operating income from investments	1,946	1,898	3,153	3,099	2.5	-39.8	1.7
Net interest income	*434*	*437*	*450*	*423*	*-0.7*	-2.9	6.4
Dividends	*57*	*58*	*86*	*55*	*-1.7*	-32.6	56.4
Gains/losses on disposal	*506*	*531*	*474*	*311*	*-4.7*	12.0	52.4
Valuation gains/losses	*969*	*893*	*2,162*	*2,328*	*8.5*	-58.7	-7.1
Portfolio management fees paid (i)	*-20*	*-21*	*-19*	*-18*	*-4.8*	10.5	5.6
Gains (losses) on investments pertaining to insured parties	-1,750	-1,689	-2,961	-2,893	3.6	-43.0	2.4
Insurance products (j)	*-377*	*-417*	*-380*	*-594*	*-9.6*	9.7	-36.0
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-29*	*-10*	*10*	*10*			-
Investment products (l)	*-1,344*	*-1,262*	*-2,591*	*-2,309*	*6.5*	*-51.3*	*12.2*
Income from insurance business gross of consolidation effects	**300**	**300**	**281**	**266**	**-**	**6.8**	**5.6**
Consolidation effects	8	1	3	25		-66.7	-88.0
Income from insurance business	**308**	**301**	**284**	**291**	**2.3**	**6.0**	**-2.4**

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

For notes, see the previous table

Income from insurance business, including both the life and non-life business, was higher in the fourth quarter of 2019 than in the previous quarters.

(millions of euro)

Business	**2019**				**2018**
	Periodic premiums	**Single premiums**	**Total**	*of which new business*	
Life insurance business	**200**	**9,424**	**9,624**	**9,423**	**7,781**
Premiums issued on traditional products	151	7,586	7,737	*7,586*	7,047
Premiums issued on unit-linked products	40	1,072	1,112	*1,072*	12
Premiums issued on capitalisation products	-	1	1	*1*	1
Premiums issued on pension funds	9	765	774	*764*	721
Non-life insurance business	**276**	**275**	**551**	**190**	**412**
Premiums issued	342	330	672	*413*	507
Change in premium reserves	-66	-55	-121	*-223*	-95
Premiums ceded to reinsurers	**-8**	**-20**	**-28**	-23	**-13**
Net premiums from insurance products	**468**	**9,679**	**10,147**	***9,590***	**8,180**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	84	8,230	8,314	*8,237*	11,495
Total business from investment contracts	**84**	**8,230**	**8,314**	***8,237***	**11,495**
Total business	**552**	**17,909**	**18,461**	***17,827***	**19,675**

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

Business in the insurance segment remained at high levels in 2019, at approximately 18.5 billion euro, though below that of 2018. Traditional life business policies came to 7.7 billion euro, up on 2018, whereas class III policies of a primarily financial nature amounted to 8.3 billion euro, significantly lower than the business generated in the previous year. Growth of open pension funds and the non-life business continues, with new business reaching 551 million euro.
New business was nearly 17.8 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

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

(millions of euro)

	2019	**2018**	**changes**	
			amount	**%**
Interest rates	170	378	-208	-55.0
Equity instruments	357	422	-65	-15.4
Currencies	123	47	76	
Structured credit products	25	10	15	
Credit derivatives	-40	35	-75	
Commodity derivatives	18	18	-	-
Income from operations on assets designated at fair value through profit or loss	**653**	**910**	**-257**	**-28.2**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	1,275	562	713	
Profits (Losses) on financial assets and liabilities designated at fair value	**1,928**	**1,472**	**456**	**31.0**

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

Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,928 million euro, compared with 1,472 million euro in 2018, which also included the gross capital gain of 264 million euro on the sale of the equity investment in NTV. The greatest contribution was provided by profits (losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities (+713 million euro), which benefited from portfolio trading, in particular in securities accounted for in OCI (other comprehensive income), whereas the contribution of assets designated at fair value through profit or loss declined. This result was due to the strengthening of transactions on financial assets - through an internal reorganisation implemented to focus the Treasury department on the management of the liquidity portfolio and to concentrate the integrated management of the other portfolios at Banca IMI, within overall risk limits unchanged - to both capture market opportunities, structurally increasing the total contribution of the securities portfolio management to the Group's revenues.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Interest rates	38	51	156	-75	-25.5	-67.3	
Equity instruments	91	61	118	87	49.2	-48.3	35.6
Currencies	41	10	33	39		-69.7	-15.4
Structured credit products	**-3**	**5**	**7**	**16**		-28.6	-56.3
Credit derivatives	-23	1	-24	6			
Commodity derivatives	7	7	1	3	-		-66.7
Income from operations on assets designated at fair value through profit or loss	**151**	**135**	**291**	**76**	**11.9**	**-53.6**	
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	205	345	343	382	-40.6	0.6	-10.2
Income (Losses) on financial assets and liabilities designated at fair value	**356**	**480**	**634**	**458**	**-25.8**	**-24.3**	**38.4**

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

The figure for the fourth quarter of 2019 was lower than in the previous quarters of the same year.

Other operating income (expenses)

Other net operating income came to 4 million euro, compared with the 34 million euro in 2018. This item includes both sundry operating income and expenses – including those of subsidiaries not subject to management and coordination operating in sectors completely distinct from banking and finance – and profits on investments carried at equity. The decrease on 2018 was entirely due to the former component, which in the previous year included the share of income recognised from third parties by the subsidiary SEC, reclassified to discontinued operations in the second half of the year.

Operating costs

(millions of euro)

	2019	2018	Changes	
			amount	%
Wages and salaries	3,961	4,056	-95	-2.3
Social security charges	1,012	1,029	-17	-1.7
Other	771	727	44	6.1
Personnel expenses	**5,744**	**5,812**	**-68**	**-1.2**
Information technology expenses	678	674	4	0.6
Management of real estate assets expenses	323	368	-45	-12.2
General structure costs	367	389	-22	-5.7
Professional and legal expenses	313	387	-74	-19.1
Advertising and promotional expenses	124	136	-12	-8.8
Indirect personnel costs	81	84	-3	-3.6
Other costs	493	462	31	6.7
Indirect taxes and duties	895	925	-30	-3.2
Recovery of expenses and charges	-786	-807	-21	-2.6
Administrative expenses	**2,488**	**2,618**	**-130**	**-5.0**
Property and equipment	498	531	-33	-6.2
Intangible assets	560	526	34	6.5
Adjustments	**1,058**	**1,057**	**1**	**0.1**
Operating costs	**9,290**	**9,487**	**-197**	**-2.1**

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

Operating costs continued to improve in 2019, amounting to 9,290 million euro, a decrease of 2.1% on 2018.
Personnel expenses amounted to 5,744 million euro, down by 1.2%, driven by staff downsizing, the savings from which were more than enough to offset the cost increase relating to incentives for growth.
Administrative expenses of 2,488 million euro (-5%) presented extensive savings, particularly on legal and professional fees (-74 million euro), real estate management (-45 million euro) and general structure costs (-22 million euro).
Depreciation and amortisation of property and equipment and intangible assets, which following the entry into force of the new standard IFRS 16 also include the share relating to rights of use acquired under operating leases, were in line with the figure from the previous year.
The cost/income ratio for 2019 decreased to 51.4% from 53.3% in 2018 due to robust revenue growth and careful cost management.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Wages and salaries	1,057	980	976	948	7.9	0.4	3.0
Social security charges	270	248	248	246	8.9	-	0.8
Other	191	193	194	193	-1.0	-0.5	0.5
Personnel expenses	**1,518**	**1,421**	**1,418**	**1,387**	**6.8**	**0.2**	**2.2**
Information technology expenses	178	173	161	166	2.9	**7.5**	**-3.0**
Management of real estate assets expenses	82	87	80	74	-5.7	8.8	8.1
General structure costs	94	93	90	90	1.1	3.3	-
Professional and legal expenses	106	78	73	56	35.9	6.8	30.4
Advertising and promotional expenses	50	23	31	20		-25.8	55.0
Indirect personnel costs	28	14	19	20		-26.3	-5.0
Other costs	165	112	118	98	47.3	-5.1	20.4
Indirect taxes and duties	230	220	222	223	4.5	-0.9	-0.4
Recovery of expenses and charges	-202	-195	-198	-191	3.6	-1.5	3.7
Administrative expenses	**731**	**605**	**596**	**556**	**20.8**	**1.5**	**7.2**
Property and equipment	124	125	119	130	-0.8	5.0	-8.5
Intangible assets	161	136	133	130	18.4	2.3	2.3
Adjustments	**285**	**261**	**252**	**260**	**9.2**	**3.6**	**-3.1**
Operating costs	**2,534**	**2,287**	**2,266**	**2,203**	**10.8**	**0.9**	**2.9**

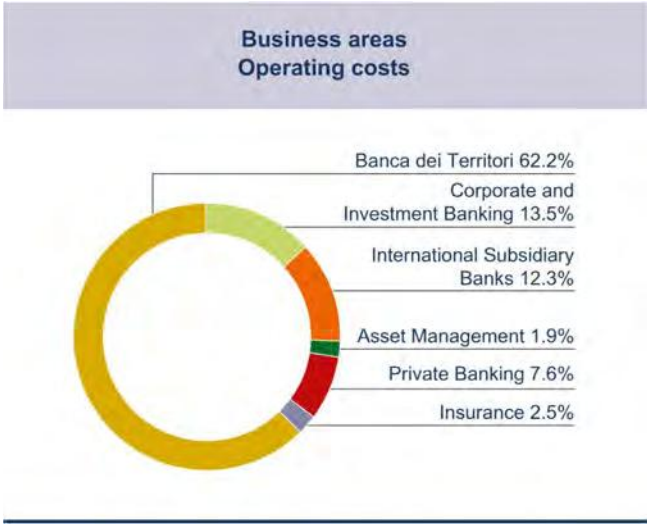
Figures restated, where necessary and material, considering the changes in the scope of consolidation.

At the quarterly level, operating costs in the fourth quarter of 2019 were higher than in the other quarters of the year due to the customary seasonal effects, but below the level of the fourth quarter of 2018.

(millions of euro)

	2019	2018	Changes	
			amount	%
Banca dei Territori	5,034	5,311	-277	-5.2
Corporate and Investment Banking	1,088	1,085	3	0.3
International Subsidiary Banks	991	975	16	1.6
Private Banking	613	593	20	3.4
Asset Management	157	150	7	4.7
Insurance	204	187	17	9.1
Total business areas	**8,087**	**8,301**	**-214**	**-2.6**
Corporate Centre	1,203	1,186	17	1.4
Intesa Sanpaolo Group	**9,290**	**9,487**	**-197**	**-2.1**

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



At the level of operating costs, the Banca dei Territori Division, which accounts for over 60% of all costs for the business areas, reported considerable savings compared to the previous year (-5.2%, or -277 million euro) thanks to lower administrative expenses, mainly due to lower service costs, and personnel expenses, due to the reduction in the average workforce. By contrast, there were moderate increases for Private Banking (+3.4%, or +20 million euro), essentially due to the increase in amortisation and depreciation and personnel expenses, Insurance (+9.1%, or +17 million euro), due to the performance of all cost components, mostly attributable to initiatives relating to development of the non-life business, the International Subsidiary Banks (+1.6% or +16 million euro), due to higher administrative and personnel expenses, and Asset Management (+4.7%, or +7 million euro), mainly due to greater personnel expenses.
The Corporate and Investment Banking Division presented operating costs essentially in line with those of 2018 (+0.3% or +3 million euro).

Operating margin

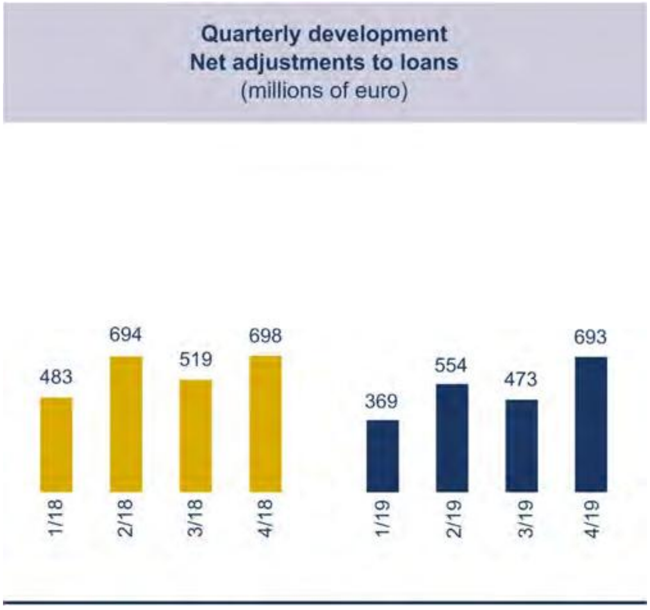
The operating margin amounted to 8,793 million euro, an annual increase of 5.6% or +467 million euro on the previous year, driven by the increase in operating income and the decline in operating costs.

Net adjustments to loans

(millions of euro)

	2019	2018	Changes	
			amount	%
Bad loans	-905	-1,167	-262	-22.5
Unlikely to pay	-1,314	-1,174	140	11.9
Past due loans	-356	-374	-18	-4.8
Stage 3 loans	**-2,575**	**-2,715**	**-140**	**-5.2**
of which debt securities	*-*	*-3*	*-3*	
Stage 2 loans	**104**	**-12**	**116**	
of which debt securities	*-16*	*8*	*-24*	
Stage 1 loans	**365**	**256**	**109**	**42.6**
of which debt securities	*9*	*-*	*9*	*-*
Net losses/recoveries on impairment of loans	**-2,106**	**-2,471**	**-365**	**-14.8**
Profits/losses from changes in contracts without derecognition	**-6**	**-11**	**-5**	**-45.5**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**23**	**88**	**-65**	**-73.9**
Net adjustments to loans	**-2,089**	**-2,394**	**-305**	**-12.7**

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



In 2019, net adjustments to loans amounted to 2,089 million euro, down significantly from the 2,394 million euro recorded in the previous year. This 12.7% decrease was due to lower adjustments to Stage 3 non-performing loans (-140 million euro, of which -262 million euro associated with bad loans, -18 million euro with past due loans and +140 million euro with unlikely-to-pay loans) and greater recoveries on loans in Stage 1 (+109 million euro) and Stage 2 (+116 million euro). Non-performing loans continued to decline as a percentage of total loans in 2019 due to lower NPL flows; the cost of credit, expressed as the ratio of net adjustments to net loans, amounted to 53 basis points, lower than in the previous year (61 basis points).

Total coverage of non-performing loans amounted to 54.6%. In detail, bad loans required total net adjustments of 905 million euro, compared to 1,167 million euro in 2018, with a coverage ratio of 65.3%. Net impairment losses on loans included in the unlikely-to-pay category, totalling 1,314 million euro, increased by 11.9%, with a coverage ratio of 38.7%. Net impairment losses on past due loans amounted to 356 million euro, with a coverage ratio of 16%. The coverage ratio for forborne positions within the non-performing loans category was 43.6% at the end of December 2019. Finally, the coverage ratio of performing loans was 0.5%.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	**Third quarter (B)**	**Second quarter (C)**	**First quarter (D)**	**(A/B)**	**(B/C)**	**(C/D)**
Bad loans	-374	-175	-193	-163		-9.3	18.4
Unlikely to pay	-473	-299	-286	-256	58.2	4.5	11.7
Past due loans	-104	-90	-78	-84	15.6	15.4	-7.1
Stage 3 loans	**-951**	**-564**	**-557**	**-503**	**68.6**	**1.3**	**10.7**
of which debt securities	-	-	-	-	-	**-**	**-**
Stage 2 loans	**184**	**31**	**-76**	**-35**			
of which debt securities	-4	-	-9	-3	-		
Stage 1 loans	**117**	**37**	**72**	**139**		**-48.6**	**-48.2**
of which debt securities	-2	10	1	-			-
Net losses/recoveries on impairment of loans	**-650**	**-496**	**-561**	**-399**	**31.0**	**-11.6**	**40.6**
Profits/losses from changes in contracts without derecognition	**2**	**-6**	**-1**	**-1**			**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**-45**	**29**	**8**	**31**			**-74.2**
Net adjustments to loans	**-693**	**-473**	**-554**	**-369**	**46.5**	**-14.6**	**50.1**

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

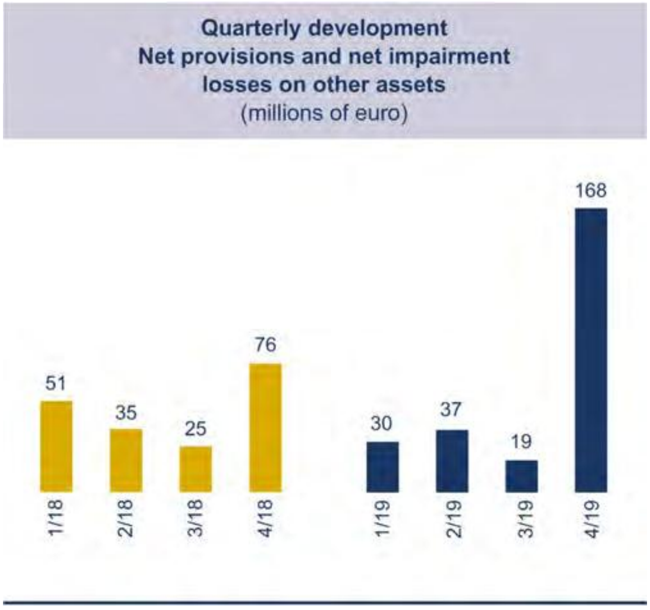
The fourth quarter of 2019 showed higher adjustments to loans than in the other quarters of 2019, but in line with the fourth quarter of 2018.

Other net provisions and net impairment losses on other assets

(millions of euro)

	2019	2018	Changes	
			amount	%
Other net provisions	-125	-132	-7	-5.3
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-67	5	-72	
Net impairment losses on other assets	-59	-55	4	7.3
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-3	-5	-2	-40.0
Other net provisions and net impairment losses on other assets	**-254**	**-187**	**67**	**35.8**

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



Within the layout of the reclassified income statement, this caption primarily consists of other net provisions for risks and charges and net impairment losses on other assets and on securities designated at fair value. In 2019, other net provisions and net impairment losses on other assets amounted to 254 million euro, compared with the 187 million euro recognised in 2018. The increase was essentially attributable to net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income.

(millions of euro)

	2019				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Other net provisions	-63	-26	-24	-12		8.3	
Net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income	-49	9	-17	-10			70.0
Net impairment losses on other assets	-55	-1	4	-7			
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-1	-1	-	-1	-	-	
Other net provisions and net impairment losses on other assets	**-168**	**-19**	**-37**	**-30**		**-48.6**	**23.3**

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

At the quarterly level, there was a very marked flow in the fourth quarter of the year due to greater provisions for legal and tax disputes and greater net impairment losses on instruments measured at amortised cost and on instruments designated at fair value through other comprehensive income, in addition to greater net impairment losses on other assets.

Other income (expenses)
In this caption of the reclassified income statement, the “profits (losses) on financial assets measured at amortised cost other than loans, equity investments and other investments” are aggregated together with other income and expenses not strictly linked to operations.
During the reporting period, other income amounted to 55 million euro, compared to 506 million euro in the previous year, which included profits on disposal of equity investments and significant revaluations of qualified equity investments, largely attributable to the Intrum transaction (443 million euro).

Income (Loss) from discontinued operations
This caption amounted to income of 88 million euro, compared with 71 million euro reported in 2018.

Gross income (loss)
Income before tax from continuing operations came to 6,593 million euro, up 4.3% compared to 2018.

Taxes on income
Current and deferred taxes came to 1,838 million euro for an effective tax rate of 27.9%, compared with 26.1% in the previous year.

Charges (net of tax) for integration and exit incentives
This caption amounted to 106 million euro, compared with 120 million in 2018.

Effect of purchase price allocation (net of tax)
This caption comprises amounts attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition of investments and/or aggregate assets. In 2019, these expenses came to 117 million euro, compared to the 156 million euro recorded in 2018.

Levies and other charges concerning the banking industry (net of tax)
The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. These costs decreased slightly on the previous year, net of taxes, from -378 to -360 million euro, broken down into -217 million euro attributable to resolution funds, -109 million euro to deposit guarantee funds, -43 million euro to taxes recognised by international subsidiary banks and 9 million euro to recovery from the Atlante Fund.

Minority interests
The minority interest share of net losses of companies within the scope of line-by-line consolidation amounted to 10 million euro for the reporting year, compared with 32 million euro in 2018.

Net income (loss)
As a result of the above trends, the Group ended 2019 with net income of 4,182 million euro, up by 3.3% from the 4,050 million euro earned in 2018. The Intesa Sanpaolo Group continued to deliver a solid performance, made possible by an increase in revenues, a decrease in costs and a decline in impairment losses due to careful monitoring of credit quality.

Balance sheet aggregates

General aspects

A reclassified condensed balance sheet has been prepared to permit a more immediate understanding of the Group's assets and liabilities.

The format adopted includes not only the figures for the reporting period, but also the comparative figures as at 1 January 2019 aimed at providing an account of the effects of the first-time adoption of IFRS 16 and thus at permitting a consistent comparison for the captions affected by the new financial reporting standard. In addition, the reclassified balance sheet also includes the changes in the comparative figures made in application of the accounting standard IFRS 3 to take account of the final allocation of the cost of acquiring Autostrade Lombarde.

In the interest of consistent comparison, the figures for previous periods are also restated, where necessary and material, to account for changes in the scope of consolidation. The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.

Certain aggregations and reclassifications have been made with respect to the model provided in Circular 262/05 of the Bank of Italy. Breakdowns of restatements, aggregations and reclassifications are provided in separate tables included in the attachments to the consolidated financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

Aggregations and reclassifications of captions refer to:

– the inclusion of Cash and cash equivalents in the residual caption Other assets;
– the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
– the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
– the separate presentation of financial assets and liabilities pertaining to the insurance business, measured pursuant to IAS 39, in application of the deferral approach, by the Group's insurance companies;
– the aggregation in one single caption of Property and equipment and Intangible assets, broken down into the sub-captions Assets owned and Rights of use acquired under lease;
– the inclusion of Hedging derivatives and Fair value changes of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
– the inclusion of the technical insurance reserves reassured with third parties under Other assets;
– the consolidation, within Other assets, of the financial and intangible components of the motorway concession held by Autostrade Lombarde (through its subsidiary Brebemi), in view of the close management correlation between the two components – considering that the value of the motorway concession is represented by the sum of the two – and the difference between the business conducted by the Autostrade Lombarde Group and that of the companies operating within the Intesa Sanpaolo Group;
– the separate presentation of Due to banks at amortised cost;
– the aggregation of Due to customers at amortised cost and Securities issued into one caption;
– the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for risks and charges, Allowances for commitments and financial guarantees given);
– the reclassification of Lease payables to a specific sub-caption of Other liabilities;
– the presentation of Reserves as an aggregate and net of any treasury shares.

Reclassified balance sheet

(millions of euro)

Assets	31.12.2019	01.01.2019	Changes	
			amount	%
Due from banks	47,170	68,723	-21,553	-31.4
Loans to customers	395,229	393,550	*1,679*	*0.4*
Loans to customers measured at amortised cost	*394,093*	*392,945*	*1,148*	*0.3*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,136*	*605*	*531*	*87.8*
Financial assets measured at amortised cost which do not constitute loans	25,888	14,183	11,705	82.5
Financial assets at fair value through profit or loss	48,636	41,536	7,100	17.1
Financial assets at fair value through other comprehensive income	72,046	60,441	11,605	19.2
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	168,202	149,546	18,656	12.5
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	952	-340	-35.7
Investments in associates and companies subject to joint control	1,240	943	297	31.5
Property, equipment and intangible assets	17,153	17,145	8	-
Assets owned	*15,655*	*15,516*	*139*	*0.9*
Rights of use acquired under leases	*1,498*	*1,629*	*-131*	*-8.0*
Tax assets	15,467	17,258	-1,791	-10.4
Non-current assets held for sale and discontinued operations	494	1,297	-803	-61.9
Other assets	23,965	23,811	154	0.6
Total Assets	**816,102**	**789,385**	**26,717**	**3.4**

Liabilities	31.12.2019	01.01.2019	Changes	
			amount	%
Due to banks at amortised cost	103,316	107,982	-4,666	-4.3
Due to customers at amortised cost and securities issued	414,578	405,960	8,618	2.1
Financial liabilities held for trading	45,226	41,895	3,331	8.0
Financial liabilities designated at fair value	4	4	-	-
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	818	810	8	1.0
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	67,800	8,135	12.0
Tax liabilities	2,321	2,391	-70	-2.9
Liabilities associated with non-current assets held for sale and discontinued operations	41	258	-217	-84.1
Other liabilities	23,381	20,884	2,497	12.0
of which lease payables	*1,496*	*1,603*	*-107*	*-6.7*
Technical reserves	89,136	80,797	8,339	10.3
Allowances for risks and charges	5,131	6,254	-1,123	-18.0
of which allowances for commitments and financial guarantees given	*482*	*510*	*-28*	*-5.5*
Share capital	9,086	9,085	1	-
Reserves	38,250	37,690	560	1.5
Valuation reserves	-157	-913	-756	-82.8
Valuation reserves pertaining to insurance companies	504	9	495	
Equity instruments	4,103	4,103	-	-
Minority interests	247	326	-79	-24.2
Net income (loss)	4,182	4,050	132	3.3
Total liabilities and shareholders' equity	**816,102**	**789,385**	**26,717**	**3.4**

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

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2019					2018			
	31/12	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due from banks	47,170	71,958	77,141	85,515	68,723	68,723	71,178	69,876	70,646
Loans to customers	395,229	395,193	394,253	395,595	393,550	393,550	395,265	399,704	400,958
Loans to customers measured at amortised cost	*394,093*	*394,289*	*393,243*	*394,990*	*392,945*	*392,945*	*394,543*	*399,083*	*400,344*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,136*	*904*	*1,010*	*605*	*605*	*605*	*722*	*621*	*614*
Financial assets measured at amortised cost which do not constitute loans	25,888	24,104	20,396	19,995	14,183	14,183	12,528	12,181	11,688
Financial assets at fair value through profit or loss	48,636	54,542	52,693	47,626	41,536	41,536	41,377	42,158	42,115
Financial assets at fair value through other comprehensive income	72,046	75,052	65,996	66,406	60,441	60,441	67,174	61,836	60,556
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	168,202	167,034	159,171	155,240	149,546	149,546	153,350	152,229	153,550
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	570	568	702	952	952	638	682	476
Investments in associates and companies subject to joint control	1,240	1,113	1,071	1,075	943	943	592	602	608
Property, equipment and intangible assets	17,153	16,953	16,959	16,963	17,145	15,538	14,352	14,410	14,400
Assets owned	*15,655*	*15,411*	*15,389*	*15,381*	*15,516*				
Rights of use acquired under leases	*1,498*	*1,542*	*1,570*	*1,582*	*1,629*				
Tax assets	15,467	15,556	16,122	16,858	17,258	17,258	17,116	17,120	17,354
Non-current assets held for sale and discontinued operations	494	2,554	803	1,236	1,297	1,297	3,694	3,609	751
Other assets	23,965	24,137	23,238	22,114	23,811	23,823	21,697	21,288	22,046
Total Assets	**816,102**	**848,766**	**828,411**	**829,325**	**789,385**	**787,790**	**798,961**	**795,695**	**795,148**

Liabilities	2019					2018			
	31/12	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due to banks at amortised cost	103,316	119,509	120,232	123,326	107,982	107,982	107,551	99,059	98,313
Due to customers at amortised cost and securities issued	414,578	415,128	411,588	416,505	405,960	405,960	417,801	424,836	417,731
Financial liabilities held for trading	45,226	53,938	51,187	48,433	41,895	41,895	39,866	39,482	39,753
Financial liabilities designated at fair value	4	4	4	4	4	4	4	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	818	879	847	846	810	810	905	1,413	1,394
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	74,405	72,027	70,955	67,800	67,800	71,069	70,337	69,058
Tax liabilities	2,321	2,519	2,014	2,633	2,391	2,391	2,229	2,145	2,577
Liabilities associated with non-current assets held for sale and discontinued operations	41	256	254	260	258	258	312	261	266
Other liabilities	23,381	32,236	26,483	22,675	20,884	19,289	19,370	20,190	21,073
of which lease payables	*1,496*	*1,523*	*1,547*	*1,553*	*1,603*				
Technical reserves	89,136	89,237	84,710	82,508	80,797	80,797	80,449	79,842	82,656
Allowances for risks and charges	5,131	5,164	5,260	5,694	6,254	6,254	6,566	6,877	7,242
of which allowances for commitments and financial guarantees given	*482*	*423*	*450*	*449*	*510*	*510*	*490*	*473*	*503*
Share capital	9,086	9,086	9,086	9,085	9,085	9,085	9,084	8,732	8,732
Reserves	38,250	38,197	38,232	41,704	37,690	37,690	37,949	37,212	40,796
Valuation reserves	-157	-194	-474	-877	-913	-913	-1,631	-1,366	-760
Valuation reserves pertaining to insurance companies	504	727	322	137	9	9	-44	3	429
Equity instruments	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103	4,103
Minority interests	247	262	270	284	326	326	366	386	529
Net income (loss)	4,182	3,310	2,266	1,050	4,050	4,050	3,012	2,179	1,252
Total Liabilities and Shareholders' Equity	**816,102**	**848,766**	**828,411**	**829,325**	**789,385**	**787,790**	**798,961**	**795,695**	**795,148**

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

BANKING BUSINESS

Loans to customers

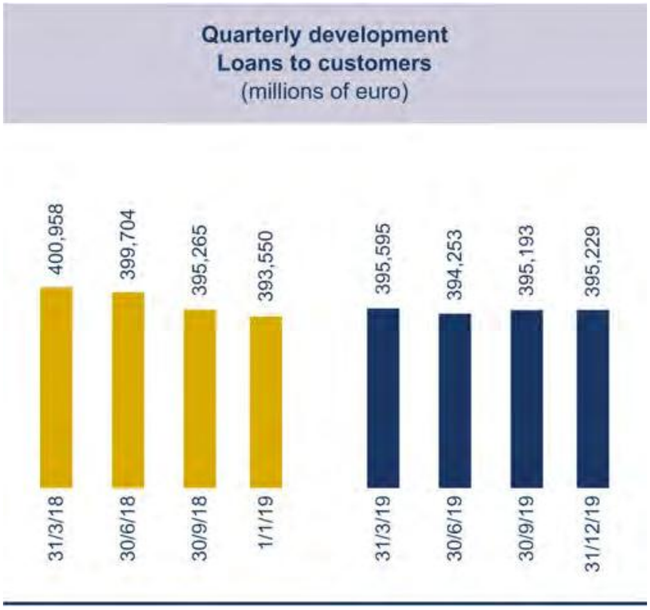
Loans to customers: breakdown

(millions of euro)

	31.12.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	20,455	5.1	21,927	5.7	-1,472	-6.7
Mortgages	176,640	44.7	176,821	44.9	-181	-0.1
Advances and other loans	148,540	37.6	139,458	35.4	9,082	6.5
Commercial banking loans	**345,635**	**87.4**	**338,206**	**86.0**	**7,429**	**2.2**
Repurchase agreements	**29,531**	**7.5**	**33,641**	**8.5**	**-4,110**	**-12.2**
Loans represented by securities	**5,841**	**1.5**	**5,112**	**1.3**	**729**	**14.3**
Non-performing loans	**14,222**	**3.6**	**16,591**	**4.2**	**-2,369**	**-14.3**
Loans to customers	**395,229**	**100.0**	**393,550**	**100.0**	**1,679**	**0.4**

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

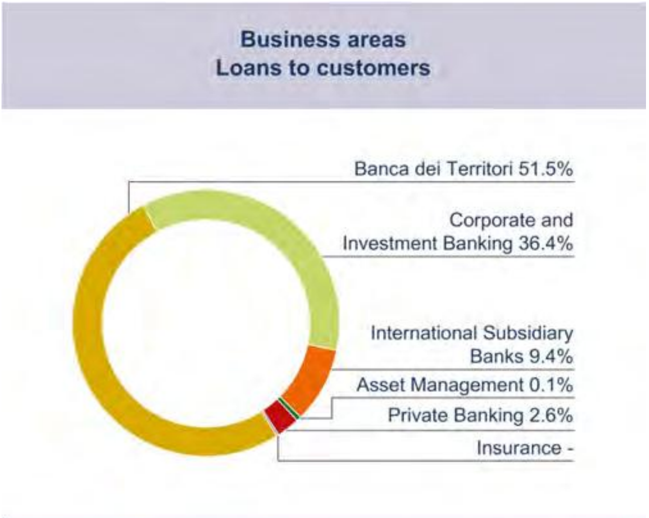
The Group's loans to customers exceeded 395 billion euro as at 31 December 2019, marking a year-to-date increase of 1.7 billion euro, or +0.4%. The stability of the aggregate was due to commercial banking loans (+7.4 billion euro, or +2.2%), within which the growth of loans and advances (+9.1 billion euro, or +6.5%) offset the decrease in current accounts (-1.5 billion euro, or -6.7%); mortgage loans were essentially stable (-0.2 billion euro, or -0.1%). The performance of loans to customers was also affected by the decline in repurchase agreements (-4.1 billion euro) and non-performing loans (-2.4 billion euro), due in part to the effects of the Prelios transaction (-1.7 billion euro), against the growth of loans represented by securities (+0.7 billion euro).
In the domestic medium/long-term loan market, disbursements to households in 2019 (including the small business accounts having similar needs to family businesses) amounted to approximately 16.9 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 11.6 billion euro. During the period, medium/long-term disbursements to segments included in the scope of the Corporate Division amounted to 19.2 billion euro. Disbursements within Italy amounted to 48.4 billion euro. If the activities of the international subsidiary banks are included, the Group's medium/long-term disbursements reached 58.3 billion euro in 2019.
As at 31 December 2019, the Group's share of the Italian domestic market was estimated at 17% for total loans. This estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figures for the end of December are not yet available.



(millions of euro)

	31.12.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	186,354	196,093	-9,739	-5.0
Corporate and Investment Banking	131,543	124,232	7,311	5.9
International Subsidiary Banks	34,038	31,538	2,500	7.9
Private Banking	9,329	9,530	-201	-2.1
Asset Management	435	228	207	90.8
Insurance	-	-	-	-
Total business areas	**361,699**	**361,621**	**78**	**-**
Corporate Centre	33,530	31,929	1,601	5.0
Intesa Sanpaolo Group	**395,229**	**393,550**	**1,679**	**0.4**

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



In the analysis of loans by business area, the Banca dei Territori Division, which accounts for over one-half of the aggregate of the Group's business areas, recorded a decrease of 9.7 billion euro year-to-date (-5%), due to the drop in both the short- and medium-/long-term components, especially to businesses. The Corporate and Investment Banking Division's loans grew by 7.3 billion euro (+5.9%), mainly due to medium-/long-term structured finance activity. The loans of the International Subsidiary Banks Division grew by 2.5 billion euro (+7.9%) specifically due to the increase in the loans issued by the subsidiaries operating in Slovakia, Egypt, Hungary and Serbia. Turning to the other divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division, primarily short-term loans, decreased (-2.1%).
The growth at the level of the Corporate Centre is essentially attributable to loans to institutional counterparties.

Loans to customers: credit quality

(millions of euro)

	31.12.2019		01.01.2019		Change
	Net exposure	**% breakdown**	**Net exposure**	**% breakdown**	**Net exposure**
Bad loans	6,740	1.7	7,138	1.8	-398
Unlikely to pay	6,738	1.7	9,101	2.3	-2,363
Past due loans	744	0.2	352	0.1	392
Non-Performing Loans	**14,222**	**3.6**	**16,591**	**4.2**	**-2,369**
Non-performing loans in Stage 3 (subject to impairment)	*14,195*	*3.6*	*16,531*	*4.2*	-2,336
Non-performing loans designated at fair value through profit or loss	*27*	*-*	*60*	*-*	-33
Performing loans	**375,142**	**94.9**	**371,772**	**94.5**	**3,370**
Stage 2	*40,078*	*10.1*	*42,564*	*10.8*	-2,486
Stage 1	*334,344*	*84.6*	*328,766*	*83.6*	5,578
Performing loans designated at fair value through profit or loss	*720*	*0.2*	*442*	*0.1*	278
Performing loans represented by securities	**5,841**	**1.5**	**5,112**	**1.3**	**729**
Stage 2	*2,942*	*0.7*	*970*	*0.2*	1,972
Stage 1	*2,899*	*0.7*	*4,142*	*1.1*	-1,243
Loans held for trading	**24**	**-**	**75**	**-**	**-51**
Total loans to customers	**395,229**	**100.0**	**393,550**	**100.0**	**1,679**
of which forborne performing	***5,663***		***7,937***		***-2,274***
of which forborne non-performing	***4,038***		***5,437***		***-1,399***
Loans to customers classified as discontinued operations (*)	**382**		**934**		**-552**

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

(*) As at 31 December 2019, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 302 million euro, total adjustments of 68 million euro, net exposure of 234 million euro) and the so-called “high-risk” loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 173 million euro, total adjustments of 25 million euro, net exposure of 148 million euro).

As at 31 December 2019, the Group's net non-performing loans amounted to 14.2 billion euro, down by 14.3% compared with the beginning of the year, due in part to the effects of the Prelios transaction. Non-performing assets decreased as a percentage of total net loans to customers, down to 3.6%, while the coverage ratio for non-performing loans remained high at 54.6%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, at the end of December 2019 bad loans came to 6.7 billion euro net of adjustments (down by 398 million euro on the beginning of the year, or -5.6%), and represented 1.7% of total loans. During the same period, the coverage ratio stood at 65.3%. Loans included in the unlikely-to-pay category amounted to 6.7 billion euro, down by 26%, accounting for 1.7% of total loans to customers, with a coverage ratio of 38.7%. Past due loans amounted to 744 million euro, more than doubled since the beginning of the year, also due to the early adoption of the new definition of default, with a coverage ratio of 16%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 4 billion euro, with a coverage ratio of 43.6%, while forborne exposures in the performing loans category amounted to 5.7 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.5%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

(millions of euro)

Captions	31.12.2019			01.01.2019			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	19,418	-12,678	6,740	21,734	-14,596	7,138	-398
Unlikely to pay	10,995	-4,257	6,738	14,268	-5,167	9,101	-2,363
Past due loans	886	-142	744	473	-121	352	392
Non-Performing Loans	**31,299**	**-17,077**	**14,222**	**36,475**	**-19,884**	**16,591**	**-2,369**
Non-performing loans in Stage 3 (subject to impairment)	31,257	-17,062	*14,195*	*36,396*	*-19,865*	*16,531*	*-2,336*
Non-performing loans designated at fair value through profit or loss	42	-15	*27*	*79*	*-19*	*60*	*-33*
Performing loans	**376,839**	**-1,697**	**375,142**	**373,877**	**-2,105**	**371,772**	**3,370**
Stage 2	41,146	-1,068	*40,078*	*43,880*	*-1,316*	*42,564*	*-2,486*
Stage 1	334,973	-629	*334,344*	*329,555*	*-789*	*328,766*	*5,578*
Performing loans designated at fair value through profit or loss	720	-	*720*	*442*	*-*	*442*	*278*
Performing loans represented by securities	**5,875**	**-34**	**5,841**	**5,131**	**-19**	**5,112**	**729**
Stage 2	2,972	-30	*2,942*	*986*	*-16*	*970*	*1,972*
Stage 1	2,903	-4	*2,899*	*4,145*	*-3*	*4,142*	*-1,243*
Loans held for trading	***24***	***-***	***24***	***75***	***-***	***75***	**-51**
Total loans to customers	***414,037***	***-18,808***	***395,229***	***415,558***	***-22,008***	***393,550***	***1,679***
of which forborne performing	*5,918*	*-255*	*5,663*	*8,322*	*-385*	*7,937*	*-2,274*
of which forborne non-performing	*7,157*	*-3,119*	*4,038*	*9,192*	*-3,755*	*5,437*	*-1,399*
Loans to customers classified among non-current assets held for sale and discontinued operations(*)	**475**	**-93**	**382**	**1,244**	**-310**	**934**	**-552**

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

(*) As at 31 December 2019, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 302 million euro, total adjustments of 68 million euro, net exposure of 234 million euro) and the so-called “high-risk” loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 173 million euro, total adjustments of 25 million euro, net exposure of 148 million euro).

Other banking business financial assets and liabilities: breakdown

(millions of euro)

Type of financial instruments	Other financial assets designated at fair value through profit or loss	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL financial assets	Financial liabilities held for trading (*)
Debt securities issued by Governments					
31.12.2019	12,510	57,750	12,249	**82,509**	X
01.01.2019	7,089	50,865	7,909	**65,863**	X
Changes amount	5,421	6,885	4,340	**16,646**	
Changes %	76.5	13.5	54.9	**25.3**	
Other debt securities					
31.12.2019	5,739	11,237	13,639	**30,615**	X
01.01.2019	5,205	6,415	6,274	**17,894**	X
Changes amount	534	4,822	7,365	**12,721**	
Changes %	10.3	75.2		**71.1**	
Equities					
31.12.2019	989	3,059	X	**4,048**	X
01.01.2019	776	3,161	X	**3,937**	X
Changes amount	213	-102	X	**111**	
Changes %	27.4	-3.2	X	**2.8**	
Quotas of UCI					
31.12.2019	2,996	X	X	**2,996**	X
01.01.2019	2,564	X	X	**2,564**	X
Changes amount	432	X	X	**432**	
Changes %	16.8	X	X	**16.8**	
Due to banks and to customers					
31.12.2019	X	X	X	X	-7,068
01.01.2019	X	X	X	X	-5,415
Changes amount	X	X	X	X	1,653
Changes %	X	X	X	X	30.5
Financial derivatives					
31.12.2019	25,475	X	X	**25,475**	-26,161
01.01.2019	25,186	X	X	**25,186**	-26,605
Changes amount	289	X	X	**289**	-444
Changes %	1.1	X	X	**1.1**	-1.7
Credit derivatives					
31.12.2019	927	X	X	**927**	-1,067
01.01.2019	716	X	X	**716**	-757
Changes amount	211	X	X	**211**	310
Changes %	29.5	X	X	**29.5**	41.0
TOTAL 31.12.2019	**48,636**	**72,046**	**25,888**	**146,570**	**-34,296**
TOTAL 01.01.2019	**41,536**	**60,441**	**14,183**	**116,160**	**-32,777**
Changes amount	**7,100**	**11,605**	**11,705**	**30,410**	**1,519**
Changes %	**17.1**	**19.2**	**82.5**	**26.2**	**4.6**

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

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

The table above shows the breakdown of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include certificates, which are included in the direct deposits from banking business aggregates.
The Intesa Sanpaolo Group's other financial assets, excluding those of the insurance companies, amounted to 147 billion euro, up by 26.2% compared with the beginning of the year, whereas financial liabilities held for trading came to 34 billion euro, up by 4.6%.
The increase in total financial assets was chiefly due to government debt securities (+16.6 billion euro, or +25.3%) and other debt securities (+12.7 billion euro, or +71.1%).

Financial assets measured at fair value through profit or loss amounted to 49 billion euro, marking an increase (+7.1 billion euro, or +17.1%) largely due to government debt securities (+5.4 billion euro).

Financial assets measured at fair value through other comprehensive income amounted to 72 billion euro, almost entirely classified to Stage 1, and were up by 19.2% year-on-year.

Instruments measured at amortised cost which do not constitute loans amounted to 26 billion euro, up by 82.5% due to the instruments classified to Stage 1, which accounted for approximately 83% of the total aggregate.

Debt securities: stage allocation

(millions of euro)

Debt securities: stage allocation	Other financial assets designated at fair value through other comprehensive income	Instruments measured at amortised cost which do not constitute loans	TOTAL
Stage 1			
31.12.2019	66,400	21,472	**87,872**
01.01.2019	57,033	10,935	**67,968**
Changes amount	9,367	10,537	**19,904**
Changes %	16.4	96.4	**29.3**
Stage 2			
31.12.2019	2,587	4,403	**6,990**
01.01.2019	247	3,243	**3,490**
Changes amount	2,340	1,160	**3,500**
Changes %		35.8	
Stage 3			
31.12.2019	-	13	**13**
01.01.2019	-	5	**5**
Changes amount	-	8	**8**
Changes %	-		
TOTAL 31.12.2019	**68,987**	**25,888**	**94,875**
TOTAL 01.01.2019	**57,280**	**14,183**	**71,463**
Changes amount	**11,707**	**11,705**	**23,412**
Changes %	**20.4**	**82.5**	**32.8**

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

Customer financial assets

(millions of euro)

	31.12.2019	% breakdown	01.01.2019	% breakdown	Changes amount	Changes %
Direct deposits from banking business	425,512	44.3	415,082	45.5	10,430	2.5
Direct deposits from insurance business and technical reserves	165,838	17.3	149,358	16.4	16,480	11.0
Indirect customer deposits	534,349	55.6	495,810	54.4	38,539	7.8
Netting (a)	-165,022	-17.2	-148,553	-16.3	16,469	11.1
Customer financial assets	**960,677**	**100.0**	**911,697**	**100.0**	**48,980**	**5.4**

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

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

At 31 December 2019, customer financial assets reached 961 billion euro (+5.4%), showing significant growth across all components since the beginning of the year: indirect customer deposits increased by 38.5 billion euro, direct deposits from insurance business and technical reserves by 16.5 billion euro and direct deposits from banking business by 10.4 billion euro.

Direct deposits from banking business

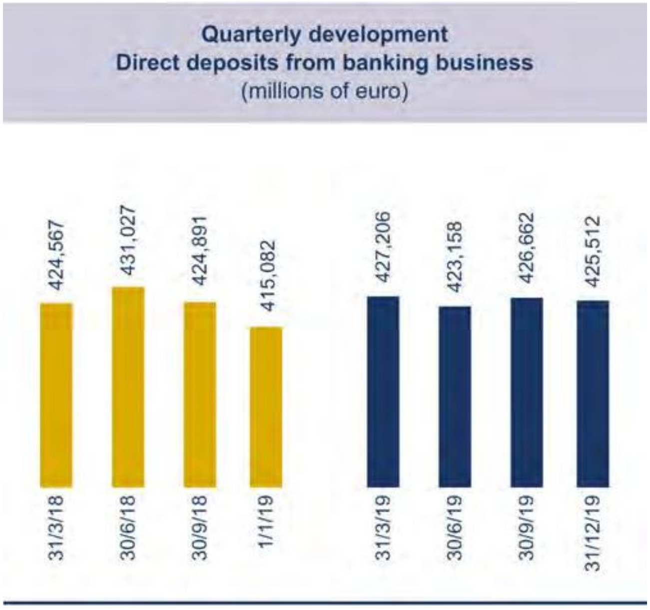
The table below sets out amounts due to customers, securities issued, including those designated at fair value and certificates, which represent an alternative form of funding to bonds.

(millions of euro)

	31.12.2019	% breakdown	01.01.2019	% breakdown	Changes amount	Changes %
Current accounts and deposits	316,810	74.4	290,587	70.0	26,223	9.0
Repurchase agreements and securities lending	4,505	1.1	24,105	5.8	-19,600	-81.3
Bonds	65,485	15.4	62,312	15.0	3,173	5.1
Certificates of deposit	4,574	1.1	5,151	1.2	-577	-11.2
Subordinated liabilities	9,308	2.2	10,782	2.6	-1,474	-13.7
Other deposits	24,830	5.8	22,145	5.4	2,685	12.1
of which designated at fair value (*)	*10,934*	*2.6*	*9,122*	*2.2*	*1,812*	*19.9*
Direct deposits from banking business	**425,512**	**100.0**	**415,082**	**100.0**	**10,430**	**2.5**

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

(*) Figures included in the Balance sheet under Financial liabilities held for trading and Financial liabilities designated at fair value.

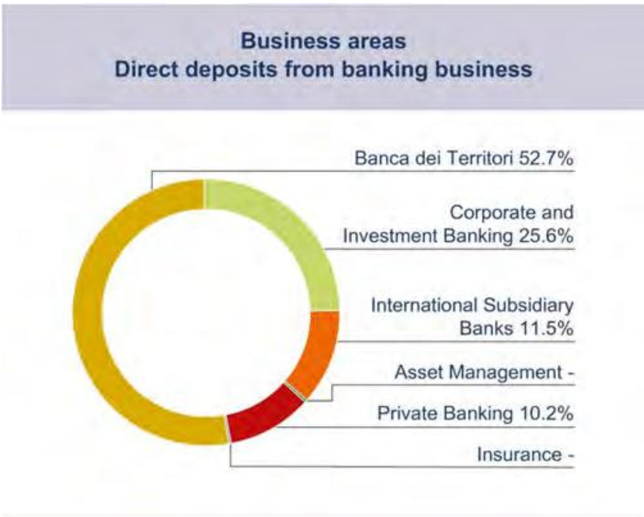


Direct deposits from banking business came to 426 billion euro, up by 2.5% on the beginning of the year.
Current accounts and deposits continued the positive performance seen throughout the year (+26.2 billion euro), given the propensity of customers to maintain a high level of liquidity. Bonds (+3.2 billion euro) and other funding (+2.7 billion euro) also grew due to the development of commercial papers and certificates measured at fair value, whereas there were declines in repurchase agreements and securities lending (-19.6 billion euro, largely attributable to institutional counterparties), subordinated liabilities (-1.5 billion euro) and certificates of deposit (-0.6 billion euro).
As at 31 December 2019, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.2%. As described above with reference to loans, this estimate is based on the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	31.12.2019	01.01.2019	Changes	
			amount	%
Banca dei Territori	199,256	190,960	8,296	4.3
Corporate and Investment Banking	96,550	102,449	-5,899	-5.8
International Subsidiary Banks	43,420	39,384	4,036	10.2
Private Banking	38,737	32,103	6,634	20.7
Asset Management	10	6	4	66.7
Insurance	-	-	-	-
Total business areas	**377,973**	**364,902**	**13,071**	**3.6**
Corporate Centre	47,539	50,180	-2,641	-5.3
Intesa Sanpaolo Group	**425,512**	**415,082**	**10,430**	**2.5**

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



In the analysis of deposits by business area, the Banca dei Territori Division, which accounts for 53% of the aggregate of the Group's business areas, increased by 8.3 billion euro year-to-date (+4.3%), due to the growth in amounts due to customers, principally owing to the effect of the greater liquidity in deposits by retail customers. The Corporate and Investment Banking Division declined by 5.9 billion euro (-5.8%) due to the decrease in repurchase agreements, only partly offset by the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI. The progress achieved by the International Subsidiary Banks Division (+4 billion euro, or +10.2%) is mainly attributable to the performance of the subsidiaries operating in Slovakia, Egypt, Serbia and Croatia. The Private Banking Division reported growth of 6.6 billion euro (+20.7%), primarily concentrated in customer current account deposits. The decrease in the Corporate Centre's funding was due in particular to the decline in repurchase agreements with central counterparties.

Indirect customer deposits

(millions of euro)

	31.12.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds [(a)]	122,998	23.0	115,288	23.3	7,710	6.7
Open-ended pension funds and individual pension plans	10,327	1.9	8,871	1.8	1,456	16.4
Portfolio management [(b)]	56,484	10.6	52,652	10.6	3,832	7.3
Technical reserves and financial liabilities of the insurance business	151,990	28.5	140,332	28.3	11,658	8.3
Relations with institutional customers	16,199	3.0	13,451	2.7	2,748	20.4
Assets under management	**357,998**	**67.0**	**330,594**	**66.7**	**27,404**	**8.3**
Assets under administration and in custody	**176,351**	**33.0**	**165,216**	**33.3**	**11,135**	**6.7**
Indirect customer deposits	**534,349**	**100.0**	**495,810**	**100.0**	**38,539**	**7.8**

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

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

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

As at 31 December 2019, the Group's indirect customer deposits amounted to 534 billion euro, up by 7.8% compared with the beginning of the year, due to increases across all components, buoyed by favourable market conditions.
Assets under management, which account for two-thirds of the total aggregate, increased by 27.4 billion euro (+8.3%), mainly driven by technical reserves and insurance financial liabilities (+8.3%), mutual funds (+6.7%) and portfolio management schemes (+7.3%), products which benefited from the positive performance of funding and the revaluation of assets. During the year, the new life business of the life insurance companies of the Intesa Sanpaolo Group, including pension products, amounted to 17.7 billion euro.
Assets under administration and in custody increased by 11.1 billion euro (+6.7%), primarily due to third-party securities and products.

Net interbank position

The net interbank position as at 31 December 2019 stood at net debt of 56.1 billion euro, up compared to 1 January of the same year (net debt of 39.3 billion euro). Amounts due to banks, equal to 103 billion euro, include a 48.5-billion-euro exposure to the ECB, following participation in the TLTRO III refinancing operations and concurrent partial early repayment of TLTRO II refinancing operations.

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

(millions of euro)

Type of financial instruments	**Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39**			**Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39**	**TOTAL Financial assets pertaining to insurance companies measured pursuant to IAS 39**	**Financial liabilities pertaining to insurance companies measured pursuant to IAS 39 (*)**
	Financial assets held for trading and hedging derivatives	Financial assets designated at fair value	Financial assets available for sale			
Debt securities issued by Governments						
31.12.2019	120	4,107	57,981	-	**62,208**	X
01.01.2019	103	3,647	49,364	-	**53,114**	X
Changes amount	17	460	8,617	-	**9,094**	
Changes %	16.5	12.6	17.5	-	**17.1**	
Other debt securities						
31.12.2019	25	707	12,099	-	**12,831**	X
01.01.2019	26	666	12,940	-	**13,632**	X
Changes amount	-1	41	-841		**-801**	
Changes %	-3.8	6.2	-6.5		**-5.9**	
Equities						
31.12.2019	-	2,315	1,480	-	**3,795**	X
01.01.2019	-	1,678	979	-	**2,657**	X
Changes amount	-	637	501	-	**1,138**	
Changes %	-	38.0	51.2	-	**42.8**	
Quotas of UCI						
31.12.2019	165	76,620	11,819	-	**88,604**	X
01.01.2019	108	67,748	11,639	-	**79,495**	X
Changes amount	57	8,872	180	-	**9,109**	
Changes %	52.8	13.1	1.5	-	**11.5**	
Due from banks and loans to customers						
31.12.2019	-	516	-	612	**1,128**	X
01.01.2019	-	575	-	952	**1,527**	X
Changes amount	-	-59	-	-340	**-399**	
Changes %	-	-10.3	-	-35.7	**-26.1**	
Due to banks						
31.12.2019	X	X	X	X	X	-2 (**)
01.01.2019	X	X	X	X	X	-5 (**)
Changes amount						-3
Changes %						-60.0
Financial derivatives						
31.12.2019	248	-	-	-	**248**	-49 (***)
01.01.2019	72	-	-	-	**72**	-44 (***)
Changes amount	176	-	-	-	**176**	5
Changes %		-	-	-		11.4
Credit derivatives						
31.12.2019	-	-	-	-	**-**	- (***)
01.01.2019	1	-	-	-	**1**	- (***)
Changes amount	-1	-	-	-	**-1**	-
Changes %		-	-	-		-
TOTAL 31.12.2019	**558**	**84,265**	**83,379**	**612**	**168,814**	**-51**
TOTAL 01.01.2019	**310**	**74,314**	**74,922**	**952**	**150,498**	**-49**
Changes amount	**248**	**9,951**	**8,457**	**-340**	**18,316**	**2**
Changes %	**80.0**	**13.4**	**11.3**	**-35.7**	**12.2**	**4.1**

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

(*) This amount does not include "Financial liabilities of the insurance business designated at fair value" included in the table on direct deposits from insurance business.

(**) Value included in the Balance Sheet under “Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39".

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

Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39, summarised in the table above, amounted to 169 billion euro and 51 million euro, respectively. The increase in assets (+12.2%) – due to both the designated at fair value and available for sale portfolios – benefited from the appreciation of assets in portfolio driven by market performance.

Direct deposits from insurance business and technical reserves

(millions of euro)

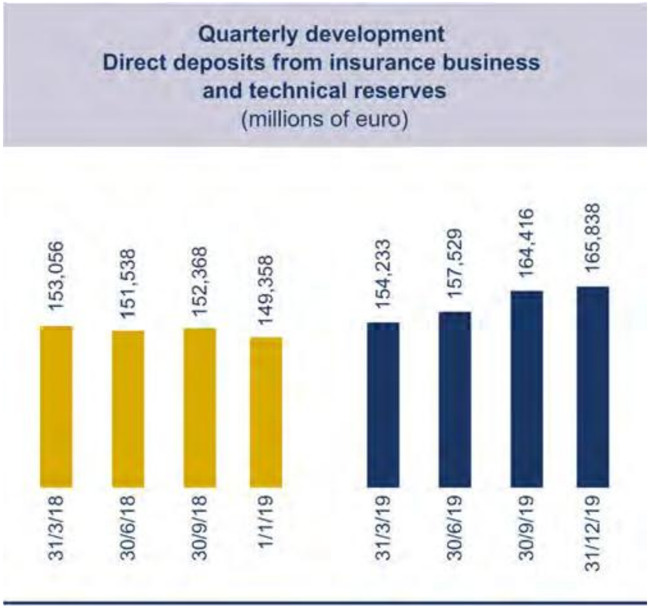
	31.12.2019		01.01.2019		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value IAS39 (*)	**75,886**	**45.7**	**67,756**	**45.4**	**8,130**	**12.0**
Index-linked products	-	-	-	-	-	-
Unit-linked products	*75,886*	*45.7*	*67,756*	*45.4*	*8,130*	*12.0*
Technical reserves	**89,136**	**53.8**	**80,797**	**54.1**	**8,339**	**10.3**
Life business	88,169	53.2	80,009	53.6	8,160	10.2
Mathematical reserves	*75,092*	*45.3*	*71,569*	*47.9*	*3,523*	*4.9*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,960*	*4.2*	*6,093*	*4.1*	*867*	*14.2*
Other reserves	*6,117*	*3.7*	*2,347*	*1.6*	*3,770*	
Non-life business	967	0.6	788	0.5	179	22.7
Other insurance deposits (***)	**816**	**0.5**	**805**	**0.5**	**11**	**1.4**
Direct deposits from insurance business and technical reserves	**165,838**	**100.0**	**149,358**	**100.0**	**16,480**	**11.0**

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

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

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

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



Direct deposits from insurance business came to 166 billion euro at 31 December 2019, up 11% year-on-year. Financial liabilities measured at fair value, consisting of unit-linked products, increased by 8.1 billion euro (+12%). Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded an increase of 8.3 billion euro (+10.3%), mainly attributable to the life business, which accounts for almost all reserves and was positively affected by the appreciation of customer assets in portfolio.

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

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 31 December 2019, assets held for sale amounted to 494 million euro, or 453 million euro net of the associated liabilities.
The caption includes the residual so-called “high-risk” loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation for a net exposure of 148 million euro.

SHAREHOLDERS’ EQUITY

As at 31 December 2019, the Group’s shareholders’ equity, including the net income for the period, came to 55,968 million euro compared to the 54,024 million euro at the beginning of the year. The increase in shareholders’ equity was essentially due to the net income for the period of 4.2 billion euro and the increase in valuation reserves of 1.3 billion euro, net of the distribution of the 2018 net income of 3.4 billion euro.

Valuation reserves

(millions of euro)

	Reserve 01.01.2019	Change of the period	Reserve 31.12.2019
Financial assets designated at fair value through other comprehensive income (debt instruments)	-489	546	57
Financial assets designated at fair value through other comprehensive income (equities)	189	-17	172
Property and equipment	1,256	270	1,526
Cash flow hedges	-816	-66	-882
Foreign exchange differences	-1,011	55	-956
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-	-
Actuarial profits (losses) on defined benefit pension plans	-375	-35	-410
Portion of the valuation reserves connected with investments carried at equity	25	3	28
Legally-required revaluations	308	-	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-913**	**756**	**-157**
Valuation reserves pertaining to insurance companies	**9**	**495**	**504**

Valuation reserves increased by 756 million euro in the banking component and by 495 million euro in the insurance component, essentially due to the performance of the spread on Italian government bonds, which entailed an increase in the value of the assets in portfolio.

Reconciliation of the Parent Company’s shareholders’ equity and net income (loss) with consolidated shareholders’ equity and net income (loss)

(millions of euro)

	Shareholders’ equity	of which Net income (loss) as at 31.12.2019
Parent Company’s balances as at 31 December 2019	**45,272**	**2,137**
Effect of consolidation of subsidiaries subject to control	4,698	5,642
Effect of valuation at equity of companies subject to joint control and other significant equity investments	152	61
Elimination of adjustments to equity investments and recognition of impairment of goodwill	5,776	-75
Dividends collected during the period	-	-3,587
Other	70	4
Consolidated balances as at 31 December 2019	**55,968**	**4,182**

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	31.12.2019		31.12.2018
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	IFRS9 "Transitional"
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	38,952	41,542	37,241
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,096	4,096	4,856
TIER 1 CAPITAL	**43,048**	**45,638**	**42,097**
Tier 2 capital net of regulatory adjustments	7,905	7,057	6,781
TOTAL OWN FUNDS	**50,953**	**52,695**	**48,878**
Risk-weighted assets			
Credit and counterparty risks	260,173	258,187	237,237
Market and settlement risk	18,829	18,829	21,147
Operational risks	21,212	21,212	17,671
Other specific risks (a)	296	296	391
RISK-WEIGHTED ASSETS	**300,510**	**298,524**	**276,446**
% Capital ratios			
Common Equity Tier 1 capital ratio	13.0%	13.9%	13.5%
Tier 1 capital ratio	14.3%	15.3%	15.2%
Total capital ratio	17.0%	17.7%	17.7%

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

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2019 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.
The regulations governing own funds, which provided for the gradual introduction of the Basel 3 framework, are now in full effect, following the conclusion in 2018 of the specific transitional period during which some elements to be fully included in or deducted from Common Equity when the framework is “fully loaded” only had a partial percent impact on Common Equity Tier 1 capital. Specific transitional provisions (i.e. grandfathering) remain in place for subordinated instruments that do not meet the Basel 3 requirements, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (ending in 2022).
The Intesa Sanpaolo Group chose to take the "static approach" to adopting IFRS 9 envisaged in Regulation (EU) 2017/2395. This approach permits the re-inclusion in Common Equity of a gradually decreasing amount, ending in 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022), of the impact of IFRS 9, calculated net of the tax effect, based on the comparison of the IAS 39 adjustments as at 31 December 2017 and the IFRS 9 adjustments as at 1 January 2018, excluding the reclassification of financial instruments, and after eliminating the shortfall as at 31 December 2017.
Regulation (EU) 2017/2395 also lays down the reporting obligations that entities are required to publish, while charging the EBA with issuing specific guidelines on this subject. In implementation of the Regulation, the EBA issued specific guidelines according to which banks that adopt a transitional treatment of the impact of IFRS 9 (such as the static approach mentioned above) are required to publish, with quarterly frequency, the fully loaded consolidated figures (as if the transitional treatment had not been applied) and the transitional consolidated figures for Common Equity Tier 1 (CET1) capital, Tier 1 capital, total capital, total risk-weighted assets, capital ratios and the leverage ratio.
As at 31 December 2019, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 52,695 million euro, against risk-weighted assets of 298,524 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. As at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 50,953 million euro, compared to risk-weighted assets of 300,510 million euro. Own funds calculated considering the full impact of IFRS 9 (i.e., on a “fully-loaded” basis) take account of the provisions of the 2019 Budget Act calling for the adjustments upon first-time adoption of the Standard to be applied in instalments for tax purposes, with the recognition of the resulting DTAs. These DTAs have been considered at 15% of their book value for the purposes of calculating transitional own funds, in accordance with Article 473bis of the CRR with regard to the application of the static approach, whereas they have been fully included among deductible elements in fully-loaded own funds. The impact of such DTAs on fully-loaded own funds is nonetheless temporary since they will be phased out by 2028.
Common Equity Tier 1 capital includes the net income for the year, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments and allocation to charity).
Common Equity Tier 1 Capital and risk-weighted assets as at 31 December 2019 take account of the impact of the application of the “Danish Compromise” (Art. 49.1 of Regulation (EU) No 575/2013), as per the specific authorisation received from the ECB, according to which insurance investments are treated as risk-weighted assets instead of being deducted from capital.
The increase in risk-weighted assets during the period relating to credit risk includes, in addition to the effects of the aforementioned “Danish Compromise”, the impact of the first-time adoption of IFRS 16, the standard on leases, which

entailed an increase in on-balance sheet assets due to the recognition of the right of use to leased assets, together with the results of the TRIM (Targeted Review of Internal Models) conducted by the ECB.
On the basis of the foregoing, solvency ratios as at 31 December 2019, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity Tier 1 ratio of 13.9%, a Tier 1 ratio of 15.3% and a total capital ratio of 17.7%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 December 2019 were as follows: a Common Equity ratio of 13.0%, a Tier 1 ratio of 14.3% and a Total capital ratio of 17.0%.
Finally, it should be noted that on 26 November 2019 Intesa Sanpaolo disclosed that it had received the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 January 2020, following the results of the Supervisory Review and Evaluation Process (SREP). The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 9.18% under the transitional arrangements for 2020 and 9.38% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.12.2019	31.12.2018
Group Shareholders' equity	55,968	54,024
Minority interests	247	407
Shareholders' equity as per the Balance Sheet	**56,215**	**54,431**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,091	-4,121
- Minority interests eligible for inclusion in AT1	-5	-4
- Minority interests eligible for inclusion in T2	-3	-4
- Ineligible minority interests on full phase-in	-204	-372
- Ineligible net income for the period (a)	-3,451	-3,534
- Treasury shares included under regulatory adjustments	230	204
- Other ineligible components on full phase-in	-171	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,520**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-6,978**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**41,542**	**37,241**

(a) Common Equity Tier 1 capital includes the net income for the year, less the related dividend and other foreseeable charges (accrued coupon on Additional Tier 1 instruments and allocation to charitable activities).

(b) Adjustments for the transitional period as at 31 December 2019 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (85% in 2019) set to decrease progressively until 2022.
The change compared to 31 December 2018 is substantially attributable to the effects of the application from the third quarter 2019 of the so-called Danish Compromise, which entails risk-weighting the insurance investment instead of deducting it.

Performance of risk-weighted assets

(millions of euro)

Risk-weighted assets as at 31.12.2018	**276,446**
Credit risk	20,950
Market and settlement risk	-2,318
Operational risks	3,541
Other specific risks	-95
Risk-weighted assets as at 31.12.2019	**298,524**

In 2019, credit risk-weighted assets increased by approximately 21 billion euro. The increase, primarily due to the introduction of the Danish Compromise[4], several other regulatory and methodological adjustments[5] and greater lending operations, was only partially offset by risk mitigation measures and the reduction in defaulted loans, also due to new securitisation transactions.

Risk-weighted assets for market risk decreased by around 2.3 billion euro, favoured by the easing and greater stability of the financial markets, which provided benefits to both exposures in the financial sectors and sovereign exposures in the portfolio.

The increase in operational risks (+3.5 billion euro) was mainly due to the changes made to the AMA model in compliance with Delegated Regulation (EU) 2018/959[6].

[4] ECB authorisation (pursuant to Article 49 of Regulation (EU) 575/2013) – obtained by Intesa Sanpaolo with effect from the report as at 30 September 2019 -, by virtue of which insurance investments are treated as risk-weighted assets instead of being deducted from capital.

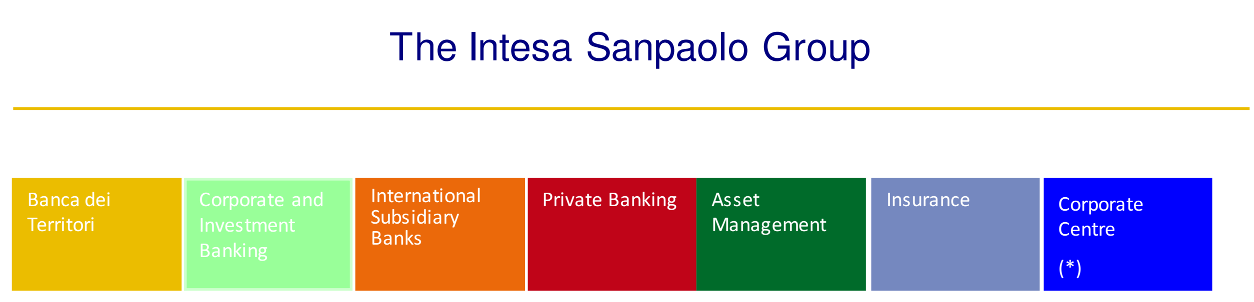
[5] Application of the add-on to the LGD parameter of performing Corporate SME segments (following the TRIM inspection by the ECB) and of IFRS 16 regarding the rights-of-use of leased assets.

[6] Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk.

Breakdown of consolidated results by business area and geographical area

Breakdown of consolidated results by business area and geographical area

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



(*) Includes the Group's Treasury and the NPE Head Office Department (former Capital Light Bank)

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

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in 2019.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the 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 (Circular 285) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary and if they are material. In particular, following the merger by incorporation of Mediocredito into the Parent Company in November 2019, its results, which were previously fully included in the Banca dei Territori Division, were assigned to the various business units and partially reallocated to the Corporate and Investment Banking Division, and the comparative figures restated accordingly.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
2019	8,473	4,162	1,998	1,971	840	1,132	-493	18,083
2018	8,825	3,915	1,988	1,874	716	1,106	-611	17,813
% change	-4.0	6.3	0.5	5.2	17.3	2.4	-19.3	1.5
Operating costs								
2019	-5,034	-1,088	-991	-613	-157	-204	-1,203	-9,290
2018	-5,311	-1,085	-975	-593	-150	-187	-1,186	-9,487
% change	-5.2	0.3	1.6	3.4	4.7	9.1	1.4	-2.1
Operating margin								
2019	3,439	3,074	1,007	1,358	683	928	-1,696	8,793
2018	3,514	2,830	1,013	1,281	566	919	-1,797	8,326
% change	-2.1	8.6	-0.6	6.0	20.7	1.0	-5.6	5.6
Net income (loss)								
2019	1,551	1,932	723	919	518	661	-2,122	4,182
2018	1,256	1,902	676	848	454	648	-1,734	4,050
% change	23.5	1.6	7.0	8.4	14.1	2.0	22.4	3.3
Loans to customers								
31.12.2019	186,354	131,543	34,038	9,329	435	-	33,530	395,229
01.01.2019	196,093	124,232	31,538	9,530	228	-	31,929	393,550
% change	-5.0	5.9	7.9	-2.1	90.8	-	5.0	0.4
Direct deposits from banking business								
31.12.2019	199,256	96,550	43,420	38,737	10	-	47,539	425,512
01.01.2019	190,960	102,449	39,384	32,103	6	-	50,180	415,082
% change	4.3	-5.8	10.2	20.7	66.7	-	-5.3	2.5
Risk-weighted assets								
31.12.2019	83,251	100,085	32,916	9,184	1,446	-	71,642	298,524
31.12.2018	87,751	94,540	32,698	7,670	963	-	52,824	276,446
% change	-5.1	5.9	0.7	19.7	50.2	-	35.6	8.0
Absorbed capital								
31.12.2019	7,701	9,262	3,644	904	151	4,258	6,626	32,546
31.12.2018	8,117	8,748	3,630	755	103	3,874	6,360	31,587
% change	-5.1	5.9	0.4	19.7	46.6	9.9	4.2	3.0

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

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	2019	2018	changes amount	changes %
Net interest income	4,187	4,437	-250	-5.6
Net fee and commission income	4,212	4,314	-102	-2.4
Income from insurance business	2	1	1	
Profits (Losses) on financial assets and liabilities designated at fair value	72	74	-2	-2.7
Other operating income (expenses)	-	-1	-1	
Operating income	**8,473**	**8,825**	**-352**	**-4.0**
Personnel expenses	-3,135	-3,276	-141	-4.3
Other administrative expenses	-1,890	-2,027	-137	-6.8
Adjustments to property, equipment and intangible assets	-9	-8	1	12.5
Operating costs	**-5,034**	**-5,311**	**-277**	**-5.2**
Operating margin	**3,439**	**3,514**	**-75**	**-2.1**
Net adjustments to loans	-1,016	-1,405	-389	-27.7
Other net provisions and net impairment losses on other assets	-111	-71	40	56.3
Other income (expenses)	111	-	111	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**2,423**	**2,038**	**385**	**18.9**
Taxes on income	-848	-766	82	10.7
Charges (net of tax) for integration and exit incentives	-23	-14	9	64.3
Effect of purchase price allocation (net of tax)	-1	-2	-1	-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	-	-	-	-
Net income (loss)	**1,551**	**1,256**	**295**	**23.5**

(millions of euro)

	31.12.2019	01.01.2019	changes amount	changes %
Loans to customers	186,354	196,093	-9,739	-5.0
Direct deposits from banking business	199,256	190,960	8,296	4.3
	31.12.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	83,251	87,751	-4,500	-5.1
Absorbed capital	7,701	8,117	-416	-5.1

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

Banca dei Territori's operating income was 8,473 million euro in 2019, amounting to approximately half of the Group's consolidated operating income, down 4% on the previous year. In detail, net interest income was down (-5.6%) due to the lower contribution from loan volumes, particularly in the short-term category, and from the hedging of core deposits. Net fee and commission income was down by 2.4%, attributable to the assets under management and bancassurance segments, which recovered in the second half of the year. This trend was only partially offset by the higher placements of third-party bonds and certificates and assets under administration.

Among the other revenue components, which however provide a marginal contribution to the Division's income, financial assets and liabilities designated at fair value declined by 2.7%. Operating costs, equal to 5,034 million euro, were down significantly (-5.2%) thanks to the savings in administrative expenses, mainly due to lower service costs in the real estate and operations sectors, also in relation to the rationalisation of the branch network, and in personnel expenses, attributable to the reduction in the average workforce. As a result of the changes described above, the operating margin amounted to 3,439 million euro, down 2.1% on 2018. In contrast, gross income, amounting to 2,423 million euro, was up 18.9% due to lower adjustments to loans and other income. After allocation to the Division of taxes of 848 million euro, charges for integration of 23 million euro and the effects of purchase price allocation for 1 million euro, net income came to 1,551 million euro, up 23.5%.
In quarterly terms, there was a decrease in the operating margin compared with the third quarter of 2019 attributable to the natural increase in operating costs typical of year-end and the decline in revenues. Net income improved, benefiting from lower adjustments to loans and the contribution of other income.

The balance sheet figures at the end of 2019 showed substantial stability in overall intermediated volumes of loans and deposits from the beginning of the year (-0.4%), as a result of the various changes in loans and deposits. More specifically, loans to customers, amounting to 186,354 million euro, decreased by 9.7 billion euro (-5%) due to the decrease in the both short- and medium-/long-term components, especially to businesses. Direct deposits from banking business, amounting to 199,256 million euro, were up (+8.3 billion euro, or +4.3%) in the amounts due to customers component, mainly due to the higher liquidity on deposits held by individuals.

Business	Traditional lending and deposit collection operations in Italy and associated financial services.
Mission	To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through: – widespread local coverage; – focus on the characteristics of local markets, and the needs of customer segments serviced; – development of service levels to customers using different channels in order to improve the efficiency of the commercial offering; – development and management of products and services for the target customers, as well as of leasing, factoring and subsidised finance products for the Group in Italy; – the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres and branches as points of reference for the Group at local level;
Organisational structure	
Individuals and Retail Companies Sales & Marketing, SME Sales & Marketing	Overseeing the Retail sector, which consists of the segments Individuals (families and other individuals with financial assets of up to 100,000 euro) and Retail Companies (businesses with less complex requirements), the Personal area (individual customers with financial assets of between 100,000 euro and 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less).
Banca 5	A “proximity bank”, linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Impact Department	Aimed at developing the initiatives of Impact Bank and serving non-profit organisations.
Distribution structure	Approximately 3,500 branches, including Retail and Business branches, distributed broadly throughout Italy, and Impact branches dedicated to the non-profit sector. The territorial structure is divided into 8 Regional Governance Centres, in each of which there are (to favour the commercial focus and guarantee a better control of the service level) three Commercial Managers, specialized for "commercial territory" (Retail, Personnel and Business), which report directly to the Regional Director and that coordinate around 400 commercial areas.

As part of the programme set out in the Business Plan to simplify the Group structure by gradually reducing the number of legal entities, the following were incorporated into Intesa Sanpaolo during the year: Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna and Cassa di Risparmio di Pistoia e della Lucchesia from 25 February 2019, Banca Apulia and Banca Prossima from 27 May 2019 and Mediocredito Italiano from 11 November 2019. The accounting and tax effects of all transactions indicated above began on 1 January 2019.

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

Investment and Pension Funds

The diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the Recommended Portfolios. The offer of investment products was extended by the launch of three themed funds ("Eurizon Equity Planet", "Eurizon Equity People" and "Eurizon Equity Innovation"), which invest in the megatrends of the future according to an ESG ("Environmental, Social and Governance") approach, "Eurizon Selection Credit Bonds" and the closed-end fund "Eurizon Italian Fund", in addition to the marketing of 98 new placement windows and 9 fixed-term funds. The range of portfolio management schemes was rationalised through the launch of "Eurizon GP Collection" and the restyling of "Eurizon GP Dedicata", reserved for customers of the paid advisory service "Valore Insieme". The insurance policies launched included the class I policies "Obiettivo Sicurezza$_{\text{Insurance}}$", subject to a ceiling and with a guarantee of invested capital, "Sicuro & Dedicato", reserved to customers that held the "Orizzonte7Anni" policy, which expired on 31 December 2018, and "Polizza Riservata", intended for non-profit organisations served by the Impact Department, the multi-line policy "Infondi Stabilità Plus$_{\text{Insurance}}$", and the unit-linked policy "Doppio Centro$_{\text{Insurance}}$". "Base Sicura Tutelati" and "Penso a Te" were restyled, together with the gradual entry fund "Sviluppo nel Tempo 45" within "Prospettiva 2.0". Finally, 47 certificates issued by Banca IMI and five bonds of third-party issuers were offered for placement. With regard to pension funds, the fund "Il Mio Domani" was updated to include three new ESG benchmark sub-funds alongside those previously existing.

Transactional products

The new Intesa Sanpaolo debit card "XME Card Plus", in addition to normal ATM cash withdrawal and digital payment functions, enables contactless purchases and account balance verification at all times; by combining the Italian domestic BANCOMAT® and PagoBANCOMAT® networks and the international MasterCard or Visa networks in a single card, it ensures acceptance in Italy, internationally and online. Young people were the focus of financial education and inclusion initiatives tied to "XME Dindi", a digital piggy-back intended to be given to children to keep their first savings and that may be used to verify, on the digital display, the achievement of the objectives set using "XME Salvadanaio" or as a traditional piggy-bank into which to deposit coins.

Loans

"PerTe Prestito Diretto", the special-purpose loan for multi-channel current account holders, was further developed through new agreements signed with merchants of goods or services, in order to offer customers an ever-increasing range of products and services, at 0% APR and Annual Effective Global Rate, thanks to contributions from merchants.
"XME SpensieRata", which may be subscribed directly by app, is a new financing solution up to 2,500 euro that can be used to pay expenses, including those of modest amounts, starting at 200 euro, in instalments over a short-term period of three to 48 months; it provides access to a credit line to be used periodically, by taking out individual loans, while choosing the term of repayment and amount of the instalments according to current needs.

Mortgages

The comprehensive, flexible range of mortgage loans for private individuals covers all aspects of customers' "home ownership dreams and needs" with innovative products such as the possibility of obtaining a mortgage for up to 100% of the value of the property. In April, that option was extended to all customers, irrespective of their age, in line with the changed socio-economic context, in which many customers cannot put together an appropriate amount of money for the down payment, and have to postpone their purchase. The innovative range, which also features the "Mutuo in Tasca" service – suited to those who wish to purchase a home but have not yet found a property – was expanded by the partnership with Mutuiamo, a member of the Immobiliare.it group, which through its real-estate listings site promotes a proposal characterised by free loan approval valid for six months, short approval times and the option to benefit from an advance of up to 10%.

Protection

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

Young people

"Per Merito" is the new loan targeted to students resident in Italy who intend to continue their education beyond a high school diploma by attending undergraduate or master's degree programmes offered by universities or other post-secondary educational institutions. No personal or family guarantees are required, since Intesa Sanpaolo provides guarantees for students with the Impact Fund, overcoming the individual guarantee requirement of single universities. The product provides a credit line for up to five years, differentiated based on whether the student is resident in the university's municipality and by type of studies, with higher amounts for study abroad or master's degree programmes, and the possibility to repay the loan using a personal loan of up to 30 years.
The range of customers that can take advantage of the beneficial conditions dedicated to young people was expanded with effect from the beginning of March, through the increase in the age limit to sign up for XME Conto to 35.

As part of its “Processes for transversal skills and orientation”, designed to eliminate the divide between schools and businesses and promote knowledge of the working world among young students in the final three years of secondary school programmes, the Bank has renewed its “Z Lab” training project, which offers a range of laboratory activities, active learning and trial experiences at the bank. In partnership with Generation Italy, the Bank also launched the Giovani e Lavoro programme, to offer free, targeted training. In addition, in 2019 the Bank returned as main sponsor to X-Factor and the Festival dei Giovani and as sponsor to Milan Games Week and Lucca Comics&Games, while also continuing its marketing initiatives in collaboration with Panini.

Intesa Sanpaolo Casa

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

Multichannel Project

Multichannel and digital activity underwent further development, bringing the number of total multichannel customers to 9.2 million at year-end, customers who connected to digital channels at least once to 6 million and active users of the app to 5.5 million. In addition, 5.7 million customers have activated O-Key Smart or O-Key SMS, the new access systems that are simpler and more secure than a physical key, in accordance with the European PSD2 directive on payment services in the internal market.

Almost all the products in the retail catalogue, including current accounts, payment cards, personal loans and non-banking products as well, such as smartphones, tablets and PCs, can be purchased via Internet Banking and/or the Mobile App.

In 2019, the Bank further improved its positioning as Italy’s number-one digital bank, with a particular focus on mobile technology and the expansion of sales channels according to a “mobile-first” approach (e.g., remote offerings via mobile devices and self-service processes via mobile devices), in order to increase digital sales.

The Intesa Sanpaolo Mobile app continued to build on its traits of simplicity and security of access to services, combined with ease and deep flexibility of use, by improving scanning functions used to pay payment slips and F24 tax forms by simply taking a picture, adding new payment functions, implementing personal finance management functions and launching new self-service and remote offering sales functions. The Intesa Sanpaolo app line also saw an update to the Investo app and improvement to the loyalty programme with the launch of the new dedicated Reward app.

In addition, systems for dematerializing credit cards, prepaid cards and debit cards using the Intesa Sanpaolo international network on mobile devices running Android and iOS as their operating systems were expanded by adding these solutions to PAyGO.

The digital payments system grew, bringing the number of active XME Pay accounts to 700,000. This digital portfolio, offered by Intesa Sanpaolo through its Intesa Sanpaolo Mobile app, offers various proximity payment methods at eligible stores. Merchants were also involved, owing to the new XME COMMERCE app used to accept proximity payments, intended for business customers, which through a connection to the mobile POS terminal can also be used to collect payments made by card. Commerce Web, the virtual POS terminal that can be integrated into e-commerce sites, is available for the acceptance of both traditional and alternative online payments. In addition, Commerce, the new portal for managing all aspects of the acquiring business, was released.

The Online Branch network continued to grow in terms of size, geographical coverage and activity, effectively integrating the various contact channels (telephone calls, emails, chats, video chats and social networks), to meet the needs of customers that are increasingly interested in the digital world: around 1,000 Managers in 18 Branches offer customers operational and commercial support. The Online Branch network is an actual sales channel, due to its remote offerings, which allow customers to “remotely enter into contracts”, supplementing the offerings at the physical branches. Moreover, the Remote Manager service, with 141 active positions at year-end, offers free, personalised remote advisory services, available during extended hours, in cooperation with the network, for dedicated support, operations and product subscription.

Agreements

The Intesa Sanpaolo Group confirmed its adoption of the new Agreement for Credit, taking effect in January 2019 and valid up to 31 December 2020, signed by the Italian Banking Association and the main trade associations. With the “Recovering Companies 2.0” initiative, following in the footsteps of the Recovering Companies initiative under the previous 2015 agreement, it once again offers the possibility for SMEs "in good standing" to suspend principal payments on their loans for a maximum of twelve months and extend the repayment plans of their mortgage loans and due dates of their short-term loans and credit for farm activities.

Intesa Sanpaolo signed new agreements with trade associations (Confindustria Piccola Industria, Confcommercio, Assolombarda, Confagricoltura, Federlegno Arredo, Confartigianato Imprese Marca Trevigiana, Confartigianato Imprese Udine, Federazione Italiana Pubblici Esercizi and Confederazione Nazionale dell’Artigianato e della piccola e media impresa), which provide targeted support to the member companies and their customers, dedicated in particular to competitiveness and digital transformation.

Renewing its cooperation with the European Investment Bank (EIB), Intesa Sanpaolo signed a new agreement to provide new resources to support Italian midcap companies and SMEs, in cooperation with the EIB, with a specific focus on investments in projects linked to the circular economy, with a total limit of 1 billion euro. As part of the agreements with the EIB Group, operations with the EIF regarding the Innovfin guarantee continued, and a new agreement was signed to provide a 50% guarantee to support companies that invest in Climate Change projects, with a limit of 280 million euro.

Alongside a restyling of the “Finanziamento al Condominio” product, extending its term up to ten years in line with the tax relief measures and offering greater flexibility, Intesa Sanpaolo reached agreements with the main utility companies (A2A Energy Solutions, Enel X and Tep Energy Solutions) and with Anaci, a trade association for condominium administrators, to promote energy redevelopment and efficiency enhancement projects, dramatically reduce the environmental impact of the heating of residential buildings and spread a culture of environmental sustainability, safety and optimal development of properties in Italy.

Internationalisation

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

Loans

In relation to the measures contained in the 2019 Budget Act and the "Decreto Crescita" regarding tax incentives for investments in new operating assets required for technological upgrading (Super-depreciation, Hyper-depreciation, Tax credit for 4.0 training expenses, Intangible Capital Fund), Intesa Sanpaolo proposes solutions to support business growth during the fourth stage of the industrial revolution, which involve, in addition to specialist support, medium/long-term loans, with various possible combinations available, which ensure financial support to businesses' investment plans.
For companies registered in the specific register of "innovative start-ups", supplementing the commercial offering dedicated to this segment, "Convertibile Impresa" is now available to support their growth processes. This is a medium/long-term loan to support innovation, backed by the Direct Guarantee from the Guarantee Fund for SMEs pursuant to Italian Law 662/96, granting the Bank the right, on the occurrence of a specific trigger event, to convert the credit into an equity investment in the company.
To favour access to sources other than bank borrowing, the Bond product is offered to Italian SMEs. Bond issuance enables companies to improve their reputations in the eyes of the banking and financial system and to position themselves as innovative users of new forms of financing, while also benefiting from the capital made available by institutional market participants that is not otherwise accessible.
As part of the partnership with Elite, the London Stock Exchange Group's international platform, created at Borsa Italiana in collaboration with Confindustria, the Group launched three lounges over the year, through its Corporate Finance structure, to accelerate company growth through customised training programmes and services to trigger cultural and organisational changes.
The new "Offerte Impresa Plus" – integrated product solutions offered by the Bank – include the modular offers "Dipendenti Plus", "Copertura dei Rischi Plus" and "Digitalizzazione Plus", designed to meet certain needs of corporate customers, with possible dedicated discounts for customers who activate at least one product in the range, in addition to the sector-specific offers "Sistema Casa Plus", "Sistema Salute Plus", "Sistema Meccanica Plus" and "Sistema Persona Plus", which contain the most distinctive products and services offered by the Group for the specific needs of the company's macro-production chain.

Development of production chains

The "Programma Filiere", an innovative form of credit launched by Intesa Sanpaolo in 2015, aimed at favouring access to credit for suppliers by taking advantage of their role in the production chain, exceeded 680 participating lead companies at year-end, of which 320 participating in Confirming, a tool that can be used to finance receivables claimed by suppliers from lead companies, with a potential of over 15,600 suppliers.

Intesa Sanpaolo Forvalue

Intesa Sanpaolo Forvalue, specialising in non-financial services by providing high value added services to SMEs that intend to capture new market opportunities, has been operational since February, through the Simple Rent brand, in the market of rental of operating assets, in partnership with Euroconsult Rental Division. With long-term rental, customers move from owning specific assets to using them, by paying a fully deductible rental fee, and are able to obtain the newest, most technologically up-to-date products. The Simple Rent brand also entails the offering of cars and commercial vehicles available to retail companies and business.
Intesa Sanpaolo Forvalue offers Club Forvalue, a platform that supports entrepreneurs by offering information, training, innovation and personalised consultancy services, allowing club members to access the Tech-Marketplace digital platform, which promotes interaction between start-ups, SMEs and large enterprises, in addition to participation in events regarding themes of interest to businesses, dedicated exclusively to members.

New service model

To strengthen the role of Intesa Sanpaolo as the leading bank for the Italian business system by diversifying the customer service methods and structuring the offering based on businesses' various needs, the development of the Service Model for the Businesses area, aimed at ensuring better identification of customers, developing a more effective, distinctive offering and providing higher quality and more expert service to customers has been launched since the end of January 2019. In line with the new service model, the new layout of business branches was released, according to the criteria that have ensured the success of the formula for the retail segment since the end of 2015. At the end of 2019 the new branch model was present at nine Corporate Branches.

Leveraging of the Branch Network

As part of the Bank's efforts to consolidate the role played by branches as meeting places for the real economy, as spaces with a focus on relationships for market players in search of ways to showcase themselves and communication opportunities, leveraging of the physical network continued, with commercial partners being given access to physical spaces in which to promote and sell their products and services on a temporary and ongoing basis, by targeting promotional messages at selected customers. In 2019 major international and Italian players (Samsung, Enel, Iren, Fastweb, Gigaset, Marriott Vacation Club, Massari and Ammu) took advantage of the service, telling their success stories at events dedicated to the Bank's customers.

Banca 5

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
During the year, Intesa Sanpaolo, through Banca 5, and Sisal Group, through SisalPay, signed an agreement to set up a NewCo, which will permit the offering of banking products and payment and transactional services at over 50,000 merchants located throughout the entire country. The contribution transaction for the business unit of Banca 5 to the NewCo took place on 13 December 2019. The new network has been operational since the beginning of 2020 and adds to the offering of products and services of Banca 5 and SisalPay.
At the date of the contribution, there were approximately 18,400 non-captive customer points of sale spread throughout Italy and approximately 25,500 retail customers using the Banca 5 app, for a total of 45,300 cards sold and 2,430 active payment accounts. Thanks to the “Smart POS” offering, launched during the year, 549 non-captive points of sale were acquired, further extending the network’s coverage.

Impact Department

The Impact Department is the department of Banca dei Territori dedicated to managing non-profit customers and coordinating the activation and management of Social Impact Funds. At the end of February 2019, the first social impact financing action was launched: “Per Merito”, a loan without collateral for university students resident in Italy (1,057 disbursements at the end of 2019). On 27 May, by way of merger by incorporation, Banca Prossima was incorporated into the Impact Department, as an Operational Coordination structure for the Non-Profit Sector, with 83 local branches and 226 specialists distributed throughout Italy.
During the year, the bank continued acquiring new customers, with around 65,800 customers at the end of December. Financial assets amounted to 5.8 billion euro, of which 4.1 billion euro in direct deposits, while lending operations presented an approved amount of 3.0 billion euro (of which 2.1 billion euro had been used).
The commercial plan called for over 20 initiatives to develop relationships with non-profit organisations and better meet their needs, such as the relationship initiative to reassure customers in the transition to Intesa Sanpaolo, the advance against the 5x1000 donations, loans for the payment of 13th-month salary and activities relating to the entry into force of PSD2. During the year, preliminary activities were completed for the marketing of the new EIB funding totalling 50 million euro and work was done on formulating the project for welcoming the non-profit customers served by the other departments of Banca dei Territori, involving an expansion of the network from 26 to 45 branches. Lastly, the process of integrating the Terzo Valore portal into For Funding was completed, enabling the posting of new crowdfunding projects. Finally, several important agreements were signed with non-profit institutions, such as the agreement with Carisbo for the creation of the guarantee fund in support of integration into the workplace of the unemployed and the agreement with Consulta delle Fondazioni di Istituto di Credito Marchigiano to expand access to credit for the Marche region’s non-profit organisations.

Corporate and Investment Banking

(millions of euro)

Income statement	2019	2018	changes amount	changes %
Net interest income	1,899	1,773	126	7.1
Net fee and commission income	1,029	1,077	-48	-4.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,232	1,050	182	17.3
Other operating income (expenses)	2	15	-13	-86.7
Operating income	**4,162**	**3,915**	**247**	**6.3**
Personnel expenses	-435	-427	8	1.9
Other administrative expenses	-623	-628	-5	-0.8
Adjustments to property, equipment and intangible assets	-30	-30	-	-
Operating costs	**-1,088**	**-1,085**	**3**	**0.3**
Operating margin	**3,074**	**2,830**	**244**	**8.6**
Net adjustments to loans	-211	-146	65	44.5
Other net provisions and net impairment losses on other assets	-41	-7	34	
Other income (expenses)	3	2	1	50.0
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**2,825**	**2,679**	**146**	**5.4**
Taxes on income	-888	-769	119	15.5
Charges (net of tax) for integration and exit incentives	-5	-8	-3	-37.5
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	1,932	1,902	30	1.6

(millions of euro)

	31.12.2019	01.01.2019	changes amount	changes %
Loans to customers	131,543	124,232	7,311	5.9
Direct deposits from banking business (a)	96,550	102,449	-5,899	-5.8
	31.12.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	100,085	94,540	5,545	5.9
Absorbed capital	9,262	8,748	514	5.9

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

(a) The item includes certificates.

In 2019, the **Corporate and Investment Banking Division** recorded operating income of 4,162 million euro (representing approximately one-fourth of the Group's consolidated total), up 6.3% on the previous year.
In detail, net interest income of 1,899 million euro was up (+7.1%). The increase was attributable to the Global Market segment, driven by the strong performance of the securities portfolio. In contrast, net fee and commission income, amounting to 1.029 million euro, fell by 4.5%, mainly due to the performance of the commercial banking segment. Profits on financial assets and liabilities designated at fair value, amounting to 1,232 million euro, was the revenue caption with the highest increase compared to 2018: +182 million euro, or +17.3%, despite the absence of the positive effect of 264 million euro in the previous year resulting from the fair value measurement and subsequent sale of the investment in NTV. Operating costs amounted to 1,088 million euro, essentially stable with respect to 2018 (+0.3%). As a result of the above revenue and cost trends, the operating margin rose by 8.6% to 3,074 million euro. Gross income, amounting to 2,825 million euro, was up 5.4%, despite higher net adjustments to loans and other assets. Lastly, net income came to 1,932 million euro (+1.6%).
In the fourth quarter of 2019, the Corporate and Investment Banking Division recorded a decrease in operating margin compared to the third quarter, due to the seasonal nature of operating costs typical of year-end and the decrease in revenues. The same trend recurred at the level of gross income and net income.

The Division's intermediated volumes increased slightly compared to the beginning of the year (+0.6%). In detail, loans to customers, amounting to 131,543 million euro, grew by 7.3 billion euro (+5.9%), mainly due to medium- and long-term structured finance business. Direct deposits from banking business amounted to 96,550 million euro, down by 5.9 billion euro (-5.8%) due to the decrease in repurchase agreements, only partly offset by the increase in securities issued, specifically those of the Irish and Luxembourg subsidiaries and financial institutions, and the growth in certificates of Banca IMI.

Business

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

Mission

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

Organisational structure

Global Corporate Department

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

International Department

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

Financial Institutions Department

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

Global Transaction Banking Department

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

Proprietary Trading

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

Global Markets and Investment Banking & Structured Finance

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

Distribution structure

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

Global Corporate Department

In 2019, the Global Corporate Department confirmed its role as strategic and financial partner to its Italian and international customers, supporting them by organising and participating in a number of financing and investment banking transactions in cooperation with Banca IMI. The specialised expertise developed with the Industry model and the origination capacity were strengthened with two specialised teams dedicated to developing strategic investment banking and structured finance transactions. Furthermore, support continued to be provided to important international counterparties with a view to sector and geographical diversification.
The Group participated in numerous syndicated loans, including those to Mondelez, Carlsberg, Nestle, Cargill, CK Hutchison Group, Telecom Finance, Carnival, Carrefour, American Movil, FCA, EGA, BASF, Walgreens, Volkswagen Financial Services, Global Power Generation (Gruppo Naturgy), CNH, General Motors, LVMH, CEPSA, Coca-Cola, Terna, Iberdrola, Prysmian, Merlin Properties, Taqa, Mubadala and Acciona. Some of the transactions were conducted as part of the Originate to Share framework. Significant support was also provided to Fincantieri through a bilateral loan. Mention should also be made of the role played by Intesa Sanpaolo and Banca IMI as lenders and investors in Progetto Italia, a project promoted by Salini Impregilo.
Various green and circular economy transactions were concluded, included the largest green loan in the world in the transport sector with Italo, the related ESG-linked hedging agreement, a transaction with Maire Tecnimont, and, on the international market, loans for Thames Water and Schwarz Group and a green loan transaction with Tauron. Attention should also be drawn to support for acquisition financing in important transactions completed during the year both in Europe and in the rest of the world: the acquisition by Haier Group of Candy, by Brookfield of Healthscope, by Engie of the Brazilian gas transport infrastructure TAG, by ENI of Var Energi, by Bracco of Blue Earth Diagnostics and by MSC of a stake in Terminal Investment Limited. The refinancing of Geely (relating to the acquisition of Volvo), of Grandi Stazioni Retail and that of the Techgen Group were finalised. The Bank also acted as lender for project financing transactions, including those of Pulse Partners Finance PTY, NRT, Ventient Energy, Ortigia Power 51, Metro 5, Società di Progetto Brebemi, Tangenziale Esterna, Milano Serravalle – Milano Tangenziali, NextEnergy and HES International. In M&A business, the Group acted as financial advisor in the acquisition of Gelit by Progressio Sgr, Consilium Sgr and MMM and in the acquisition of Renovalia by EF Solare.
In debt capital markets operations, the Bank acted as global coordinator and joint bookrunner in the issue of Società di Progetto Brebemi and as joint bookrunner in numerous issues, including Danaher, CK Group Telecom, EssilorLuxottica, Toyota, FCA Bank, Abertis, TIM, General Motors, Thyssenkrupp, Saint-Gobain, Unibail-Rodamco, Deutsche Bahn, Vinci, LVMH, Telefonica, Coca-cola, IGT, Eutelsat, Air Liquide, Acea, EDF and Gazprom. As regards the ESG business, the Bank was joint bookrunner in the green bond issues by Enel, Terna, Ferrovie dello Stato, Covivio, Iren and ERG, in the climate action bond issued by Snam and in the SDG-linked bond issued by Enel. Finally, the Bank was joint bookrunner and sole-rating advisor in the Acquirente Unico/OCSIT issue, sole-lead manager in the Campari and EP Infrastructure euro private placements and sole-placement agent in the two US private placements by Ferrero. In equity capital markets business, the Bank acted as advisor in the listing of Prosus and joint bookrunner in the capital increase of Cellnex.
Commercial development actions are under way with a view to maximising synergies on the Group's mix of products and services, both in Italy and abroad. The initiatives include a constant focus on development of domestic and international confirming.

International Department

In 2019, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets, specifically on the Australian market in view of the upcoming transformation of the current representative office of Sydney into a corporate branch and in the United Arab Emirates, thanks to the significant increase in the endowment capital of the Abu Dhabi branch, approved last April. As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling, including the launch of new product desks for selected European branches and new initiatives to further develop business customer operations of Banca dei Territori on the international network. In that context, the Accelerate programme was also launched, with the goal of boosting business with international customers, as part of the International Growth strategic initiative. In June a partnership was formed with Rubicon Capital Advisors to jointly develop investment banking business opportunities within the infrastructure and energy markets and to strengthen the Group's origination and distribution platform.
At the London and Hong Kong hubs, considerable progress was made in innovation activities, through events designed to support enterprises in the various phases of business growth, by providing support to Italian start-ups in the value proposition and networking with potential investors and also including environmental sustainability themes, with a focus on the circular economy and corporate social responsibility. The International Department contributed to the organisation of two important events for the promotion of Special Economic Zones in Southern Italy with the international investment community, held in Dubai in April and in Beijing in October.
The Division's current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and 4 corporate banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa - Russia).

Financial Institutions Department

In 2019, the Financial Institutions Department, in synergy with Banca IMI, continued to assist its customers in particularly complex and strategically important corporate and investment banking deals. In the domestic and international banking sectors, the Group provided advice and financing in the restructuring and sale of problematic assets, performed structuring in transactions to optimise capital structure and acted as global coordinator in IPOs, as joint bookrunner in senior and subordinated debt issues and as advisor in extraordinary finance transactions. These included its role as joint bookrunner in the senior bond issues in euro by Wells Fargo and Toronto Dominion, in a Tier 2 bond issue by LBBW and a covered bond issue by Santander.
For the Group, 2019 was a particularly positive year for business with non-bank financial institutions customers. On the one hand, the Group consolidated its leadership position in Italy on the securitisation market, with regard to both financing (Dynamica, Vivibanca) and placement (Brignole for Creditis, Sunrise for Agos) transactions, on the primary bond market, with the five-year Farmafactoring and Azimut bonds, and on the real-estate financing market with the loan granted to Bain to acquire Immobiliare Stampa and participation in a pool for the refinancing of the transactions by Coima SGR involving Porta Nuova. On the other hand, the Group significantly increased its position in international deals. Mention should be made, in particular, of participation in three financing transactions for loan portfolios in Spain, involving two non-performing portfolios (with Cerberus and Lone Star) and a performing one (with Gedesco), and the first transaction involving a mixed performing / non-performing portfolio finalised in Ireland (Cerberus). Business in the government segment remained robust, with the 30-year issue for the Ministry of the Economy and Finance, social and retail bonds for CDP and the recent BTP Italia placements. Also noteworthy were the financing provided to Do Bank in support of the acquisition of Altamira in Spain, the participation in the commitment line for LSEG in support of the acquisition of Refinitiv and the renewal of the financing for the Algebris fund. In business with emerging market banks, there was an increase in transactions with Qatar and the Emirates and, in the second half of 2019, a slight recovery of activity in Brazil and Turkey, where the financial and economic situation is being constantly monitored. Support for exporter customers was constant in 2019 with an increase in flows towards Russia, North Africa and Asia, and towards Egypt, India, Pakistan and Bangladesh more specifically. Also worthy of note is the very active role played by the Group in commodity financing and export financing transactions, both in countries where the Group has traditionally been present (Kazakhstan, Egypt and Russia – with the financing for the Amur GPP project being particularly relevant in this latter country), and in Central Africa and Asia, where a strategy of progressive growth has been in progress for some time. In Central Africa, the Group participated in pre-financing transactions for Ghana National Petroleum Corporation and Ghana Cocoa Board, whereas in Asia it participated in the financing for Shandong Wonfull Petrochemical Group and an acquirer credit transaction for the MSC group, backed by a guarantee from Sinosure. The supply chain financing and receivables discounting sector continued to grow. In this sector, the Group participates, both directly and through third-party platforms, in discount programmes for numerous US and European customers, including Dell, Keurig, Lenovo, Anheuser-Busch, AT&T, Hewlett Packard, Virgin Media and Vodafone. In private equity and sovereign wealth funds, the Group participated in an increasing number of transactions of significant size, in particular on foreign markets, which were the object of a specific commercial effort. Mention should be made, in Italy, of the transactions by Apollo targeting Gamenet and the bond issue by Evoca (Lone Star), and, at the international level, of the acquisition of Inmarsat by a consortium composed of Apax, Warburg Pincus, CPPIB and Ontario Teachers, the acquisition of Merlin Entertainment by Blackstone, Kirby and CPPIB, and the acquisition of Areas by PAI Partners. Also at the international level, efforts to target the sovereign wealth funds segment continued, with the arrival of dedicated local teams in London and Dubai, and transactions such as the financing for the Saudi Public Investment Fund and Softbank Vision Fund. In addition, the volume of direct lending to leading Italian and international private equity funds increased, with participation in several of the most important capital call lines on the European market.

Global Transaction Banking Department

In 2019, the Global Transaction Banking Department launched the new Inbiz digital portal for all corporate customers and released the new Client Journey dedicated to company treasury and exportation management for SMEs and corporate customers, ensuring a simple, innovative customer experience. The regulatory deadlines imposed by the PSD2 Directive, which required that all corporate and individual customers transition to strong customer authentication by mid-September, were met. Becoming a member of the CBI Globe gateway made it possible to ensure access to the regulatory APIs required by the regulations by third parties. Leadership was consolidated in acquiring in Italy, internationally and in certain business verticals (for example, transit), as well as in clearing services in Italy and internationally. The newly formed commercial trading vehicle company (Exetra) commenced operation.

Proprietary Trading

In 2019, Proprietary Trading made a slightly negative contribution to the income statement, in terms of income margins, while marking an improvement on 2018.
The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 3,794 million euro at the end of 2019, recording an increase of 1,776 million euro. The exposure includes investments in ABSs (asset-backed securities) of 2,339 million euro, in CLOs (collateralised loan obligations) of 1,379 million euro and in CDOs (collateralised debt obligations) of 76 million euro. The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and disposals of the portfolio, mainly referring to positions which at the time were affected by the financial crisis, on the other hand.
The hedge fund portfolio as at 31 December 2019 amounted to 115 million euro in the trading book and 194 million euro in the banking book, compared to 146 million euro and 88 million euro respectively in December 2018. During the year, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of

the total exposure. In the banking portfolio, the largest investments were partially offset by the disposals undertaken during the year. Overall, the strategy for the portfolio remained substantially prudent.
For further details regarding structured credit product business and the hedge fund portfolio, refer to the specific disclosures provided in Part E of the Notes.

Global Markets and Investment Banking & Structured Finance

In 2019, Banca IMI faced international financial markets characterised, on the one hand, by an accommodating stance by the world's foremost central banks, and, on the other, by fluctuating economic data in a highly uncertain political and commercial environment. For the Global Market Securities area, fixed income and equity products benefited – particularly in the second half of the year – from a general appetite for risk on the part of investors, resulting in an increase in trading and market making flows. This was also reflected in a period of intense issuance on primary bond and equity markets. The ETF segment continued to enjoy robust growth, whereas the forex segment was affected by low volatility. Lastly, a partnership was formed with the Azimut Group, thanks to the integrated offer of execution and post trading services, enabled by collaboration between Market Hub and the Global Transaction Banking Department. The securitisations undertaken by the Global Market Solutions area consolidated Banca IMI's leadership role in regulatory capital optimisation transactions. The Bank further developed its financing activities for investors specialising in non-performing loans in international jurisdictions. Banca IMI also assisted various Italian financial institutions and the Group itself in non-performing loan deleveraging transactions for significant portfolios of UTP (unlikely-to-pay) positions. In derivatives and secured lending business, various transactions were undertaken in support of the liquidity profile or borrowing costs. The Finance & Investments Area based its operations on the expectations of weak growth in the main global economies and the easing of global financial conditions. The desk ensured that liquidity positions were managed prudently to optimise net interest income and was responsible for counterparty risk pricing in support of OTC derivatives business. Collateralised netting sets continued to be optimised to minimise capital and liquidity absorption and the own investment activity conducted resulted in an increase in the exposure in securities in the HTCS and HTC portfolios. In the equity capital markets, Banca IMI maintained its customary coverage of the Italian market, playing leading roles in the IPO by Nexi, Europe's largest IPO of 2019; in international business, it acted as joint bookrunner in the Cellnex capital increase, one of the largest capital increases of the year on the EMEA market.
In the debt capital markets, Banca IMI strengthened its position among European and international corporate issuers, with growth in volumes considerably greater than the market average. Banca IMI consolidated its position on the domestic market, bringing it to a top position among competitors in terms of volumes placed. In the investment grade corporate segment, Banca IMI stood out for its role as bookrunner for major Italian and international issuers, handling, among others, the Green, SDG, Hybrid and Schuldschein issues, private placements and retail bonds. In the financial institutions segment, Banca IMI participated in issues of senior unsecured bonds, covered bonds, senior preferred bonds, retail bonds, green bonds and ABSs for the main Italian and international issuers. It also acted as global coordinator, joint bookrunner and lender for Società di Progetto Brebemi in the refinancing transaction implemented through new bank debt and a bond issue on the capital market. The Bank continued to occupy a position of undisputed leadership in business with Italian public sector issuers. In M&A Advisory, Banca IMI held significant roles in the industrial sector, working with the Mastrotto family on the sale a 70% interest in Rino Mastrotto Group, in the infrastructure sector, with F2i on the acquisition of an interest in Aeroporto Friuli Venezia Giulia, in the financial institution sector, with Fondazione di Sardegna on the sale of assets to BPER, in the energy sector, with the Macquarie fund on the sale to Engie of Renvico and in the consumer & retail sector as part of the acquisition of Gelit. In structured finance, origination activity was intense in 2019 with the aim of structuring financing transactions alongside key players, conducted according to a geographical diversification and originate-to-share approach, while maintaining a selective orientation with regard to new business opportunities, especially in terms of economic return. On the Italian and international markets, a full range of financial products was offered, various transactions were closed and considerable development activity was carried out to identify new opportunities to be concluded in the first half of 2020.
Through the BdT Corporate Finance desk, Banca IMI held significant roles with customers of the sales network in structured finance transactions for T. Mariotti, Retelit and Tinexta, in M&A advisory transactions, including the sale of the controlling interest in Amutec to Ambienta SGR and the sale of the controlling interest in Cad.it to Cedacri, and in equity capital markets deals, such as the listing of Sanlorenzo on the STAR segment and of Pattern on AIM Italia.

International Subsidiary Banks

(millions of euro)

Income statement	2019	2018	changes amount	changes %
Net interest income	1,370	1,322	48	3.6
Net fee and commission income	537	524	13	2.5
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	124	172	-48	-27.9
Other operating income (expenses)	-33	-30	3	10.0
Operating income	**1,998**	**1,988**	**10**	**0.5**
Personnel expenses	-540	-532	8	1.5
Other administrative expenses	-346	-332	14	4.2
Adjustments to property, equipment and intangible assets	-105	-111	-6	-5.4
Operating costs	**-991**	**-975**	**16**	**1.6**
Operating margin	**1,007**	**1,013**	**-6**	**-0.6**
Net adjustments to loans	-77	-121	-44	-36.4
Other net provisions and net impairment losses on other assets	5	-47	52	
Other income (expenses)	9	10	-1	-10.0
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**944**	**855**	**89**	**10.4**
Taxes on income	-181	-146	35	24.0
Charges (net of tax) for integration and exit incentives	-40	-35	5	14.3
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	-	-2	-2	
Minority interests	-	4	-4	
Net income (loss)	**723**	**676**	**47**	**7.0**

(millions of euro)

	31.12.2019	01.01.2019	changes amount	changes %
Loans to customers	34,038	31,538	2,500	7.9
Direct deposits from banking business	43,420	39,384	4,036	10.2
	31.12.2019	**31.12.2018**	**changes amount**	**%**
Risk-weighted assets	32,916	32,698	218	0.7
Absorbed capital	3,644	3,630	14	0.4

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

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

The figures presented above and commented on below include the non-performing assets of CIB Bank (FUT) and the figures for Pravex Bank (both previously under the scope of the NPE Department, i.e. the former Capital Light Bank), as well as the Bucharest branch (former Venetian Banks), included in Intesa Sanpaolo Bank Romania, Veneto Banka Sh.A. (Albania) and Veneto Banka d.d. (Croatia), the latter two merged by incorporation during 2018, and the Moldovan bank Eximbank.

In 2019, the Division's operating income came to 1,998 million euro, up slightly (+0.5%) compared to the previous year (-1.3% at constant exchange rates). A detailed analysis shows that net interest income came to 1,370 million euro (+3.6%), mainly due to the performance reported by Bank of Alexandria (+50 million euro) and CIB Bank (+16 million euro). Net fee and commission income, equal to 537 million euro, was up (+2.5%), mainly due to Banca Intesa Beograd (+5 million euro), PBZ – including Intesa Sanpaolo Bank (Slovenia) and Intesa Sanpaolo Banka Bosna i Hercegovina (+4 million euro) – and CIB (+2 million euro). Among the other revenue components, profits (losses) on financial assets and liabilities designated at fair value, amounting to 124 million euro, decreased significantly (-27.9%) compared to the previous year when they had benefited from

the gain realised by VUB Banka on the sale of securities, while other operating costs, which were marginal in amount, increased by 3 million euro.
Operating costs of 991 million euro increased on 2018 (+1.6%; +0.2% at constant exchange rates) due to the growth of administrative and personnel expenses, only partly offset by lesser depreciation of property and equipment and amortisation of intangible assets.
As a result of the above revenue and cost trends, the operating margin decreased slightly (-0.6%) to 1,007 million euro. By contrast, gross income, equal to 944 million euro, grew by 10.4% due to lower adjustments to loans and to other assets. The Division closed 2019 with net income of 723 million euro (+7%).
In the fourth quarter of 2019, the operating margin decreased on the third quarter due to the increase in operating costs typical of year-end, not sufficiently offset by the increase in revenues. Gross income and net income were adversely impacted by the increase in adjustments to loans.

The Division's intermediated volumes grew compared to the beginning of the year (+9.2%) owing to the significant increase in loans to customers (+7.9%) and direct deposits from banking business (+10.2%), in both amounts due to customers and securities issued. Lending performance was mainly attributable to greater loans disbursed by the subsidiaries operating in Slovakia, Egypt, Hungary and Serbia, whereas funding performance was attributable to the subsidiaries operating in Slovakia, Egypt, Serbia and Croatia.

In 2019, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.
With the aim of reinforcing and optimising the international subsidiary banks' presence in their territories of reference, the implementation of the action plan for development of the Slovenian bank continued and the integration of the bank in Bosnia was completed, within the framework of the South-Eastern Europe Hub (Croatia, Bosnia and Slovenia). With regard to the Central Europe Hub (Slovakia, Czech Republic and Hungary), a new governance model was formulated, the gradual alignment of the operating model and the strengthening of commercial synergies in the retail and corporate areas are under way and a strategic partnership between Slovakia-Czech Republic and Hungary was formalised. Lastly, integration activities have been completed in Moldova, while refocus activities are under way in Ukraine.
In sales, the extension of the advisory model for investment services to the entire sales network has been completed in Croatia and is under way in Slovenia, while the pilot phase has been completed in Slovakia and Hungary and the extension has also been launched in these countries. With regard to the service model, in 2019 the programme for the adoption of the target distribution model of the Group in Slovakia, Croatia, Serbia, Hungary, Slovenia and Romania continued (107 branches have already been converted). Moreover, preparatory activities have been launched to extend the model to Albania and Bosnia.
In information technology, the target core banking system was adopted at the Serbian bank, implementation is under way in the Czech Republic and analysis has begun in Slovakia; the transfer of the Hungarian bank's data centre and the CRM system for the corporate and SMEs segment in Slovakia was completed.
With regard to digital services, functionalities began to be expanded in Croatia, Hungary, Egypt and Albania in 2019. In addition, digital services were adopted in Slovenia, while the analysis is still being completed in Romania and the feasibility study is being launched in Slovakia.
Finally, in wealth management in China, as already reported, a mutual fund distribution licence and business permit were obtained for the company YiTsai, the preliminary steps leading up to the launch of the business were finalised and the target operating model was consolidated, whereas authorisation was obtained from the ECB/Bank of Italy for the formation of the securities company.

Business	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.
Mission	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division.
Organisational structure	
South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary.
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, Ukraine and Moldova.
Distribution structure	995 branches in 12 countries.

South-Eastern Europe

In 2019, the operating income of the **Privredna Banka Zagreb** group (including Veneto Banka d.d.) amounted to 510 million euro, up on 2018 (+2%), owing to the favourable performance net profits (losses) on financial assets and liabilities designated at fair value. Operating costs of 197 million euro decreased (-5%), due to the decreasing trends in personnel expenses and amortisation and depreciation. The operating margin came to 313 million euro (+6.9%). Gross income amounted to 265 million euro (+6.2%), benefiting in part from the lower adjustments to loans; net income was 198 million euro (-3.1%).

Banca Intesa Beograd, including Intesa Leasing Beograd, reported an operating margin of 167 million euro, up 4.8% on 2018. Operating income increased by 3.8%, primarily due to the performance of fee and commission income and other net operating income. Operating costs increased slightly (+2.1%) compared with the previous year. Gross income amounted to 143 million euro (+8.7%), while net income was 106 million euro (+5.1%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed 2019 with an operating margin of 24 million euro, up on the previous year (+7.9%). This performance is attributable to the increase in operating income, in the presence of substantial stability in operating costs. Gross income, amounting to 21 million euro, declined by 4.5%, while net income came to 17 million euro (-5.5%).

Intesa Sanpaolo Bank Albania (including Veneto Banka Sh.A.) reported an operating margin of 20 million euro, a significant increase on 2018 (+48.4%), due to the growth in revenues and the decrease in operating costs. Gross income, amounting to 20 million euro, and net income (14 million euro) were higher than the previous year.

Intesa Sanpaolo Bank Romania reported an operating margin of 17 million euro, up on the previous year (+48.5%), due to the increase in operating income (+6.6%), mainly attributable to higher interest income, and lower costs (-7.8%). The company ended 2019 with net income of 12 million euro compared with 1 million euro in 2018.

Central-Eastern Europe

Intesa Sanpaolo Bank Slovenia reported an operating income of 74 million euro, down by 3.9% on 2018 due to the decline in profits on financial assets and liabilities designated at fair value, which offset the increase in all other revenue items. Operating costs increased (+3.5%) on the previous year. Gross income, amounting to 32 million euro, grew by 79.6%, benefiting in particular from the decrease in net adjustments to loans, while net income more than doubled, amounting to 24 million euro.

The **VUB Banka** Group reported an operating margin of 235 million euro, down on 2018 (-21.8%) as a result of a decrease in operating income (-14%) against a decrease in operating costs (-3.8%). Gross income amounted to 196 million euro, down by 18.8%. Net income came to 120 million euro (-25.1%).

The **CIB Bank** Group recorded operating income of 169 million euro, up by 1.4% on 2018, due to the positive performance of net interest income. Operating costs decreased (-2.6%), especially administrative expenses. Net income came to 41 million euro, down 4.4% on 2018, mainly due to greater net adjustments to loans.

Commonwealth of Independent States & South Mediterranean

Pravex reported a negative operating margin (-4.2 million euro), compared with -3.2 million euro in 2018, as a result of the increase in operating costs (+13.3%), specifically of personnel expenses, against higher operating income (+9.6%) attributable to the positive performance by net interest income. The net loss, amounting to -3.9 million euro, was substantially stable compared to 2018.

Bank of Alexandria, which benefited from the revaluation of the Egyptian pound, reported an operating margin of 213 million euro, up by 13.1% on the previous year (+1.5% at constant exchange rates). Operating income of 352 million euro increased (+18.7%, +6.5% at constant exchange rates), primarily due to the positive performance of net interest income. Operating costs rose (+28.5%; +15.3% at constant exchange rates) across all expense captions. Net income came to 170 million euro, up by 39.5% on 2018 (+25.2% at constant exchange rates).

Private Banking

(millions of euro)

Income statement	2019	2018	changes amount	%
Net interest income	177	155	22	14.2
Net fee and commission income	1,746	1,696	50	2.9
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	42	14	28	
Other operating income (expenses)	6	9	-3	-33.3
Operating income	**1,971**	**1,874**	**97**	**5.2**
Personnel expenses	-358	-349	9	2.6
Other administrative expenses	-199	-198	1	0.5
Adjustments to property, equipment and intangible assets	-56	-46	10	21.7
Operating costs	**-613**	**-593**	**20**	**3.4**
Operating margin	**1,358**	**1,281**	**77**	**6.0**
Net adjustments to loans	-2	5	-7	
Other net provisions and net impairment losses on other assets	-30	-13	17	
Other income (expenses)	9	10	-1	-10.0
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**1,335**	**1,283**	**52**	**4.1**
Taxes on income	-394	-404	-10	-2.5
Charges (net of tax) for integration and exit incentives	-21	-30	-9	-30.0
Effect of purchase price allocation (net of tax)	-2	-1	1	
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	1	-	1	-
Net income (loss)	**919**	**848**	**71**	**8.4**

(millions of euro)

	31.12.2019	01.01.2019	changes amount	%
Assets under management [(1)]	122,660	111,955	10,705	9.6

	31.12.2019	31.12.2018	changes amount	%
Risk-weighted assets	9,184	7,670	1,514	19.7
Absorbed capital	904	755	149	19.7

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

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

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

In 2019, the Division generated gross income of 1,335 million euro, up (+52 million euro, or +4.1%) compared with 2018, due to the increase in operating income (+97 million euro), which more than offset higher operating costs (+20 million euro) and higher provisions (+17 million euro).
In detail, the performance of operating income was attributable to an increase in net fee and commission income (+50 million euro), net interest income (+22 million euro) and profits (losses) on financial assets and liabilities designated at fair value (+28 million euro). The increase in net fee and commission income was related to the placement of bonds and certificates and the sound performance of asset management products, whereas the performance of net interest income may be attributed to the increase in the average volumes invested in proprietary portfolios combined with securities portfolio turnover activity. Profits (Losses) on financial assets and liabilities designated at fair value benefited from the gains realised on debt securities in the proprietary portfolio. Operating costs increased (+3.4%) due to the rise in amortisation and depreciation, primarily of real-estate, and in personnel expenses, related to the greater weight of the variable components of remuneration. The increase in

provisions is primarily to be attributed to the component covering litigation and disputes. Lastly, net income amounted to 919 million euro (+71 million euro, or +8.4%).
In the fourth quarter of 2019, the Private Banking Division reported an acceleration of its income margins, essentially due to the concentration of fee and commission income tied to significant placements and the revaluation of assets under management at the end of the year.

The values of assets gathered have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.
As at 31 December 2019, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 203.5 billion euro (+23.8 billion euro compared to the beginning of the year). This trend was mainly due to the market performance, which had a favourable impact on assets and, to a lesser extent, to positive net inflows. The assets under management component amounted to 122.7 billion euro (+10.7 billion euro).

In the initial months of 2019, the integration of the Swiss companies of the Fideuram Intesa Sanpaolo Private Banking group was carried out through several non-recurring transactions, which resulted in the creation (with accounting and tax effects from 1 January 2019) of Intesa Sanpaolo Private Bank (Suisse) Morval, the new Swiss company that will steer the foreign development of the Division. On 1 August 2019, Intesa Sanpaolo Private Bank (Suisse) Morval opened a new branch in London, acquiring all the relationships and assets of the London branch of Intesa Sanpaolo Private Banking, which discontinued operation with effect from that same date.

Business	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
Mission	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
Organisational structure	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of 4,868 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 966 in-house private bankers.
Intesa Sanpaolo Private Bank (Suisse) Morval	Bank dedicated to developing international private customers, which operates through a group of companies specialising in wealth management and private banking.
SIREF Fiduciaria	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 230 branches in Italy, 4 branches abroad and 5,834 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	2019	2018	Changes amount	Changes %
Net interest income	1	-	1	-
Net fee and commission income	799	701	98	14.0
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	5	-10	15	
Other operating income (expenses)	35	25	10	40.0
Operating income	**840**	**716**	**124**	**17.3**
Personnel expenses	-81	-70	11	15.7
Other administrative expenses	-70	-75	-5	-6.7
Adjustments to property, equipment and intangible assets	-6	-5	1	20.0
Operating costs	**-157**	**-150**	**7**	**4.7**
Operating margin	**683**	**566**	**117**	**20.7**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-	2	-2	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**683**	**568**	**115**	**20.2**
Taxes on income	-165	-103	62	60.2
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	-	-11	-11	
Net income (loss)	**518**	**454**	**64**	**14.1**

(millions of euro)

	31.12.2019	01.01.2019	changes amount	changes %
Assets under management	265,813	242,609	23,204	9.6

	31.12.2019	31.12.2018	changes amount	changes %
Risk-weighted assets	1,446	963	483	50.2
Absorbed capital	151	103	48	46.6

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

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

Operating income in 2019, amounting to 840 million euro, increased by 17.3% compared to the previous year, mainly in relation to higher net fee and commission income, income on the fair value measurement of the financial portfolio and other operating income attributable to the contributions of subsidiaries consolidated at equity. Operating costs increased (+4.7%), mainly due to personnel expenses, correlated to incentives in support of the business, which outweighed the decrease in administrative expenses, thanks to the efficiency gains achieved on fund administration costs. As a result of the above revenue and cost trends, the operating margin came to 683 million euro, up (+20.7%) on the previous year. The Division closed 2019 with net income of 518 million euro (+14.1%).
At the quarterly level, the concentration of fee and commission income related to the robust performance of assets under management in the fourth quarter drove a significant improvement in the Division's income margins.

Overall, assets managed by the Asset Management Division amounted to 265.8 billion euro as at 31 December 2019, up 9.6% year-on-year, as a result of the contribution from net inflows and the revaluation of assets. The inflow performance was shaped by the significant contribution of institutional mandates (+6.9 billion euro), which include the contribution of the management mandates of Eurizon Capital Real Asset SGR (3.5 billion euro), a joint venture with Intesa Sanpaolo Vita that became operational on 31 December 2019. The net inflows attributable to institutional mandates, concentrated in insurance mandates in particular, amply offset the outflows from mutual funds (-1.5 billion euro) and retail and private portfolio management schemes (-1.3 billion euro).

As at 31 December 2019, Eurizon Capital's Italian market share of assets under management was 14.5% (gross of duplications), down since the beginning of the year. Excluding the closed-end funds segment, in which the company operates only through the equity fund "Eurizon Italian Fund - Eltif", marketed in the first quarter of 2019, the share of assets under management at the end of December rose to 14.9%. The reduction in the market share in 2019 was largely due to the acquisition by BancoPosta Fondi SGR of two new mandates for a total of 59 billion euro from entities belonging to the Poste Italiane group (Poste Italiane S.p.A. - Patrimonio BancoPosta and Poste Vita S.p.A.). The extraordinary transaction involving Poste Italiane, together with other changes in scope relating to certain international operators, resulted in a change to the Assogestioni reporting scope, giving rise to a reduction in the share attributable to the other operators. In Eurizon's case, this industry volume change had a negative impact on market share of approximately 60 basis points, which on a like-for-like basis therefore would be up since the beginning of the year.

With regard to significant corporate events, on 28 October 2019 Eurizon Capital SGR closed the acquisition of 12.5% of Oval Money Ltd, an Italian-English FinTech start-up that provides a series of financial services through an app designed and developed by the company. In addition, on 31 December 2019 Eurizon Capital Real Estate SGR, a joint venture between Eurizon Capital SGR (51%) and Intesa Sanpaolo Vita (49%) dedicated solely to the management of alternative investments, became operational.

Business	Asset management.
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon SGR	Specialised in active portfolio management on quantitative bases. It is a 100% subsidiary of Eurizon Capital SGR.
Eurizon Capital Real Asset SGR	Specialised in alternative investments. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Intesa Sanpaolo Vita.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Oval Money Ltd	An Italian-English FinTech finance start-up primarily active in the personal finance management services sector, in which Eurizon Capital SGR holds a 12.5% interest.
Penghua Fund Management Company Limited	Chinese fund manager 49%-owned by Eurizon Capital SGR.

Insurance

(millions of euro)

Income statement	2019	2018	Changes amount	Changes %
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	1,144	1,119	25	2.2
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-12	-13	-1	-7.7
Operating income	**1,132**	**1,106**	**26**	**2.4**
Personnel expenses	-90	-84	6	7.1
Other administrative expenses	-102	-95	7	7.4
Adjustments to property, equipment and intangible assets	-12	-8	4	50.0
Operating costs	**-204**	**-187**	**17**	**9.1**
Operating margin	**928**	**919**	**9**	**1.0**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-2	-5	-3	-60.0
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**926**	**914**	**12**	**1.3**
Taxes on income	-247	-245	2	0.8
Charges (net of tax) for integration and exit incentives	-2	-5	-3	-60
Effect of purchase price allocation (net of tax)	-16	-16	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**661**	**648**	**13**	**2.0**

(millions of euro)

	31.12.2019	01.01.2019	changes amount	changes %
Direct deposits from insurance business (1)	165,846	149,358	16,488	11.0
	31.12.2019	**31.12.2018**	**changes amount**	**changes %**
Risk-weighted assets	-	-	-	-
Absorbed capital	4,258	3,874	384	9.9

(1) Including the subordinated securities issued by the companies.

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

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

In 2019, the Division reported income from insurance business of 1,144 million euro, up by 25 million euro (+2.2%) on the previous year. The improved result – achieved despite the lower financial revenues realised on the life insurance portfolio compared to the previous year – was mainly attributable to components of a technical nature related to an improvement in commission income and growth in the non-life business.
Gross income amounted to 926 million euro, up by 12 million euro (+1.3%), due to the aforementioned increase in operating income, which more than offset the rise in operating costs (+9.1%), mostly attributable to initiatives related to the development of the non-life business, as envisaged in the strategic plan.
The cost/income ratio, at 18%, remained at excellent levels, with an increase on the figure reported for 2018.
Lastly, net income, after the attribution of taxes of 247 million euro, charges for integration of 2 million euro and the effects of purchase price allocation for 16 million euro, amounted to 661 million euro (+2%).

Direct deposits from insurance business, amounting to 165,846 million euro, were up compared to the beginning of the year (+11%, or +16.5 billion euro), due to the technical reserves and the financial liabilities measured at fair value.

The Division's collected premiums for life policies and pension products amounted to 17.9 billion euro, down 7% on the previous year, entirely due to the unit-linked segment, whose placement was affected by the uncertainty in the financial markets. Collected premiums for traditional (dedicated to certain specific customer clusters) and pension products increased by 10% and 7% respectively.

Collected premiums for the protection business totalled 672 million euro, up by around 33% on 2018. There was significant growth in non-motor products (excluding CPI), which are the focus of the 2018-2021 Business Plan, up by 102%.

On 19 December 2019, the Board of Directors of Intesa Sanpaolo and Intesa Sanpaolo Vita approved the acquisition of a controlling interest in RBM Assicurazione Salute, set to be closed by July 2020, subject to authorisation by AGCM (the Italian Competition Authority) and IVASS. This transaction is intended to significantly strengthen the Intesa Sanpaolo Group's domestic position in the high added-value "non-life, non-motor" segment, and in the health insurance field in particular.

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

Corporate Centre

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

The Corporate Centre Departments generated a gross loss of 2,543 million euro in 2019, compared to -2,015 million euro in the previous year. This result was mainly attributable to the lesser contribution of other income, which in 2018 included profits on disposal of equity investments and significant revaluations of qualified equity investments, largely attributable to the Intrum transaction (443 million euro). Operating margin, while still negative, improved by 101 million euro, essentially attributable to the net profit on financial assets and liabilities designated at fair value. This positive result was in fact only partially offset by increase in net interest expense – primarily to be attributed to the absence of the time value effect and contractual interest on bad loans following the deleveraging undertaken at the end of 2018 within the framework of the aforementioned Intrum transaction – and the slight increase in operating costs. These operating costs are reported net of the amount charged back to the business units for the performance of the services, governed by specific agreements. The period ended with a net loss of 2,122 million euro, lower than the -1,734 million euro recorded in 2018. The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. These charges, essentially consisting of contributions to resolution funds, amounted to 360 million euro, after tax, down from 378 million euro in the previous year.

Treasury services

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

Throughout 2019 Intesa Sanpaolo confirmed its systemic role as a critical participant in the ECB's settlement systems, maintaining stable market shares on the Target2 (cash) platform, while also strengthening its presence on the Target2 Securities platform (securities). The Bank continued to work, on the ECB's tables, on the new integrated platform for the settlement of cash, securities and collateral ("Target Services"), which will be launched in November 2021. At the internal project level, Intesa Sanpaolo met all the milestones of the "T2/T2S Consolidation" project, while remaining perfectly in line with the deadlines set by the central bank. The Bank also launched a series of minor projects to update the various ancillary European systems which are to connect to and dialogue with the new T2/T2S platform.

With regard to Intesa Sanpaolo's short-term euro and foreign currency securities funding, following the sharp increase in the first six months of the year, the outstanding amount essentially stabilised.
Issues were concentrated in the 6-12-month segment for the ECP/ECD programmes, with several longer-term securities within the EMTN programme.

In 2019, 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 8.6 billion euro. Among the securities placed, there was a prevalence (85%) of the component consisting of structured financial instruments, mainly comprised of index-linked structures. A breakdown by average maturity shows that 37% is comprised of instruments with maturities up to 4 years, 61% by 5-, 6- and 7-year securities, and the remaining 2% by 8- and 10-year securities.
In the fourth quarter of 2019, two Intesa Sanpaolo Tier 2 subordinated bond issues with a term of 7 years, for a total amount of 348 million euro, were placed with qualified counterparties and professional customers of Intesa Sanpaolo Private Banking and Fideuram – Intesa Sanpaolo Private Banking. The securities are traded on the professional segment (ExtraMOTPRO) of the ExtraMOT market.
On the international markets, during the year institutional unsecured funding transactions were completed for a total of around 8.5 billion euro, of which: 8.2 billion euro through senior bond issues (public transactions and private placements) and 271 million euro through the issue of Banca IMI bonds and certificates placed with institutional investors.
Specifically, the following public transactions were undertaken during the reporting period: a senior preferred fixed-rate security in the Tokyo Pro Bond format, intended for the Japanese market, was issued for 13.2 billion JPY (equivalent to approximately 105 million euro); the security was issued in two tranches in March: 8.2 billion JPY with a 3-year duration and 5 billion JPY with a 15-year duration. A senior preferred fixed-rate security was issued for 2.25 billion euro, intended for European institutional investors; the security was issued in two tranches in July: 1 billion euro with a 10-year duration and 1.25 billion euro with a 5-year duration. A senior preferred fixed-rate security was issued for 2 billion USD (corresponding to around 1.8 billion euro), aimed at the US market; the security was issued in three tranches in September: 750 million USD with a 5-year duration, 750 million USD with a 10-year duration and 500 million USD with a 30-year duration. A 5-year senior preferred fixed-rate security was issued for 250 million CHF (corresponding to around 228.7 million euro) in September by Intesa Sanpaolo Bank Ireland Plc and guaranteed by the Parent Company, aimed at the Swiss market; it was the Group's first issue listed on the SIX exchange in Zurich. A 7-year senior preferred fixed-rate security was issued for 1.25 billion euro, intended for European institutional investors; the security was issued in November. Finally, a 5-year green senior preferred fixed-rate security was issued for 750 million euro, intended for institutional investors.

In February, Intesa Sanpaolo announced a liability management transaction aimed at certain of its own senior unsecured bonds placed with US institutional investors. The transaction was concluded on 14 February with a total subscription of 2.1 billion USD, or around 56% of the nominal value of the notes issued.
Under the programme guaranteed by ISP OBG, the securities of the 13th and 14th series were redeemed in advance in February for a total of 2.750 billion euro and two new series, the 32nd and 33rd, were concurrently issued for an amount of 1.650 billion euro each, with a duration of 5 and 13 years, respectively. In June, three additional new series of securities were issued: the 34th and 35th, for an amount of 1.6 billion euro each, and the 36th series for 1.8 billion euro, with a duration of 8, 10 and 14 years respectively. The 37th series was issued in December for 1.25 billion euro, with a duration of 13 years.

The securities, all floating rate, are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS Morningstar, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 13th series was partially redeemed (for an amount of 600 million euro), bringing the nominal amount to 1.050 billion euro.
The notional amount of the 10th series was partially reduced by 100 million euro, bringing it to the current 1.1 billion euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 25th series was placed on the institutional market in March. The public issue of 1 billion euro, with a fixed rate coupon of 0.50% and a 5-year maturity, is listed on the Luxembourg Stock Exchange and has a Moody's rating of Aa3.
The 26th series was issued in April for 500 million euro: it is a floating-rate bond with 9-year maturity, with a Moody's Aa3 rating, which was fully subscribed by the Parent Company for Eurosystem refinancing operations.
A third securitisation on a portfolio of residential mortgages was completed in November by the special purpose vehicle company Brera Sec., which issued two classes of notes for a total of 7.5 billion euro, subscribed by Intesa Sanpaolo. Only the senior class, amounting to 6.65 billion euro, with an A (High) rating from DBRS Morningstar and A1 from Moody's, is eligible with the Eurosystem.

For the management of collateral, Intesa Sanpaolo also uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. At the end of 2019, the outstanding amount, gross of haircuts applicable to loans lodged as pledge by the Group, amounted to around 11.9 billion euro.

Within the government bond portfolio (aimed at managing the liquidity buffer), the US Treasury positions accumulated during the second half of 2018 were liquidated in January, to take advantage of the fall in interest rates, with a view to containing the overall volatility of the portfolio. Subsequently, the compression of credit spreads made it possible to profitably turn over the asset allocation on the government and corporate securities market, while portfolio diversification was extended to positions in Japanese government bonds, taking advantage of the favourable trend in the euro-yen base. In the second half of the year the activity slowed gradually; the portfolio continued to benefit from the positive net carry.
With regard to the repo business, volumes on Italian government bonds were higher than in 2018. The spread between core nation and Italian govies rates gradually narrowed over the year, with the exception of the expansion recorded at the end of each quarter, which, however, was lower than the previous year. Italian repo rates stood at levels above that of the depo facility and showed higher volatility following the introduction of tiering.

Strategic ALM

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

Chief IT, Digital and Innovation Officer Governance Area

At the beginning of 2018 the Chief IT, Digital and Innovation Governance Area (CITDIO) was established, to drive the Group's digital transformation, by upgrading the architecture of IT systems and processes, introducing new digital platforms, innovating the experiences of our customers and employees and strengthening IT security controls.
The Area is constantly evolving to respond increasingly effectively to digitalisation and play a pro-active role in designing and developing solutions. In this regard, the Group continued the recruitment of new digital professionals (such as data scientists and cyber-security experts), the evolution of working methods in view of shorter time-to-market, and maintained constant focus on ongoing improvement of service levels and the use of modern technologies.
In cooperation with the Business Units and Governance Areas, the CITDIO Area continued the implementation of the 2018-2021 projects plan. In 2019, a considerable focus continued to be placed on innovation of the methods of interaction with customers through the digitalisation and expansion of contact channels. For example, the new Inbiz Portal – already adopted by over 70% of customers – was rolled out to corporate and SME customers. The Portal combines renewed transaction features with advanced new services for managing working capital and exports. The first version of the new platform for retail companies was also launched. Like the Inbiz Portal, it is based on the Group's digital architecture, which enables a unique, consistent customer experience together with a multi-channel approach. In retail business, both Internet banking and the Banking app were improved to include new features and cutting-edge digital payment instruments (e.g., Apple Pay, Samsung Pay, Bancomat Pay, etc.). The Investo app, through which over 50% of our customers' trades pass, was also launched. The Online Branch was enhanced to include innovative new digital collaboration tools for ensuring a constantly improved customer experience. In accordance with the requirements set by PSD2, the migration of all customers to MyKey was completed, raising the level of security when operating through the Bank's digital channels.
Alongside digitalisation, the consolidation of the former Network Banks into Banca dei Territori and the migration of Mediocredito were completed, thereby simplifying the overall IT system architecture. The activities for the integration of Banca IMI will be completed in 2020.

De-risking activities also continued in 2019. In particular, the "Pulse" collection platform was launched for the management of retail loans from the initial non-performing stages. In addition, sales of non-performing loan portfolios to specialised firms were closed.
All the measures required by the changing regulatory environment were also completed. These included compliance with the new financial reporting standards (IFRS 16), the adoption of the new PSD2 payment service directive, the application of the EBA guidelines on the harmonisation of the definition of default and notification of Obligation 4 by the ECB within the Targeted Review of Internal Models. Long-term initiatives to enhance the Group's anti-financial crime safeguards in line with international standards, the entry into force of Directive (EU) No. 65/2014 ("MiFID II") and Regulation (EU) No. 600/2014 ("MiFIR") continued.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
2019	14,354	2,952	777	18,083
2018	14,160	2,950	703	17,813
% change	1.4	0.1	10.5	1.5
Loans to customers				
31.12.2019	322,977	54,694	17,558	395,229
01.01.2019	327,336	51,214	15,000	393,550
% change	-1.3	6.8	17.1	0.4
Direct deposits from banking business				
31.12.2019	351,849	65,056	8,607	425,512
01.01.2019	350,585	55,681	8,816	415,082
% change	0.4	16.8	-2.4	2.5

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

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

With regard to the subdivision by geographical areas of operations, carried out with regard to the location of the entities comprising the Group, activities continued to be concentrated primarily in the Italian market. Italy accounted for 79% of revenues, 82% of loans to customers and 83% of direct deposits from banking business.
Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation, Ukraine, Moldova and in the Mediterranean area (Egypt).
With regard to operating performance in 2019, loans to customers were down slightly in Italy and up in Europe and the rest of the world, while direct deposits from banking business showed marginally higher volumes in Italy, higher volumes in Europe and slightly lower volumes in the rest of the world. Finally, revenues increased in Italy, were essentially stable in Europe and increased – albeit to a modest extent in absolute terms – in the rest of the world.

Corporate governance and remuneration policies

Corporate Governance and remuneration policies

Corporate Governance

Intesa Sanpaolo adheres to the Corporate Governance Code for listed companies, and adopts a one-tier corporate governance system in line with the principles contained therein (for which a report is provided, describing the adjustments deemed appropriate) as well as, in general, with national and international best practices, which aim to ensure, also in accordance with the Supervisory Authority provisions, effective and transparent distribution of the roles and responsibilities of its Corporate Bodies and a proper balance of strategic supervision, management and control functions.
For a more detailed description of the corporate governance system, reference should be made to the "Report on Corporate Governance and Ownership Structures" – available in the "Governance" section of the Company's website – prepared in accordance with Article 123-bis of the Consolidated Law on Finance, which requires issuers to provide the market yearly with detailed information, identified by the said Article, on their ownership structures, their compliance with a corporate governance code, their corporate bodies structure and operation as well as their corporate governance practices.

Shareholder base

According to records in the Shareholders' Register, as at 31 December 2019, shareholders with stakes exceeding 3% of the share capital represented by shares with voting rights – threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,188,947,304	6.790%
BlackRock Inc. (*)	876,009,296	5.003%
Fondazione Cariplo	767,029,267	4.381%

(*) Fund management.

The aggregate investment of 6.952%, of which 1.941% with voting rights, disclosed by JPMorgan Chase & Co. in form 120 B updated as at 26 November 2018, has been recalculated in 6.951%, of which 2.674% with voting rights as disclosed in form 120 A dated 20 June 2019, due to the change in Intesa Sanpaolo's share capital of 26 November 2018 as a result of the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. made the original disclosure on 16 July 2018 (through form 120 B) in view of the positions held in relation to the issue of LECOIP 2.0 Certificates, having as underlying instruments Intesa Sanpaolo ordinary shares, that the Intesa Sanpaolo Group's employees received under the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments.

One-tier governance system

Intesa Sanpaolo adopts the one-tier governance system and therefore operates through a Board of Directors, within which guidance and strategic supervision powers converge; the control functions are carried out by the Management Control Committee, established within the Board of Directors, made up entirely of independent Directors appointed by the Shareholders' Meeting; the Managing Director and CEO-Chief Executive Officer supervises the company's management to the extent of his assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors.
The practical application of the one-tier system to the Bank's structure is marked by a clear division of roles and responsibilities between the Governing Bodies:

- the Board of Directors of the Company is assigned the guidance and strategic supervision duties and the duty to resolve on all the relevant corporate deeds;
- the internal Board Committees support the Board of Directors in carrying out its functions in order to facilitate the taking of fully informed decisions;
- the Management Control Committee performs the powers and functions conferred by the current regulations upon the body with the control function and upon the internal control and audit committee, pursuant to Legislative Decree 39/2010;
- the Managing Director and CEO performs the day-to-day management function, within the scope of the powers delegated by the Board of Directors;
- the Managers support the Managing Director and CEO in performing the day-to-day management function: as Managerial Committees, in performing the tasks and powers assigned to them by the Board of Directors and detailed within the scope of specific Regulations which govern the functioning thereof.

The Shareholders' Meeting

The Shareholders' Meeting is the body deemed to represent all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, irrespective of their attendance or dissent.
In the one-tier system adopted by the Bank, the ordinary Shareholders' Meeting resolves, amongst other things, on:
- the approval of the financial statements and distribution of profits;
- the appointment, revocation and determination of remuneration with respect to the positions of Board Member, Chairman and Deputy Chairperson of the Board of Directors and Chairman and member of the Management Control Committee;
- the approval of the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments;
- the appointment and revocation of the statutory audit mandate and the determination of the relative fees, upon the reasoned proposal of the Management Control Committee;
- the other matters entrusted to its authority by law or by the Articles of Association.

The Board of Directors, the Managing Director and the Board Committees

The Board of Directors is composed of a minimum of 15 up to a maximum of 19 members, including non-shareholders, appointed by the Shareholders' Meeting on the basis of slates submitted by Shareholders. Board Members remain in office for three financial years until the date of the next Shareholders' Meeting called to approve the financial statements and the proposal for allocation of net income in accordance with Article 2364 of the Italian Civil Code and may be re-elected.
The Shareholders' Meeting of Intesa Sanpaolo, held on 30 April 2019, determined the number of members of the Board of Directors as 19 and appointed the Board of Directors for the 2019/2020/2021 financial years, electing as its Chairman Gian Maria Gros-Pietro and as Deputy Chairperson Paolo Andrea Colombo. The election took place on the basis of slates of candidates who meet the requirements envisaged by law and by the Articles of Association. Following the resignation tendered by a Director in November 2019, pursuant to Article 15.3 of the Articles of Association, the Board of Directors has replaced a new member by co-option, who shall remain in office until the meeting called for the approval of the financial statements.

The Board of Directors is responsible for corporate management: it may therefore undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, relating to both ordinary and extraordinary administration. It is assigned strategic guidance and supervision functions for the Company and the duty to resolve on all the most important corporate deeds.
With regard to the corporate management function, the Board of Directors, without prejudice to the powers reserved to it, delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board of Directors determined the content, limits and methods of exercise of the powers granted to the Managing Director and CEO, while also defining the methods whereby the Board of Directors is to receive information concerning the delegated activity.
The Board of Directors' meeting held on 2 May 2019 appointed Carlo Messina as Managing Director, thereby granting him the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board.
The Managing Director is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors. He is responsible for personnel management and determines operational directives.
The Board of Directors has established four internal committees, the prerogatives and duties of which comply with the provisions of the Articles of Association and the Supervisory regulations in force:
- Nomination Committee: it performs investigative and consulting functions to support the Board of Directors in the process of appointment or co-option of the Board Members to ensure that the composition of the body, in terms of size and professionalism, makes it possible to fulfil its duties efficiently, and as part of the process for the appointment of the Bodies of the main subsidiaries.
- Remuneration Committee: it proposes, advises and enquires on remuneration and incentive matters, thereby supporting the Board of Directors.
- Risk Committee: it supports the Board of Directors in the performance of strategic supervision functions regarding risks and the internal control system, and performs the other duties assigned to it pursuant to the law or by the Board of Directors.
- Committee for transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group: it carries out the tasks assigned to it by the rules on transactions with related parties and associated entities; in particular, it issues its opinion on the transactions that fall within the scope of application of the rules and of the internal regulations.

The Management Control Committee

The Management Control Committee, established as part of the Board of Directors, consists of 5 members of the Board of Directors elected by the Meeting of 30 April 2019, who appointed as its Chairman Alberto Maria Pisani. All Committee members meet the independence requirements defined by the Articles of Association.
The Management Control Committee performs the duties assigned by current legislation to the control body of a parent company of a banking group heading a financial conglomerate and issuing listed shares and also operates as the internal control and audit committee pursuant to Article 19, paragraph 2, letter c) of Legislative Decree no. 39/2010.

The Management Control Committee oversees, amongst other things:
- compliance with legal and regulatory provisions and the Articles of Association and the principles of correct management;
- the adequacy, efficiency and functionality of the company's organisational structure and administrative-accounting system and its suitability to correctly represent the company operations;
- the adequacy, efficiency and functionality of the internal control system and risk management process;
- compliance with the regulations applicable to Intesa Sanpaolo as the Parent Company of a banking group issuing shares listed on regulated markets.

The Committee may, subject to notice to the Chairman of the Board of Directors, convene the Shareholders' Meeting whenever it deems it necessary for the performance of its duties or in the event that, in the performance of its office, it should detect reprehensible facts of significant severity and urgent measures need to be taken.

The operating structure

Divisions, Governance Areas and Head Office Departments reporting directly to the Managing Director and CEO

The Parent Company is divided into six Divisions, comprising business line aggregations with similar characteristics in terms of products and services provided and in terms of regulatory framework, nine Governance Areas and two Head Office Departments in a direct reporting line to the Managing Director and CEO, which exercise guidance, coordination, control, support and service functions at Group level, as detailed below.

- Divisions
  - Banca dei Territori Division;
  - Corporate and Investment Banking Division;
  - International Subsidiary Banks Division;
  - Private Banking Division;
  - Asset Management Division;
  - Insurance Division.

- Governance Areas/Head Office Departments reporting directly to the Managing Director and CEO
  - Chief Operating Officer Governance Area;
  - Chief IT, Digital and Innovation Officer Governance Area
  - Chief Cost Management Officer Governance Area;
  - Chief Lending Officer Governance Area;
  - Chief Financial Officer Governance Area;
  - Chief Risk Officer Governance Area;
  - Chief Compliance Officer Governance Area;
  - Chief Governance Officer Governance Area;
  - Chief Institutional Affairs & External Communication Officer Governance Area;
  - Strategic Support Head Office Department;
  - Safety and Protection Head Office Department.

In addition to the aforesaid structures, the Chief Audit Officer reports directly to the Board of Directors in order to ensure the necessary autonomy and independence.

The duties assigned to the Governance Areas are outlined below:

Chief Operating Officer (COO) Governance Area

The Chief Operating Officer (COO) Governance Area is responsible for:
- supporting the Managing Director and CEO in defining the Group's general policies within the scope of Human Resource Development and Management, in line with the company's strategies and objectives, with a view to renewing and creating value, as well as in compliance with current regulations;
- ensuring the remuneration governance process, supporting the Corporate Bodies in the definition and approval of the Remuneration Policies, as envisaged by Intesa Sanpaolo Group's Remuneration and Incentive Guidelines, also ensuring, for the Group, the monitoring and governance of labour costs, in line with the company's strategies and objectives;
- proposing to the Managing Director and CEO the definition and evolution of organisational models aimed at enhancing the Group's organisational effectiveness and efficiency, in line with the company's strategies and objectives, ensuring implementation thereof;
- ensuring, for the Group, the definition of the guidelines and policies relating to trade union affairs and welfare and the related implementation, in line with the company's strategies and objectives and in compliance with current regulations;
- ensuring, for the Group, the definition of the guidelines and policies relating to physical security and the related implementation;
- encouraging people's development and training, improving the quality of corporate life, developing an inclusive and attentive approach towards diversity, including through dedicated initiatives.

Chief IT, Digital and Innovation Officer (CITDIO) Governance Area

The Chief IT, Digital and Innovation Officer (CITDIO) Governance Area is responsible for:

- supporting, in line with the Business Owners' requirements, the definition and development of innovation initiatives, technologies and solutions;
- ensuring the implementation of the initiatives identified by the Business Owners in line with the objectives of the Business Plan by directing actions within a logic of digital transformation and innovation;
- defining the Group's ICT strategy, policies and guidelines - including architectural, methodological and technological standards -, in line with corporate objectives and priorities, and overseeing their implementation;
- overseeing the complexity of IT systems, operations and processes with a view to the continuous innovation of technological solutions, in order to guarantee the Group's constant projection towards a dimension that is evolved and consistent with digitalisation advances, in compliance with the expenditure and investment levels assigned;
- coordinating the definition and implementation of the data governance system to ensure a high level of quality and meet regulatory and business requirements;
- ensuring, for the Group, the definition and implementation of the guidelines and policies on cybersecurity, IT security and business continuity in line with the company's strategies and objectives and in compliance with current regulations;
- ensuring the information flows to the Corporate Bodies provided for by the Internal Control System and the governance documents within the respective areas of responsibility.

Chief Cost Management Officer (CCMO) Governance Area

The Chief Cost Management Officer (CCMO) Governance Area is responsible for:

- consistently with corporate strategies and objectives, assisting the Corporate Bodies in defining guidelines and policies on cost management, property, logistics and procurement of the Group;
- coordinating the implementation of guidelines and policies on cost management, property, logistics and procurement by the relevant Group business units, also in the various corporate contexts;
- collaborating with the Chief Financial Officer Governance Area and the Chief IT Digital and Innovation Officer Governance Area contributing to the definition of the investment initiatives promoted by the same CITDIO Area, by the Divisions/Business Units and by the other Governance Areas, in line with the objectives of the Business Plan;
- ensuring, through the appropriate control methods, compliance with the guidelines and policies in the aforementioned areas, ensuring, in accordance with the Business Plan, cost management results as well as the service levels offered within the property, logistics and procurement scope.

Chief Lending Officer (CLO) Governance Area

The Chief Lending Officer (CLO) Governance Area is responsible for:

- making material lending decisions, or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensuring the proactive management of credit and guaranteeing the management and the monitoring of the Group's non-performing loans, within the respective area of responsibility;
- ensuring the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- managing the stocks and flows of bad loans managed within the Group;
- conceiving and managing transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performing monitoring and control on outsourced activities, including monitoring the performance KPIs of outsourcers, directly taking decisions, or submitting them to the competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributing to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinating the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analysing the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocating and validating the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;
- defining the reference regulations on credit matters, the requirements for the development of credit instruments and contributing to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;
- promoting initiatives aimed at disseminating and developing a credit culture;
- ensuring, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant credit portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

Chief Financial Officer (CFO) Governance Area
The Chief Financial Officer (CFO) Governance Area is responsible for:
- assisting the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration and tax, planning and management control, treasury and finance, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- coordinating the implementation of said guidelines and policies by the relevant Group business units, and in other corporate areas as appropriate;
- overseeing Asset and Liability Management (ALM) activities, the management of the Treasury securities portfolio, the Funding Plan, the integrated management of liquidity risks as well as financial and regulatory risks, ensuring the satisfaction of funding requirements at Group level;
- define the Group's future qualitative and quantitative objectives through strategic planning, budgeting, capital management, internal assessment of capital adequacy and liquidity position (ICAAP/ILAAP), monitoring of the Recovery and Resolution Plan and carrying out the continuous analysis of the economic and financial results;
- overseeing studies and research on investments, economy and markets;
- overseeing the Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies and participation in market operations on performing and non-performing loan portfolios;
- ensuring the management of communications and relations with investors, financial analysts and rating agencies and overseeing the Group’s areas of social and environmental responsibility, by planning, managing and monitoring policies and tools for sustainability.

The Chief Financial Officer Governance Area also includes the Manager responsible for preparing the Company’s financial reports, who ensures the accurate and timely presentation of income statement and balance sheet results of the Bank and of the entire Group, as well as compliance with the relative accounting and supervisory obligations, performing quality control of the processes governing administrative and financial reporting disclosures to the market, pursuant to the appropriate regulations.

Chief Risk Officer (CRO) Governance Area
The Chief Risk Officer (CRO) Governance Area is responsible for:
- governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework (RAF) with the support of the other corporate functions involved;
- consistent with corporate strategies and objectives, assisting the Bodies in defining and implementing guidelines and policies on risk management;
- coordinating the implementation of guidelines and policies on risk management by the relevant Group business units, also in the various corporate contexts;
- guaranteeing the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- performing II level monitoring and controls on credit quality, composition and evolution of the various loan portfolios and on proper classification and measurement of single positions (“single name” controls);
- performing II level monitoring and controls for monitoring risks other than credit risk;
- continuously and iteratively validating risk measurement and management systems – used both for the determination of capital requirements and for non-regulatory purposes – in order to assess their compliance with regulatory provisions, operational company and reference market demands, and to manage the internal validation process at Group level.

Chief Compliance Officer (CCO) Governance Area
The Chief Compliance Officer (CCO) Governance Area is responsible for:
- ensuring monitoring of the Group compliance risk, including conduct risk, both with regard to the operational risk component and the reputational risk, also through the implementation of a graduated compliance model for the regulations encompassing specific forms of specialized supervision;
- defining, in line with corporate strategies and objectives, guidelines and policies regarding compliance with the Group standards, integrating the compliance risk assessment and management model within the Risk Appetite Framework;
- coordinating the implementation of guidelines and policies on compliance with regulations by the relevant Group business units, and in the various corporate departments;
- collaborating with the other corporate control functions in order to achieve effective integration of the risk management process;
- managing relations with the corporate Bodies and Supervisory Authorities with regards to compliance issues.

Chief Governance Officer (CGO) Governance Area;
The Chief Governance Officer (CGO) Governance Area is responsible for:
- ensuring assistance and advice to the Corporate Bodies in defining the strategies concerning extraordinary finance transactions for the Group, in line with the corporate objectives;
- overseeing, closely with the Business Divisions, the analysis of the evolutionary trends of the domestic and international markets of relevance to the Group, to identify potential targets and/or partnerships and/or extraordinary corporate transactions in line with the Group's growth and/or rationalisation strategies;
- ensuring compliance with the guidelines and policies regarding the governance of the investment portfolio and the achievement of results in line with the Business Plan, safeguarding the best protection of the Group's interests;
- ensuring assistance and legal advice to the Corporate Bodies of the Parent Company and to Top Management, overseeing the proper implementation of corporate and supervisory regulations on the subject of governance and institutional obligations at Group level;

- managing the activities associated with the functioning of all the Corporate Bodies and providing support for the related processes;
- overseeing the legal risk at Group level, managing litigation and the related operational risk and defining, in these areas, the guidelines through directives and instructions;
- providing legal advice and assistance to the Group's structures, following regulatory and case law literature, including at European and international level, ensuring the correct regulatory framework of all new initiatives and supporting the compliance function in the identification and interpretation for the purposes of managing the risk of non-compliance;
- ensuring the protection and enhancement of the cultural, archival and historical-artistic heritage of the Group, according to programmatic guidelines that enhance its institutional profile.

Chief Institutional Affairs and External Communication Officer (CIAECO) Governance Area

The Chief Institutional Affairs and External Communication Officer (CIAECO) Governance Area is responsible for:

- promoting a coordinated, dynamic and result-oriented approach in the management of the Group's institutional and external relations in order to support the growth and development of the Group's activities;
- overseeing the Group's institutional relations, promoting and directing relations with institutions, regulators and supervisors, at the national, European and international level;
- overseeing external relations for the Group, promoting solid relations with stakeholders and reference partners and national and international media;
- supporting the reputation and promoting the Group's image and identity by disseminating its ethical, social and cultural values, in line with the company's mission.

Chief Audit Officer (CAO)

The Chief Audit Officer (CAO), who reports directly to the Board of Directors (and, on its behalf, to its Chairman), functionally reporting to the Management Control Committee, without prejudice to the appropriate sharing of information with the Managing Director and CEO, is responsible for:

- ensuring constant and independent auditing of the regular performance of the Bank and Group operations and processes for the purpose of preventing or identifying any anomalous or risky conduct or situation, assessing the operations of the internal control system and its adequacy in guaranteeing the effectiveness and efficiency of company processes, safeguarding asset value and loss protection, and the reliability and completeness of accounting and management reports, and the compliance of transactions with corporate governance policies and with internal and external regulations;
- providing consultancy to the Group’s departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management, compliance and internal governance processes;
- ensuring supervision of the internal control system of the Group’s subsidiaries, also by exercising governance of, and guidance to, the respective Internal Audit functions;
- supporting corporate governance and ensuring that Top Management, the Corporate Bodies and the competent Authorities (European Central Bank, Bank of Italy, Consob, etc.) promptly and systematically receive information on the status of the control system and on the outcome of activities performed and on the progress of any corrective measures;
- ensuring the proper conduct of the internal process for managing whistleblowing reports.

The Strategic Support Head Office Department is responsible for:

- assisting the Managing Director and CEO in all his internal and external activities, including in the respective institutional and representative areas;
- guaranteeing specialist support to the Managing Director and CEO by gathering, evaluating and reviewing the documentation of strategic relevance and preparing technical analyses, including with reference to the activities of the Bodies within the Board with a particular focus on the optimal operation of the Steering Committee;
- overseeing selected initiatives in Italy and abroad, assisting the Managing Director and CEO in extraordinary transactions, in negotiations and in the most impactful corporate projects in which he is directly involved;
- supporting the Chairman of the Steering Committee in the performance of his duties;
- coordinating specific interdivisional and interfunctional activities ensuring the coherence and development of synergies with respect to the Group's strategic guidelines;
- facilitating relations with and between the Governance Areas and the Business Units in order to strengthen cooperation mechanisms.

The Safety and Protection Head Office Department is tasked with ensuring, for the Group, the monitoring of the risk of non-compliance with reference to the following areas:

- Personal Data Protection, pursuant to Legislative Decree 101/2018 (adapting national legislation to the provisions of EU Regulation 2016/679 - General Data Protection Regulation or GDPR);
- Protection of Health and Safety in the workplace, pursuant to Legislative Decree 81/2008;
- Environmental Protection, pursuant to Legislative Decree 152/2006.

Remuneration and incentive policies

The issue of remuneration of listed companies and financial intermediaries has been gaining growing attention by international bodies and regulators, aiming to guide issuers and intermediaries towards the adoption of remuneration systems that are consistent with the principles - intensified following the economic and financial crisis - governing the process for drawing up and approving the remuneration policies, their remuneration structure and their transparency.
In particular, according to these principles, remuneration systems must take into account current and future risks and the level of liquidity and capitalisation of each intermediary, and guarantee remuneration based on sustainable and long lasting results actually achieved. In accordance with European Community regulations and with effect from 2011, the Italian Authorities defined a set of key rules on these matters.
The Bank of Italy, with regulation dated 30 March 2011, defined balanced rules for banks' remuneration policies, systems and practices with reference to their design and control, to compensation structures and disclosure obligations. Remuneration systems and practices are included among the information to be disclosed under Pillar 3, pursuant to Circular 285 of 17 December 2013.
Moreover, ISVAP (now IVASS), with regulation 39 of 9 June 2011, dictated the principles regarding the decision-making processes, structure and disclosure obligations of the remuneration policies of insurance companies.
In its resolution no. 18049 of 23 December 2011, Consob regulated implementation of the provisions contained in Article 123-ter of the Consolidated Law on Finance, which require issuers to draw up and publicly disclose a report on remuneration.
Over the years important updates have been introduced on self-governance level as well. After being initially modified (March 2010) in the remuneration part, the Corporate Governance Code has been subject to a complete review that resulted in a new edition published on December 2011.
In fact, the Bank of Italy subsequently revisited the topic of remuneration policies with two communications dated 2 March 2012 and 13 March 2013, highlighting in general the opportunity for banks to define a strategy that is consistent with the objective of preserving, with a view to the future, the balance of the company's position, as well as maintaining the conditions of capital adequacy and prudent management of liquidity risk.
In 2014, the European Union issued, upon a proposal from the EBA, the new Regulatory Technical Standards (RTS) relating to suitable qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a material impact on the institution's risk profile (so-called "Risk Takers") intended to supplement Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV), effective from 2014.
Lastly, the Bank of Italy issued the new Supervisory Provisions on remuneration, laid down in Circular 285/2013.
In December 2015, the EBA, based on the forecasts contained in CRD IV, published the update of the "Guidelines on sound remuneration policies", drawn up by its predecessor CEBS, defining in detail the rules relating to the remuneration structure, remuneration policies and the related governance and implementation processes.
Finally, on 12 November 2018, the Bank of Italy published the 25th update of Circular 285 in the Official Gazette which incorporates the "Guidelines on sound remuneration policies" issued by the EBA in 2015 in Title IV - Chapter 2.

Finally, on 10 June 2019, Legislative Decree no. 49/2019 was published, implementing Directive (EU) 2017/828 (so-called Shareholders' Rights Directive II), which resulted in: (i) updating the aforementioned art. 123-ter of the Consolidated Law on Finance providing for the binding vote of the shareholders' meeting on both the Remuneration and incentive policies and the related implementation procedures described in the Report on the remuneration policy and the remuneration paid (the so-called Remuneration Report), as well as the non-binding vote on the information to be given to the meeting; (ii) the need to update the Consob Issuers' Regulation currently submitted for consultation and which will apply as from 2020.
That being said, Intesa Sanpaolo has always extensively focused its attention on remuneration matters, on relative regulation compliance and on maximum transparency to the market.

Procedures for adoption and implementation of the remuneration policies

The role of corporate bodies

The Shareholders' Meeting

The Articles of Association require the Shareholders' Meeting to approve the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments.
In this context, it shall approve the criteria for determining the severance payments to be granted in the event of early termination of the employment agreement or early termination of office, including the limits set for such payments as provided by the regulations currently in force and shall also determine, with the qualified majority threshold defined by the supervisory regulations in force, a ratio between the variable and fixed individual remuneration of the personnel above the ratio of 1:1, but in any case not exceeding the maximum established by the same regulations.
The Shareholders' Meeting determines the remuneration for the members of the Board of Directors and the Management Control Committee and the remuneration for the offices of Chairman and Deputy Chairperson of the Board of Directors and Chairman of the Management Control Committee.

The Board of Directors

The Board of Directors may determine, in addition to the fixed remuneration determined by the Shareholders' Meeting and in compliance with the remuneration policies approved by the Shareholders' Meeting, the remuneration of the Board Members to whom the Board itself assigns further special duties in compliance with the Articles of Association, including the office of Managing Director and General Manager.
The Board of Directors is responsible for the drafting of the remuneration and incentive policy to be submitted to the Shareholders' Meeting and the definition of the remuneration and incentive systems for persons for whom the supervisory regulations require that this task be performed by the body with strategic supervision functions, including the identification of parameters used to evaluate performance objectives and the definition of the variable remuneration deriving from the application of said systems.

The Board of Directors is tasked with determining the remuneration due to the Manager responsible for preparing the Company's financial reports pursuant to Article 154 bis of Legislative Decree 58 of 24 February 1998, as well as of all other Top Risk Takers and the higher-level personnel from the corporate control functions, in accordance with the provisions of the legislation currently in force.

The Chief Operating Officer and the Corporate Control Functions
As mentioned above, the Shareholders' Meeting is responsible for approving remuneration policies for employees upon proposal of the Board of Directors and with the involvement of the Remuneration Committee.
The Chief Operating Officer is responsible for drawing up the aforementioned remuneration policies, that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:
- the Chief Risk Officer Governance Area, in order to ensure consistency of the remuneration policies and resulting incentive systems with the Group's Risk Appetite Framework (RAF);
- the Planning and Management Control Head Office Department, in order to ensure consistency of the remuneration policies and resultant incentive systems with:
  - the strategic short- and medium-long term objectives of the Companies and of the Group;
  - the level of capitalisation and liquidity of the Companies and of the Group;
- The Chief Compliance Officer Governance Area, in order to verify compliance of the remuneration policies and resulting incentive systems with rules, regulations, codes of ethics and standards of conduct applicable to the Group.

The Chief Audit Officer, in accordance with the guidelines of the Supervisory Authority, verifies compliance of the remuneration implementation procedures with the relevant policies, informing the Board of Directors and the Shareholders' Meeting on the results of the verifications conducted.

Remuneration of the members of the Board of Directors

Remuneration of Board Members
The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a fixed remuneration for the services rendered, which is determined for the entire period of their office by the Shareholders' Meeting at the time of their appointment. Upon appointment, the Shareholders' Meeting also determines the supplementary remuneration of the offices of Chairman and Deputy Chairperson of the Board of Directors.
An insurance policy for administrative liability is signed in favour of the members of the Board of Directors according to the terms submitted to the Shareholders' Meeting.

Remuneration of the Managing Director and CEO
Pursuant to the Articles of Association, the Managing Director also acts as the General Manager of Intesa Sanpaolo.
The Managing Director and General Manager is entitled to receive a fixed and variable remuneration determined by the Board of Directors in line with the remuneration policies approved by the Shareholders' Meeting.
The Board of Directors, upon the proposal of the Remuneration Committee, determined the remuneration of the Managing Director. This amount is in addition to the amount due as a Board Member. The Managing Director, in his capacity as General Manager, is entitled to receive the gross annual remuneration, the short and long-term incentive system and the supplementary pension scheme, and to receive the additional fringe benefits for the position determined by the Board of Directors in accordance with the Remuneration and Incentive Scheme Policies for employees.

Remuneration for participation in the Management Control Committee
Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, specific remuneration for the Board Members of said Committee, consisting of an equal amount for each Member, but with a special addition for the Chairman.

Remuneration for participation in the other Board Committees
In terms of the activities that the Board Members are called upon to carry out as members of the Committees established within the Board, the Board of Directors, pursuant to the Articles of Association, determines an additional fixed remuneration for these Members, in line with the remuneration policies approved by the Shareholders' Meeting. The Board of Directors supplemented the remuneration for the position of Board Member with an attendance fee in relation to the actual participation of the members in the activities of the Committees, with a further annual gross fixed remuneration for the Chairmen of such Committees.

Remuneration policy for employees and staff not bound by an employment agreement

The remuneration policies of the Intesa Sanpaolo Group are based on the following principles:
a) alignment of the conduct held by management and personnel to the interests of all Stakeholders, with a focus on creating value for Shareholders, as well as on the social impact generated on the Communities;
b) correlation between remuneration and risks undertaken, through:
   - direction of management and personnel conduct towards the achievement of objectives within a framework of rules aimed at controlling corporate risks;
   - remuneration systems aligned with prudent financial and non-financial risk management policies (including legal and reputational risks), in line with what is defined in the Group's Risk Appetite Framework;
   - the definition of a sufficiently high fixed component to allow the variable portion to decline significantly, even down to zero, upon occurrence of pre-defined conditions.

c) orientation towards medium-long term objectives, taking into account the Group Risk Tolerance through the definition of a set of Incentive Systems that allow performance to be oriented over a period of accrual longer than one year and to share the medium-long term results consequent to the implementation of the Business Plan;
d) merit, to guarantee better matching with actual performance and the managerial quality identified, through:
   - remuneration flexibility via the variable component linked to the results achieved and to the risks undertaken;
   - focus on key staff members demonstrating high management quality, to whom competitive salary brackets, compared with the reference market, are reserved;
   - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;
e) equity, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
   - the correlation between the person's fixed remuneration and the level of responsibility managed, measured through the adoption of a Global Banding system[7], certified by a leading consultancy firm or the seniority/professional role;
   - differentiation of salary brackets and the ratio of the variable component to the total remuneration according to the relevant professional category and/or geographical market, with the Banding bracket being equal;
   - focus on the gender pay gap;
f) sustainability, to limit expense deriving from application of the policy to values compatible with the available economic and financial means, through:
   - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved;
   - selective reviews of fixed remuneration based on strict market benchmarks;
   - determination of appropriate caps regarding both total incentives and the amount of individual bonuses;
g) compliance with legal and regulatory provisions, with codes of conduct and other self-regulation provisions with focus on the Group Risk Takers (and among these, on Key Managers, so-called Top Risk Takers), on Legal Entity Risk Takers and on the Corporate Control Functions;
h) fairness in customer relations.

Employee remuneration is broken down into the following:
a) fixed component;
b) variable component.

Fixed remuneration
The fixed component is defined on the basis of pre-established and non-discretionary criteria such as the contractual framework, the role held, the responsibilities assigned, the specific experience and the skills gained by the employee.
In full compliance with the provisions of law, the fixed component includes:
- the gross annual salary which reflects the level of professional experience and seniority of the personnel;
- allowances tied to the role held, not connected to any type of performance indicator and assigned in a non-discretionary manner to the Risk Takers[8] and to the Middle Management[9] belonging to the Corporate Control Functions and to the heads of commercial roles within the scope of the Banca dei Territori Division local network;
- allowances paid to expatriate personnel in order to cover for any differences in cost, quality of life and/or remuneration levels of the target reference market;
- allowances and/or fees deriving from offices held in corporate bodies, provided that these are not reversed to the companies to which they belong;
- any benefits designed to increase employee motivation and loyalty of the resources and assigned not on a discretionary basis.

The benefits paid to Group employees may be of a contractual nature (e.g., supplementary pension, health benefits, etc.) or the result of remuneration policy decisions (e.g., company car) and, therefore, have different treatment with respect to different categories of personnel.

Variable remuneration
The variable component is linked to employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of:
- short-term variable component, paid through the annual incentive systems and the variable performance bonus;
- long-term variable component, paid through the POP (Performance-based Option Plan) Plan, targeted at the Top Management, Risk Takers and Key Managers[10], and the LECOIP 2.0 Plan, targeted at Middle Managers (not included in the POP Plan) and the remaining Personnel[11];
- any variable short- and long-term components, tied to the period of employment in the company (stability, non-competition, one-off retention and similar agreements) or extraordinary agreements (signing bonus);
- any discretionary benefits.

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees (signing bonus), without prejudice to thorough assessment and analysis of market practice, solely for the first year.

The distinction of the variable remuneration in a short-term and a long-term component promotes both attraction and retention of resources, allows performance to be oriented over a period of accrual longer than one year and to share the medium-long term results consequent to the implementation of the Business Plan;

[7] The Global Banding System adopted by the Intesa Sanpaolo Group is based on the grouping in homogeneous categories of managerial positions that are similar by levels of complexity/responsibility managed, measured using the international IPE (International Position Evaluation) methodology.

[8] Scope: Italy, Slovakia and Croatia.

[9] Scope: Italy and Egypt.

[10] Scope: Italy.

[11] Scope: Italy.

In accordance with the regulatory guidelines, the Intesa Sanpaolo Group traditionally adopts a pay mix that is appropriately balanced between the aforementioned components, in order to:

- allow flexible management of labour costs, as the variable portion may significantly decline, even down to zero, depending on the performance actually achieved during the year in question;
- discourage behaviour focused on the achievement of short-term results, particularly if these involve taking on greater risk.

In order to achieve the above objectives, it is standard Group practice to establish ex ante limitations in terms of balanced maximums for variable remuneration, through the definition of specific caps on the increase of bonuses in relation to any over-performance.

As a general rule of thumb, the aforesaid cap to the variable remuneration was determined:

- at 100% of fixed remuneration for roles not included amongst Corporate Control Functions, save as otherwise specified in the Report on Remuneration;
- at 33% of fixed remuneration for roles included amongst Corporate Control Functions.

The calculation of the variable remuneration takes into account both the short-term component relating to the Incentive System or PVR and the long-term component assigned through the long-term Incentive Plans (POP Plan and LECOIP 2.0 Plan), as well as any variable components linked to seniority or exceptional components. In particular, the POP and LECOIP 2.0 Plans have an impact on the pro-rata variable remuneration for the entire accrual period.
The maximum limit established by the general criteria (1:1) was increased to 2:1, as provided by CRD IV, permitted by the Bank of Italy, and approved by the 2018 Shareholders' Meeting, for Risk Takers not included amongst Corporate Control Functions and for specific and limited professional sectors and business segments (investment banking, asset management, private banking, treasury).
Furthermore, starting from 2019, in accordance with the option granted by the recent update of the Supervisory Provisions, the maximum limit on variable remuneration has been increased beyond 2:1 and up to a maximum of 4:1 for personnel belonging to the "Investments" category of the Group's asset management companies, which conduct their business exclusively for the same Manager.
However, in terms of cap compliance between fixed and variable remuneration (1:1), appropriate pay mix differentiations were identified with reference to the various professional or business segments, in line with the results obtained by means of specific benchmark analyses related to the leading European global banks that also ensure compliance with the internal equity principle, given the use of common benchmarks for each cluster.
The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.
In relation to market data, the Intesa Sanpaolo Group aims to align the overall remuneration with median values, notwithstanding the possibility to make the appropriate differentiations for particularly critical positions and/or resources with high management skills.
The correlation between remuneration, risk and performance is ensured for all employees through:

- the use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- the introduction, on the basis of the "financial sustainability principle", of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as Gross Income;
- the use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group's overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group's Gross Income;
- the observance of the access conditions provided for in international and national regulations, namely:
    - at Group level, the achievement of capital adequacy and liquidity levels and, in any event, compliance with the limits envisaged by the Supervisory Review and Evaluation Process (SREP);
    - at individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- the measurement of performance from multiple perspectives, both quantitative (profitability, revenue development, productivity, cost of risk/sustainability - including, among the latter, also Corporate Social Responsibility, CSR, and/or Environmental, Social and Governance, ESG indicators) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different scopes (Group/Department/Individual). The following are some examples of indicators for performance drivers:
    - Profitability: Operating Income / Risk Weighted Assets, Revenues / Assets;
    - Revenue development: Net Inflows, Gross Banking Product (Loans + Direct customer deposits + Indirect customer deposits), Insurance Operating Margin;
    - Productivity: Cost/Income, Reduction in operating costs, Full Combined Ratio;
    - Cost of risk/sustainability: Gross NPL Ratio, Operating Losses / Operating Income, Concentration Risk, Maintaining Liquidity Coverage Ratio target levels;
- the use of an additional mechanism that measures the residual risk level of each business unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

The termination of the employment agreement involving personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred.
In all other cases, the Bank has the right to award any amounts, depending on the specific situations, upon termination of the employment agreement, also through consensual retrenchment agreements providing termination payments.
In any case, in compliance with the principles contained in the Group's Code of Ethics, the Intesa Sanpaolo Group does not enter into individual agreements with its managers and employees in advance (i.e. prior to termination of the employment agreement) that govern compensation to be granted in the event of early termination of the employment agreement.
In recent years, the Bank has signed specific agreements with the trade unions with regard to the “solidarity fund”, applied to employees of all levels, including executives, which also govern the treatment of sums payable to personnel upon termination of the employment agreement in the event of extraordinary transactions and/or company reorganisations.
According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called severance, including any compensation paid according to the non-competition agreement limited to the portion exceeding the last year of fixed remuneration.
In the Intesa Sanpaolo Group, the principles for the definition of these payments - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

- regulatory capital adequacy requirements maintenance;
- no reward for failure;
- unobjectability of individual behaviour (consistency with compliance breaches’ criteria).

Pursuant to these criteria and the Supervisory Provisions on remuneration, when negotiating this kind of remunerations, the Group defined that those payments:

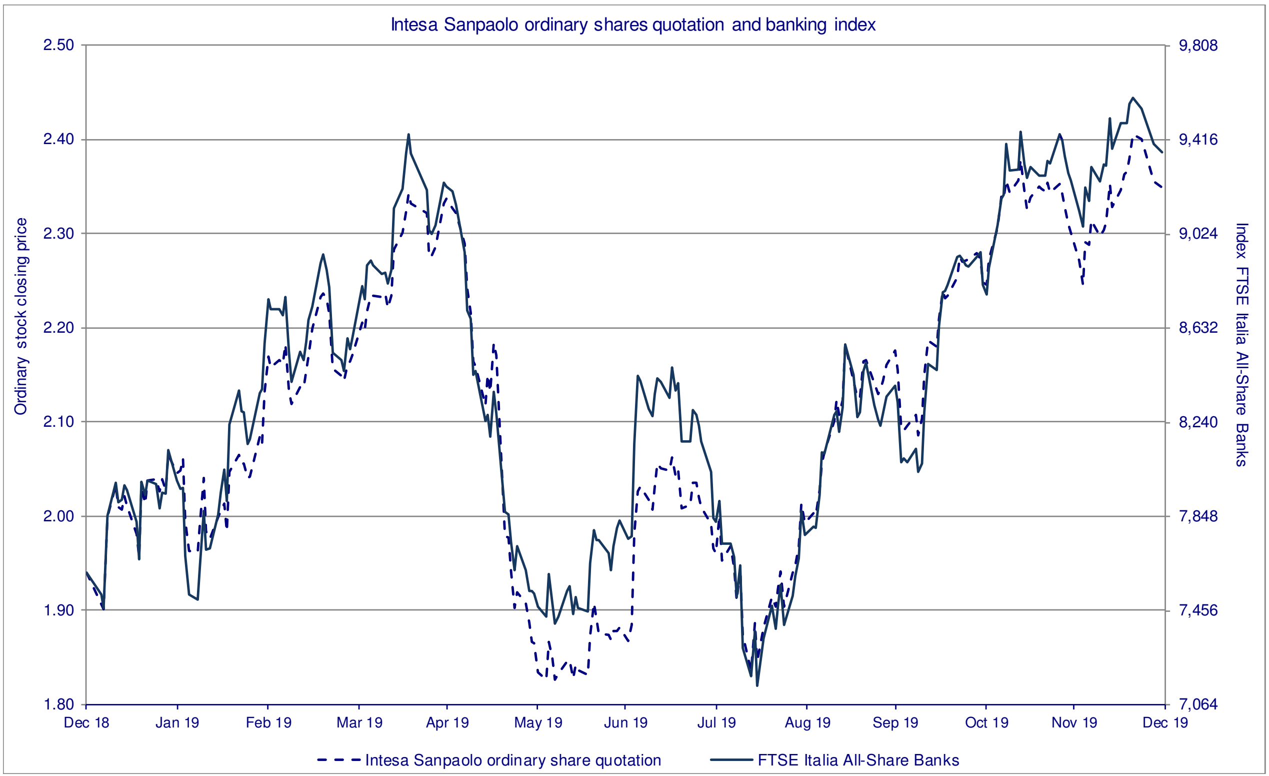
- are equal, as a maximum amount, to 24 months of fixed salary, and is determined in a different manner depending on each cluster, in order to take into due consideration the overall evaluation of the work of the person and having particular regard to the levels of capitalization, liquidity and profitability of the Group and the presence or absence of individual sanctions imposed by the Supervisory Authority;
- are paid according to the methods set for short-term variable remuneration, for each cluster;
- are included in the calculation of the ratio between the respective variable remuneration and the fixed remuneration of the last year of employment in the company, not including the sums agreed upon and paid:
    - under a non-competition agreement, for the portion that, for each year of the pact’s duration, does not exceed the last year of fixed remuneration;
    - within an agreement between the Bank and its personnel, wherever reached, for the settlement of an actual or potential dispute (wherever reached), if calculated on the basis of a predefined formula approved by the Shareholders' Meeting in advance.

Intesa Sanpaolo stock

Intesa Sanpaolo stock

Stock price performance

In 2019, within a scenario of a general increase in investor appetite for risk, the European banking sector index ended the year with a performance of 11.1%, due to the expansionary central bank monetary policies adopted in the first half of the year and the narrowing of government spreads in the second half. Compared to the Eurostoxx 50 index, the European banking index performance was down by 13.7%.
Against this backdrop, the performance of the Italian banking sector was uneven, but positive: after a first half of the year in which the index grew by up to 25%, the index subsequently shrank back due to uncertainties in the political environment that drove the BTP-Bund spread beyond 280 basis points; in the second half, the index subsequently recovered as result of the narrowing of the BTP-Bund spread, closing 2019 with a positive performance of 23%. In 2019, the Italian banking index underperformed the FTSE MIB by 5.3% and outperformed the European banking index by 11.9%.
The performance of the Intesa Sanpaolo ordinary shares in 2019 mirrored that of the banking sector indices, showing an upward trend until mid-April, followed by a sharp downturn until early June, when they reached their lowest point. After that the shares performed unevenly until mid-August and then rebounded, reaching their peak on 20 December and ending the year up 21.1% on the end of 2018.
Intesa Sanpaolo's capitalisation rose to 41.1 billion euro at the end of December 2019, from 34 billion euro at the end of 2018.



Earnings per share

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

	Ordinary Shares				
	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Weighted average number of shares	17,474,056,021	16,772,376,006	15,837,253,005	15,841,479,283	15,832,484,936
Income attributable to the various categories of shares (millions of euro)	4,182	4,050	6,900	2,929	2,577
Basic EPS (euro)	0.24	0.24	0.44	0.18	0.16
Diluted EPS (euro)	0.24	0.24	0.44	0.18	0.16

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 31 December 2019 indicated in relation to both average figures and year-end figures – was impacted by the dynamics of the market.

(millions of euro)

	31.12.2019	2019	2018	2017	2016	2015
Market capitalisation	41,122	36,911	44,947	44,820	37,152	51,903
Group's shareholders' equity	55,968	54,996	53,646	52,558	48,344	46,230
Price / book value	**0.73**	**0.67**	**0.84**	**0.85**	**0.77**	**1.12**

Pay-out ratio

The index expresses the portion of net income paid out as dividends.

For 2019, it was decided to submit a proposal to the Shareholders' Meeting to distribute a dividend of 0.192 euro per share, partly taken from the share premium reserve, for a total dividend of 3,362 million euro, equal to 80% of the consolidated income and corresponding to the pay-out envisaged for 2019 in the Business Plan.

For more details see the Proposals to the Shareholders' Meeting in the Intesa Sanpaolo financial statements.

(millions of euro)

	2019	2018	2017	2016	2015
Net income	4,182	4,050	7,316	3,111	2,739
Dividends (*)	3,362	3,449	3,419	2,999	2,361
Pay-out ratio	**80%**	**85%**	**47%**	**96%**	**86%**

(*) For 2019, 2017 and 2016, the amounts were partially assigned from reserves.

Dividend yield

This indicator measures percentage return on the shares, calculated as the ratio between dividends allocated for the year and market price in the reference year. This return, determined on the basis of average annual stock prices, maintained sustainable levels over time, also in view of financial market trends. As previously pointed out, since 2018 the share capital has consisted solely of ordinary shares.

(in euro)

	2019	2018	2017	2016	2015
Ordinary share					
Dividend per share	0.192	0.197	0.203	0.178	0.140
Average stock price	2.108	2.567	2.678	2.220	3.109
Dividend yield	9.11%	7.67%	7.58%	8.02%	4.50%
Savings share					
Dividend per share	-	-	0.214	0.189	0.151
Average stock price	-	-	2.517	2.084	2.784
Dividend yield	-	-	8.50%	9.07%	5.42%

Rating

On 7 May 2019, Fitch placed ISP's "F-2" short-term rating under observation with negative implications, following the implementation of new methodological criteria. The "F-2" short-term rating was confirmed on 26 July 2019.
During the year, the long- and short-term ISP ratings were confirmed by the 4 rating agencies with solicited ratings:

- on 30 May 2019, DBRS Morningstar confirmed its "BBB (high)"/"R-1 (low)" rating and stable trend for ISP, in line with the ratings for Italy;
- on 15 July 2019, S&P confirmed its long- and short-term ratings at "BBB/A-2" with negative outlook, in line with the ratings for Italy;
- on 25 September 2019, Moody's confirmed its "Baa1/P-2" rating and stable outlook on senior unsecured notes and on deposits, with stable outlook;
- on 15 November 2019, Fitch confirmed ISP's "BBB/F-2" ratings with negative outlook. The agency also confirmed its "bbb" viability rating.

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

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

(2) Stable trend.

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

Alternative Performance Measures and Other information

Alternative Performance Measures

Introduction

Pursuant to Article 16 of Regulation 1095/2010/EU, the European Securities and Markets Authority (ESMA) has issued specific Guidelines[12] on the presentation criteria for Alternative Performance Measures (APMs) included by European issuers in regulated information, and therefore including the Report on operations in the Financial Statements, where such measures are not defined or provided for in the financial reporting framework. These guidelines are designed to promote the utility and transparency of APMs by confirming a shared approach to the use of such measures, with improvements to their comparability, reliability and comprehensibility and the resulting benefits for financial reporting users. Consob[13] has transcribed the Guidelines in Italy and incorporated them into its supervisory practices.
According to the definition provided in the ESMA Guidelines, an Alternative Performance Measure is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. APMs are typically based on financial statement line captions prepared in accordance with applicable financial reporting rules. What sets them apart is that APMs are not defined in the financial reporting framework, yet their use is still widespread, with the role of conveying a view of the entity's performance that is closer to the management's perspective than would be possible using only the defined measures.
Measures published in application of prudential rules, including the rules laid down in the Regulation and Directive on capital requirements (CRR/CRD IV), physical or non-financial measures and social and environmental measures do not come within the narrow definition of APMs.

Intesa Sanpaolo's Alternative Performance Measures

In accordance with Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo prepares its financial statements in compliance with 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 EC Regulation 1606 of 19 July 2002 and disclosed in detail in Part A of the Notes to the financial statements.
Intesa Sanpaolo also uses various Alternative Performance Measures (APMs) to provide a clear, concise and immediate account of operating results, financial position and financial performance, driven by the conviction that such measures provide a truthful, accurate representation of financial information and are useful metrics for investors in facilitating the understanding of financial performance and position dynamics.
However, it bears emphasising that Alternative Performance Measures are complementary to the measures defined within the IFRS framework and in no way are intended as replacements of the latter.
Intesa Sanpaolo's APMs – commonly used in banking and finance – are also used by the management in decision-making processes of both an operational and strategic nature and are presented below in accordance with the aforementioned specific Guidelines provided by ESMA, the European Securities and Markets Authority.
The measures used are thoroughly reconciled with the related measures defined in the IFRS framework through the disclosures provided in the Report on operations and reconciliation statements included in the Attachments to the Financial Statements.
The measures used include the margins of the reclassified income statement and the aggregates of the reclassified balance sheet, in addition to other measures calculated on the basis of the figures presented in the financial statements.
For each measure published, its value in the comparative is also provided, restated as appropriate to ensure a uniform comparison where such restatement is necessary and material in amount.

Margins of the reclassified income statement and the aggregates of the reclassified balance sheet

The APMs described below relate to the margins of Intesa Sanpaolo's reclassified income statement.

Operating income, which includes core income and other income and expenses strictly correlated with operating activity. The margin is calculated as the sum of the following captions of the reclassified income statement:
- Net interest income
- Net fee and commission income
- Income from insurance business
- Profits (Losses) on financial assets and liabilities designated at fair value
- Other income (expenses)

[12] Guidelines on Alternative Performance Measures (APMs) - ESMA/2015/1415en
[13] Consob Communication No. 0092543 of 3 December 2015

Operating costs, a measure that includes costs and expenses relating to core operating activity presented in the following captions of the reclassified income statement:
- Personnel expenses
- Other administrative expenses
- Adjustments to property, equipment and intangible assets

Operating margin, which presents the core business operating margin as the difference between Operating income and Operating costs, as described above.

Gross income, which determines the operating margin in a manner that takes account of unrealised and realised gains on loans and receivables and other assets, calculated by subtracting or adding the following captions to Operating margin:
- Net adjustments to loans
- Other net provisions and net impairment losses on other assets
- Other income (expenses)
- Income (Loss) from discontinued operations

Finally, net income or loss includes income components outside the company management (taxes, levies and expenses aimed at maintaining the stability of the banking system), components of an “accounting” nature (income statement effects of the allocation of acquisition costs and goodwill impairment), as well as expenses related to restructuring/reorganisation processes. The following captions of the reclassified income statement are included:
- Taxes on income
- 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

For detailed information on the composition of the individual captions of the reclassified income statement cited above, see the specific chapter of the Report on operations on financial performance. Reconciliations of the individual captions of the reclassified income statement with the captions of the financial statements are presented in an attachment to the financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

The following aggregates of the reclassified balance sheet, which are primarily intended to provide an overview of financial position compared to the financial statement schemes, have been identified as Alternative Performance Measures; see the specific chapter of this Report on operations for an explanation of the remaining captions of the reclassified balance sheet derived directly from the financial statements.

Due from banks
The aggregate includes the captions typical of lending business with banks.
In particular, it includes the portion of loans to banks presented among Financial assets measured at amortised cost. It also includes any portions of loans to banks presented among Financial assets held for trading, Financial assets designated at fair value, Financial assets mandatorily measured at fair value and Financial assets measured at fair value through other comprehensive income.

Loans to customers
The aggregate includes the captions typical of lending business with customers. In particular, it includes the portion of loans to customers presented among Financial assets measured at amortised cost, inclusive of the portion of loans represented by securities. It also includes portions of loans to customers presented among Financial assets held for trading, Financial assets designated at fair value, Financial assets mandatorily measured at fair value and Financial assets measured at fair value through other comprehensive income.

Financial assets measured at amortised cost which do not constitute loans
The aggregate includes portions of financial assets measured at amortised cost (banks and customers) not held for financing purposes. Essentially, these are debt securities of banks, governments, financial institutions and insurance companies.

Financial assets at fair value through profit or loss
These include Financial assets held for trading, designated at fair value and mandatorily measured at fair value, except for portions that represent Loans to customers and Due from banks, respectively, which are classified to the aggregates of the same names described above. The details of the aggregate are provided in the table included in the comment on balance sheet aggregates.

Financial assets measured at fair value through other comprehensive income
These include Financial assets measured at fair value through other comprehensive income, except for portions that represent Loans to customers and Due from banks, respectively, which are classified to the aggregates of the same names described above.

Direct deposits from banking business
The aggregate includes captions relating to funding from customers. In addition to amounts due to customers at amortised cost and securities issued, it includes funding classified to the captions Financial liabilities held for trading (certificates) and Financial liabilities measured at fair value.

Direct deposits from insurance business and technical reserves
The aggregate, which is composed of the funding captions relating to the insurance business, includes the Financial liabilities of the insurance segment designated at fair value and measured at amortised cost pursuant to IAS 39 (given the application of the deferral approach by the Group's insurance companies). Direct deposits from insurance business also include Technical reserves, which represent the amount due to customers who have purchased traditional policies or policies with significant insurance risk. Finally, it includes Subordinated liabilities pertaining to insurance companies measured at amortised cost (pursuant to IAS 39, in respect of the aforementioned application of the deferral approach).

Indirect customer deposits
The aggregate refers to investment and distribution activity for securities, mutual funds, portfolio management schemes and insurance carried out by the bank on behalf of third parties or in connection with the management of securities portfolios. The assets are measured at market value. Indirect customer deposits are broken down into Assets under administration (all securities under administration and custody not attributable to assets under management: government bonds, equities, third-party bonds, etc.) and assets under management (portfolio management schemes, mutual funds and insurance products).

Customer financial assets
The aggregate is the sum of Direct deposits from banking business and Direct deposits from insurance business – as defined above – net of components of Indirect customer deposits which are also included in Direct customer deposits (Financial liabilities of the insurance business and technical reserves).

For all the Alternative Performance Measures indicated above, detailed disclosures regarding the aggregates are provided in the text and tables in the Report on operations and attachments to the financial statements, together with a statement reconciling the official financial statements prescribed by the Bank of Italy with the reclassified financial statements. Where the comparative figures have been restated, a thorough reconciliation is provided in the attachments to the financial statements.

Other Alternative Performance Measures

Intesa Sanpaolo publishes the following measures of this latter type, conventionally represented by the APMs used in the Report on operations other than the margins of the Reclassified income statement and the aggregates of the Reclassified balance sheet.

Profitability ratios

Cost/income ratio
The measure is calculated as the ratio of operating costs (personnel expenses, administrative expenses and amortisation and depreciation) to the operating income presented in the Reclassified income statement and provides an overview of operating efficiency. For further information regarding the composition of the captions included in the numerator and denominator of the ratio, see the above and the attachments to the financial statements for a thorough reconciliation.

ROE – Return On Equity
The measure is calculated as the ratio of the net income or loss to shareholders' equity and represents the profitability generated by the shareholders' equity available to the Bank. In particular:
- the net income or loss presented in the Income statement is used in the numerator; in exceptional cases only, net income or loss may be adjusted to account for any non-recurring components, which are thoroughly identified within the framework of each of the measures affected. In interim situations, net income or loss is annualised, net of any non-recurring components;
- in the denominator, period-end shareholders' equity is used, without taking account of AT1 capital instruments and the net income or loss for the period.

ROA – Return On Assets
The measure is calculated by comparing the net income or loss to total assets and provides an overview of the profitability of company assets. In particular:
- the net income or loss presented in the Income statement is used in the numerator; in exceptional cases only, net income or loss may be adjusted to account for any non-recurring components, which are thoroughly identified within the framework of each of the measures affected. In interim situations, net income or loss is annualised, net of any non-recurring components;
- in the denominator, period-end total assets are used.

Price/Book value
The measure, which reflects the value attributed by the market to the Bank, and thus indirectly to its overall assets, is calculated by comparing the market capitalisation to shareholders' equity. It is published on the basis of an historical series using data from five periods, in addition to the calculation on the basis of period-end values at the reporting date. Specifically:
- the average capitalisation for the reporting period or year is used in the numerator. Average capitalisation is calculated on the basis of the average price of the shares (annual arithmetic average of the daily closing prices of trading on Borsa Italiana), multiplied by the weighted number of shares during the period/year.
  In addition to average capitalisation, the period-end value is also published; it is used to calculate the price/book value on the basis of period-end figures. Period-end capitalisation is calculated by multiplying the closing price of trading on Borsa Italiana on the final day of the period or year, multiplied by the number of shares at the end of the period or year.

– the average shareholders' equity attributable to the Group, calculated as the semi-sum of shareholders' equity at the beginning and end of the period, is used in the denominator. In addition to average shareholders' equity, the value of shareholders' equity as at the end of the period or year is also published in order to calculate the price/book value on the basis of period-end figures.

Pay-out ratio
The measure expresses the portion of net income allocated to remuneration for shareholders. In particular:
– the net income or loss presented in the Income statement is used in the numerator, without ever adjusting it to account for any non-recurring components;
– the amount of cash dividends that have been proposed or approved for distribution to the shareholders, inclusive of any amounts arising from the distribution of available reserves, is used in the denominator.

Dividend Yield
This measure refers to percentage return on the shares, calculated as the ratio between the dividend and market price. In particular:
– the amount of the divided per share proposed/approved is used in the numerator;
– the average price of the share, calculated as the annual arithmetic average of the daily closing prices of trading on Borsa Italiana, is used in the denominator.

Risk ratios

Net bad loans/Loans to customers
The measure is calculated as the ratio of bad loans to total Loans to customers, thus providing an overview of the loan portfolio quality. The figures are drawn from the financial statements, i.e. net of the related adjustments. For the definition of the aggregate Loans to customers, see the above.

Cumulated adjustments on bad loans/Gross bad loans to customers
The measure is calculated as the ratio of the total amount of cumulated adjustments on Loans to customers to the amount of Bad loans to customers gross of the related cumulated adjustments, thus providing an overview of the coverage ratio for bad loans. For the definition of the aggregate Loans to customers, see the above.

Cost of credit/Cost of risk
The measure is claculated as the ratio of the amount of adjustments for the period in the reclassified income statement to the amount of Loans to customers at period-end, thus providing an overview of the incidence of adjustments on the portfolio. For the definition of the aggregate Loans to customers, see the above.

Other measures

Loan-to-deposit ratio
The measure is calculated as the ratio of Loans to customers to the amount of Direct deposits from banking business, thus providing an overview of the liquidity level. For the definitions of the aggregates Loans to customers and Direct deposits from banking business, see the above.

Other information

With regard to information to be included in the annual report as required by specific provisions note that:

- the list of Group companies and subsidiaries is provided in the Notes to the consolidated financial statements (Part A and Part B - Assets - Section 7), in accordance with the provisions of the Bank of Italy;
- the Notes to the consolidated financial statements also contain (Part E – Information on risks and relative hedging policies – Introduction) information concerning obligations under Art. 15 of the Consob Market Regulation 20249/2017, with respect to subsidiaries established and regulated under the laws of non-EU countries;
- information on compensation and transactions with related parties carried out by the Bank or by the Group is provided in Part H of the Notes to the financial statements;
- information on the Corporate Governance system and the ownership structure of Intesa Sanpaolo, pursuant to Art. 123 bis of the Consolidated Law on Finance and information on the remuneration paid to Management and control bodies members, General Managers and Key Managers and on the Parent Company's shares, as well as on the assignment of financial instruments to board members and general managers, pursuant to Article 123 ter of the Consolidated Law on Finance, is provided in brief in a specific chapter of this Report and in the Report on Remuneration, published annually in the "Governance" section of the Bank's website at: www.group.intesasanpaolo.com;
- the public disclosure concerning Basel 3 Pillar 3 contained in a special separate file, is made available after its approval on the Bank's above-mentioned website;
- the country-by-country reporting as required by Article 89 of the Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) is published on the Bank's above-mentioned website;
- the Consolidated non-financial statement, governed by Legislative Decree 254 of 30 December 2016 implementing Directive 2014/95/EU, is contained in a separate document, available for consultation in the "Sustainability" section of the Bank's above-mentioned website.

Forecast for 2020

In 2020, the forecast is for a modest re-acceleration of international economic activity and trade. The thawing in the trade war between the United States and China should lead to a partial resumption of trade, which will improve business confidence in Europe. Fiscal policies are moderately expansionary in Europe and China and neutral in the US. Financial conditions continue to be very accommodating. However, the outlook is affected by the risk that the United States will raise tariffs against the European Union within the current difficult ongoing trade negotiations. In addition, the very mature phase of economic expansion makes it more unlikely that will we see significant accelerations in growth.
Following the ratification of the withdrawal agreement by the European Union, the UK has not been a member of the EU since February 2020. However, the effects of the exit will only materialise at the end of the transitional period, i.e. after 31 December.
The Federal Reserve has suspended its cuts in official rates, which may resume if the economic slowdown is more severe than expected. The European Central Bank is maintaining a policy that could lead to new expansionary measures if the European economy performs worse than forecast, but there is strong expectation among the markets that European monetary policy will not be changed in 2020. The implementation of securities purchases and abundant liquidity will also keep interest rates very low.
In general, European economic growth is expected to speed up slightly in 2020, on a quarterly basis, although the annual average is likely to remain just below the 2019 level. Inflation will remain stable, below the Central Bank's target. Meanwhile, the growth in the Italian economy, which was just above zero in 2019, should increase slightly in 2020. The 2020 government budget envisages no change in the public deficit with respect to last year. Moreover, although the primary surplus is still too low to allow a reduction in the debt-to-GDP ratio, at current levels of nominal growth, its relative stability and the change in tone towards the European Union have calmed the markets. As a result, risk premiums could remain below the post-crisis average in the coming months, as long as the political debate does not start casting new doubts about Italy's continued membership of the monetary union.
The emerging economies are expected to experience stronger growth in 2020, thanks to the recovery in Brazil, India, Russia and Mexico, after an overall disappointing 2019, and to the substantial resilience in China (expected to only slow down slightly with respect to 2019). The forecasts in the International Monetary Fund's January 2020 update of the World Economic Outlook indicate average real GDP growth of 4.4% in 2020, compared to an estimated 3.7% in 2019.
In the countries where ISP subsidiaries are based, GDP growth is expected to slow down in the CEE/SEE countries, both in the CEE area (after particularly strong performance again in 2019) and in the SEE region, mainly due to the weakness of the Eurozone manufacturing sector, particularly in Germany, and the continued weak performance of global trade. Outside the CEE/SEE region, GDP growth is expected to recover significantly in Russia and keep up a strong pace in Ukraine and Moldova in the CIS area and in Egypt in the MENA region.
The downside risks for growth stem from uncertainties about the development of trade relations between the United States and its trading partners in Asia and Latin America, as well as in Europe, ongoing geopolitical tensions at international level, particularly in the Gulf area, and social tensions in various regions.
With regard to the Italian banking system, a gradual improvement in loans to businesses is possible during 2020, in the presence of favourable credit conditions, as a result of the TLTRO III and the new lows reached by the interest rates offered, in a scenario of strong competition, particularly for the best customers. The very favourable cost of borrowing will benefit from loan impairment rates that are expected to remain at 2019 levels, which were well below pre-crisis levels. However, the performance of loans to businesses will be affected by the weakness of the economy and the continued climate of uncertainty. For households, the lending scenario remains positive. Residential mortgages will continue to be supported by low rates and by the prospect of a strong real estate market, which should see a more widespread rise in house prices. Lending to households will be favoured by the reduction in the unemployment rate and the increase in disposable income. That outlook justifies the relaxed tone of the offering of bank credit to households.
Customer deposits will see continued growth, although at more moderate levels. Low market yields and the significant liquidity available will continue to fuel the balances on current accounts. The use of the ECB refinancing available through the TLTRO III will limit medium- to long-term funding needs. For bonds, net redemptions of bonds placed in the retail segment are expected to be offset by issues on the wholesale markets of instruments that meet the loss absorption requirements. The limited funding needs, the support of the TLTRO III and the more relaxed conditions for bond issues will allow the cost of funding to be contained again in 2020. Current account rates are expected to remain at record lows, with some possible slight haircuts, but without any fall in negative territory.

In 2020, the Group's net income is expected to grow compared with 2019, even when excluding the capital gain foreseen on the Nexi transaction, as a result of growth in revenues, continuous reduction in operating costs and decrease in the cost of risk. Net income for 2020 is expected to be well above 2019 when including the foreseen Nexi capital gain. The dividend policy for 2020 envisages the distribution of cash dividends corresponding to a payout ratio of 75% of net income.

The Board of Directors

Turin, 25 February 2020

Intesa Sanpaolo Group
Consolidated financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		31.12.2019	31.12.2018	Changes amount	%
10.	Cash and cash equivalents	9,745	10,350	-605	-5.8
20.	Financial assets measured at fair value through profit or loss	49,414	42,115	7,299	17.3
	a) financial assets held for trading	*45,152*	*38,806*	*6,346*	*16.4*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*4,067*	*3,101*	*966*	*31.2*
30.	Financial assets measured at fair value through other comprehensive income	72,410	60,469	11,941	19.7
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	149,546	18,656	12.5
40.	Financial assets measured at amortised cost	467,815	476,503	-8,688	-1.8
	a) due from banks	*49,027*	*69,307*	*-20,280*	*-29.3*
	b) loans to customers	*418,788*	*407,196*	*11,592*	*2.8*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	952	-340	-35.7
50.	Hedging derivatives	3,029	2,993	36	1.2
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	124	1,445	
70.	Investments in associates and companies subject to joint control	1,240	943	297	31.5
80.	Technical insurance reserves reassured with third parties	28	20	8	40.0
90.	Property and equipment	8,878	7,372	1,506	20.4
100.	Intangible assets	9,211	9,141	70	0.8
	of which:				
	- goodwill	*4,055*	*4,227*	*-172*	*-4.1*
110.	Tax assets	15,467	17,258	-1,791	-10.4
	a) current	*1,716*	*3,320*	*-1,604*	*-48.3*
	b) deferred	*13,751*	*13,938*	*-187*	*-1.3*
120.	Non-current assets held for sale and discontinued operations	494	1,297	-803	-61.9
130.	Other assets	7,988	8,707	-719	-8.3
Total assets		**816,102**	**787,790**	**28,312**	**3.6**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2019	31.12.2018	Changes	
				amount	%
10.	Financial liabilities measured at amortised cost	519,382	513,942	5,440	1.1
	a) due to banks	*103,324*	*107,982*	*-4,658*	*-4.3*
	b) due to customers	*331,181*	*323,900*	*7,281*	*2.2*
	c) securities issued	*84,877*	*82,060*	*2,817*	*3.4*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	810	16	2.0
20.	Financial liabilities held for trading	45,226	41,895	3,331	8.0
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	67,800	8,135	12.0
40.	Hedging derivatives	9,288	7,221	2,067	28.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	398	129	32.4
60.	Tax liabilities	2,321	2,391	-70	-2.9
	a) current	*455*	*163*	*292*	
	b) deferred	*1,866*	*2,228*	*-362*	*-16.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	258	-217	-84.1
80.	Other liabilities	12,070	11,670	400	3.4
90.	Employee termination indemnities	1,134	1,190	-56	-4.7
100.	Allowances for risks and charges	3,997	5,064	-1,067	-21.1
	a) commitments and guarantees given	*482*	*510*	*-28*	*-5.5*
	b) post-employment benefits	*232*	*261*	*-29*	*-11.1*
	c) other allowances for risks and charges	*3,283*	*4,293*	*-1,010*	*-23.5*
110.	Technical reserves	89,136	80,797	8,339	10.3
120.	Valuation reserves	-157	-913	-756	-82.8
125.	Valuation reserves pertaining to insurance companies	504	9	495	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,279	13,006	273	2.1
160.	Share premium reserve	25,075	24,768	307	1.2
170.	Share capital	9,086	9,085	1	0.0
180.	Treasury shares (-)	-104	-84	20	23.8
190.	Minority interests (+/-)	247	326	-79	-24.2
200.	Net income (loss) (+/-)	4,182	4,050	132	3.3
Total liabilities and shareholders' equity		**816,102**	**787,790**	**28,312**	**3.6**

Consolidated income statement

(millions of euro)

		2019	2018	Changes amount	%
10.	Interest and similar income	10,193	10,486	-293	-2.8
	of which: interest income calculated using the effective interest rate method	*10,565*	*10,814*	*-249*	*-2.3*
20.	Interest and similar expense	-3,269	-3,144	125	4.0
30.	**Interest margin**	**6,924**	**7,342**	**-418**	**-5.7**
40.	Fee and commission income	9,658	9,548	110	1.2
50.	Fee and commission expense	-2,159	-2,023	136	6.7
60.	**Net fee and commission income**	**7,499**	**7,525**	**-26**	**-0.3**
70.	Dividend and similar income	117	94	23	24.5
80.	Profits (Losses) on trading	506	445	61	13.7
90.	Fair value adjustments in hedge accounting	-61	-111	-50	-45.0
100.	Profits (Losses) on disposal or repurchase of:	1,385	549	836	
	a) financial assets measured at amortised cost	*97*	*-19*	*116*	
	b) financial assets measured at fair value through other comprehensive income	*1,218*	*508*	*710*	
	c) financial liabilities	*70*	*60*	*10*	*16.7*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	123	298	-175	-58.7
	a) financial assets and liabilities designated at fair value	*-103*	*28*	*-131*	
	b) other financial assets mandatorily measured at fair value	*226*	*270*	*-44*	*-16.3*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,991	3,240	751	23.2
120.	**Net interest and other banking income**	**20,484**	**19,382**	**1,102**	**5.7**
130.	Net losses/recoveries for credit risks associated with:	-2,201	-2,509	-308	-12.3
	a) financial assets measured at amortised cost	*-2,175*	*-2,507*	*-332*	*-13.2*
	b) financial assets measured at fair value through other comprehensive income	*-26*	*-2*	*24*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-9	-26	-17	-65.4
140.	Profits (Losses) on changes in contracts without derecognition	-6	-11	-5	-45.5
150.	**Net income from banking activities**	**18,268**	**16,836**	**1,432**	**8.5**
160.	Net insurance premiums	10,147	8,180	1,967	24.0
170.	Other net insurance income (expense)	-12,673	-9,968	2,705	27.1
180.	**Net income from banking and insurance activities**	**15,742**	**15,048**	**694**	**4.6**
190.	Administrative expenses:	-9,692	-10,000	-308	-3.1
	a) personnel expenses	*-5,825*	*-5,931*	*-106*	*-1.8*
	b) other administrative expenses	*-3,867*	*-4,069*	*-202*	*-5.0*
200.	Net provisions for risks and charges	-73	-35	38	
	a) commitments and guarantees given	*23*	*88*	*-65*	*-73.9*
	b) other net provisions	*-96*	*-123*	*-27*	*-22.0*
210.	Net adjustments to / recoveries on property and equipment	-523	-383	140	36.6
220.	Net adjustments to / recoveries on intangible assets	-692	-596	96	16.1
230.	Other operating expenses (income)	774	733	41	5.6
240.	**Operating expenses**	**-10,206**	**-10,281**	**-75**	**-0.7**
250.	Profits (Losses) on investments in associates and companies subject to joint control	53	177	-124	-70.1
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-13	-9	4	44.4
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	96	452	-356	-78.8
290.	**Income (Loss) before tax from continuing operations**	**5,672**	**5,387**	**285**	**5.3**
300.	Taxes on income from continuing operations	-1,564	-1,363	201	14.7
310.	**Income (Loss) after tax from continuing operations**	**4,108**	**4,024**	**84**	**2.1**
320.	Income (Loss) after tax from discontinued operations	64	48	16	33.3
330.	**Net income (loss)**	**4,172**	**4,072**	**100**	**2.5**
340.	Minority interests	10	-22	32	
350.	**Parent Company's net income (loss)**	**4,182**	**4,050**	**132**	**3.3**
	Basic EPS - Euro	**0.24**	**0.24**		
	Diluted EPS - Euro	**0.24**	**0.24**		

Statement of consolidated comprehensive income

(millions of euro)

		2019	2018	Changes amount	%
10.	**Net income (Loss)**	**4,172**	**4,072**	**100**	**2.5**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**227**	**403**	**-176**	**-43.7**
20.	Equity instruments designated at fair value through other comprehensive income	-15	114	-129	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-	-	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	279	-8	287	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	-37	297	-334	
80.	Non current assets classified as held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**997**	**-838**	**1,835**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	64	-6	70	
120.	Cash flow hedges	-95	96	-191	
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	549	-609	1,158	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	477	-408	885	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	2	89	-87	-97.8
170.	**Total other comprehensive income (net of tax)**	**1,224**	**-435**	**1,659**	
180.	**Total comprehensive income (captions 10 + 170)**	**5,396**	**3,637**	**1,759**	**48.4**
190.	**Total consolidated comprehensive income pertaining to minority interests**	**-35**	**32**	**-67**	
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**5,431**	**3,605**	**1,826**	**50.7**

Changes in consolidated shareholders' equity as at 31 December 2019

(millions of euro)

	31.12.2019												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	other shares		retained earnings	other								
AMOUNTS AS AT 31.12.2018	**9,473**	**-**	**24,789**	**12,390**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,350**	**54,024**	**326**
Changes in opening balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AMOUNTS AS AT 1.1.2019	**9,473**	**-**	**24,789**	**12,390**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,350**	**54,024**	**326**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**587**						**-587**	**-**	**-**	**-**
Dividends and other allocations				**-9**						**-3,485**	**-3,494**	**-3,463**	**-31**
CHANGES IN THE PERIOD													
Changes in reserves			**307**	**-322**	**199**						**184**	**184**	**-**
Operations on shareholders' equity													
Issue of new shares									17		17	17	-
Purchase of treasury shares									-37		-37	-37	-
Dividends											-	-	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	-18		-1	-184	2						-201	-188	-13
Total comprehensive income for the period						**729**	**495**			**4,172**	**5,396**	**5,431**	**-35**
SHAREHOLDERS' EQUITY AS AT 31.12.2019	**9,455**	**-**	**25,095**	**12,462**	**779**	**-251**	**504**	**4,103**	**-104**	**4,172**	**56,215**	**55,968**	**247**
- Group	**9,086**	**-**	**25,075**	**12,500**	**779**	**-157**	**504**	**4,103**	**-104**	**4,182**	**55,968**		
- minority interests	**369**	**-**	**20**	**-38**	**-**	**-94**	**-**	**-**	**-**	**-10**	**247**		

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

Changes in consolidated shareholders' equity as at 31 December 2018

(millions of euro)

	31.12.2018												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	savings shares		retained earnings	other								
AMOUNTS AS AT 31.12.2017	**8,541**	**485**	**26,031**	**10,462**	**578**	**-1,281**	**417**	**4,103**	**-86**	**7,354**	**56,604**	**56,205**	**399**
Changes in opening balances (FTA IFRS9)	**-**	**-**	**-**	**-3,278**	**-**	**328**	**-**	**-**	**-**	**-**	**-2,950**	**-2,937**	**-13**
AMOUNTS AS AT 1.1.2018	**8,541**	**485**	**26,031**	**7,184**	**578**	**-953**	**417**	**4,103**	**-86**	**7,354**	**53,654**	**53,268**	**386**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**5,972**						**-5,972**	**-**	**-**	**-**
Dividends and other allocations										**-1,382**	**-1,382**	**-1,365**	**-17**
CHANGES IN THE PERIOD													
Changes in reserves											**-**	**-**	**-**
Operations on shareholders' equity													
Issue of new shares	838		827	-88					8		1,585	1,585	-
Purchase of treasury shares		-485							-6		-491	-491	-
Dividends			-2,065								-2,065	-2,065	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	94		-4	-678							-588	-513	-75
Total comprehensive income for the period						**-27**	**-408**			**4,072**	**3,637**	**3,605**	**32**
SHAREHOLDERS' EQUITY AS AT 31.12.2018	**9,473**	**-**	**24,789**	**12,390**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,350**	**54,024**	**326**
- Group	**9,085**	**-**	**24,768**	**12,428**	**578**	**-913**	**9**	**4,103**	**-84**	**4,050**	**54,024**		
- minority interests	**388**	**-**	**21**	**-38**	**-**	**-67**	**-**	**-**	**-**	**22**	**326**		

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

Consolidated statement of cash flows

(millions of euro)

	2019	2018
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**9,813**	**7,148**
Net income (loss) (+/-)	4,172	4,072
Gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit and loss (-/+)	271	431
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-2,711	-718
Gains/losses on hedging activities (-/+)	61	111
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	2,673	3,478
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	1,215	980
Net provisions for risks and charges and other costs/revenues (+/-)	73	129
Net insurance premiums to be collected (-)	1	13
Other insurance revenues/charges to be collected (-/+)	5,954	1,253
Taxes, duties and tax credits to be paid/collected(+/-)	-160	889
Net adjustments to/recoveries on discontinued operations net of tax effect (+/-)	-	-
Other adjustments (+/-)	-1,736	-3,490
2. Cash flow from / used in financial assets	**-15,270**	**917**
Financial assets held for trading	-4,912	731
Financial assets designated at fair value	16	12
Other financial assets mandatorily measured at fair value	-740	-132
Financial assets measured at fair value through other comprehensive income	-9,924	-456
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-9,426	-1,294
Financial assets measured at amortised cost	6,792	1,869
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	340	-542
Other assets	2,584	729
3. Cash flow from / used in financial liabilities (*)	**9,890**	**-2,442**
Financial liabilities measured at amortised cost	3,679	-2,924
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	7	-502
Financial liabilities held for trading	2,403	995
Financial liabilities designated at fair value	-106	22
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	1,969	4,664
Other liabilities	1,938	-4,697
Net cash flow from (used in) operating activities	**4,433**	**5,623**
B. INVESTING ACTIVITIES		
1. Cash flow from	**359**	**278**
Sales of investments in associates and companies subject to joint control	10	-
Dividends collected on investments in associates and companies subject to joint control	9	12
Sales of property and equipment	340	-
Sales of intangible assets	-	-
Sales of subsidiaries and business branches	-	266
2. Cash flow used in	**-1,647**	**-2,327**
Purchases of investments in associates and companies subject to joint control	-182	-169
Purchases of property and equipment	-497	-112
Purchases of intangible assets	-968	-1,798
Purchases of subsidiaries and business branches	-	-248
Net cash flow from (used in) investing activities	**-1,288**	**-2,049**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	-20	1,094
Share capital increases	-234	-198
Dividend distribution and other	-3,494	-3,447
Disposal/acquisition of minority interests in subsidiaries	-14	-31
Net cash flow from (used in) financing activities	**-3,762**	**-2,582**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-617**	**992**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	10,350	9,353
Net increase (decrease) in cash and cash equivalents	-617	992
Cash and cash equivalents: foreign exchange effect	12	5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**9,745**	**10,350**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to 9.9 billion euro (cash flow used) and comprise 13.4 billion euro in cash flows, 4.1 billion euro in fair value changes and -7.6 billion euro in other changes.

Notes to the consolidated financial statements

Part A – Accounting policies

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's consolidated financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.
The consolidated financial statements as at 31 December 2019 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015[*], with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, 22 December 2017 and 30 November 2018.
These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the consolidated financial statements.
The financial statements have been prepared using the IAS/IFRS in force as at 31 December 2019 (including the SIC and IFRIC interpretation documents) as listed in the attachments to these financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2019.

[*] Art. 43 of Legislative Decree 136/2015 confirmed to the Bank of Italy the powers concerning the layouts of financial statements already previously attributed to the same Authority by Legislative Decree 38/2005.

IFRS endorsed as at 31.12.2019 in force since 2019

Regulation endorsement	Title	Effective date
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
498/2018	IFRS 9 Financial instruments	01/01/2019 First financial year starting on or after 01/01/2019
1595/2018	IFRIC 23 Uncertainty over income tax treatments	01/01/2019 First financial year starting on or after 01/01/2019
237/2019	Amendments to IAS 28 Investments in associates and Joint ventures	01/01/2019 First financial year starting on or after 01/01/2019
402/2019	Amendments to IAS 19 Employee Benefits	01/01/2019 First financial year starting on or after 01/01/2019
412/2019	Amendments to IAS 12 Income Taxes	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IAS 23 Borrowing Costs	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 3 Business Combinations	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 11 Joint Arrangements	01/01/2019 First financial year starting on or after 01/01/2019
34/2020	Amendments to IFRS 9 Financial Instruments (*)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 39 Financial Instruments: Recognition and Measurement (*)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IFRS 7 Financial Instruments: Disclosures (*)	01/01/2020 First financial year starting on or after 01/01/2020

(*) Regulation n. 34/2020, approved on 15 January 2020, application of which is compulsory from 1 January 2020, with an option of early adoption that the Intesa Sanpaolo Group decided to use.

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2019 consist primarily of IFRS 16 "Leases". The new financial reporting standard IFRS 16 "Leases" came into force on 1 January 2019, replacing IAS 17 and IFRIC 4. IFRS 16 affects the method of accounting for leases, as well as rental, hire, letting and loan for use agreements, introducing a new definition of "lease" based on the transfer of the "right of use" of the asset leased.
For a detailed description of IFRS 16 and the impacts of first-time adoption, see the section below “Transition to IFRS 16”.

The Intesa Sanpaolo Group has also exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement[14] and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.
These changes are part of the project to analyse the accounting effects of the Interest Rate Benchmark Reform or IBOR Reform. This relates to recent developments concerning the revision or replacement of certain interest rate benchmarks used to set interest rates in various jurisdictions, such as LIBOR, TIBOR and, in Europe, EONIA and Euribor, based on the indications from the G20 and the Financial Stability Board.
The IASB is working on the possible accounting impacts of the IBOR Reform through a project divided into two phases: the first phase focuses on the possible accounting impacts in the period prior to the replacement of the existing benchmark rates with new rates (pre-replacement issues); and the second phase of the project, still under way, involves the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (replacement issues).
Phase 1 of the project, which ended with the publication of the above-mentioned Regulation 34/2020, introduced several changes to prevent the discontinuation of existing hedges. The IASB considers that, in this scenario, the discontinuation of hedges solely due to the effect of uncertainty does not provide useful information for the readers of financial statements and has therefore decided to make some temporary exceptions to the existing regulations to prevent these distortions, which can be applied until the reform of the interest rate benchmarks has been completed.
In this regard, the IASB has identified the following hedge accounting provisions that may be affected by the interest rate benchmark reform in the pre-replacement phase:

[14] The amendments also concern IAS 39 due to the possibility of exercising the option to continue applying the previous standard for hedge accounting instead of implementing the new provisions of IFRS 9. The Intesa Sanpaolo Group has adopted this option (so-called opt-out).

1) *Highly probable requirement:* IAS 39 and IFRS 9 require that forecast transactions must meet the highly probable requirement in order to be designated as the hedged item.
2) *Prospective* and *retrospective assessment of hedge effectiveness* concerning the passing of the effectiveness tests required by IFRS 9 and IAS 39 to allow the application of hedge accounting.
3) *Designation of risk components*: IFRS 9 and IAS 39 allow the designation of a non-contractually specified risk component when it can be separately identified and reliably measured.

For each of these provisions, the IASB has introduced a simplification, which assumes that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the interbank rate reform.
The amendments are applicable on a mandatory basis from 1 January 2020, with the option of early application, which the Intesa Sanpaolo Group has exercised.

In addition, and as shown in the above table, the accounting standards applicable on a mandatory basis for the first time starting in 2019 include the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" and several amendments which have been made to the existing standards – none of which is particularly significant for the Intesa Sanpaolo Group – and were endorsed by the European Commission in 2018 and 2019.
A summary of the Endorsement Regulations is provided below:

– Regulation 498/2018: this regulation endorsed on 22 March 2018 adopted several amendments to IFRS 9 “Prepayment features with negative compensation” regarding the classification of financial instruments with particular prepayment features. This amendment establishes that, for the purposes of passing the SPPI test, the prepayment features can establish that reasonable compensation for prepayment can both be paid and received (and not, as in the past, only received by the lender/investor).
– Regulation 1595/2018: this regulation endorsed on 23 October 2018 adopted the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", which clarifies how to apply the recognition and measurement requirements of IAS 12 “Income Taxes” (for current and deferred tax assets and liabilities), when there is uncertainty over the income tax treatment. According to the interpretation, an entity must assess whether the tax authority is likely to accept an uncertain tax treatment. If this is the case, it must determine its value and, if not, it must use either the most likely amount method or the expected value method to determine the taxable profit (tax losses) and other tax bases.
  This interpretation has provided better clarification of the treatment of uncertainty, but has not led to substantial changes with respect to the approach adopted by the Intesa Sanpaolo Group.
– Regulation 237/2019: this regulation of 8 February 2019 adopted several amendments to IAS 28 "Investments in Associates and Joint Ventures". The update "Long-term Interests in Associates and joint ventures", which is part of the ordinary rationalisation and clarification of the IAS/IFRS, clarified that an entity shall apply IFRS 9, including the provisions on impairment, also to long-term interests representing financial instruments in associates or joint ventures for which the equity method is not used. These amendments do not introduce new concepts but are intended to provide guidance concerning the interaction between IFRS 9 and IAS 28.
– Regulation 402/2019: this regulation of 13 March 2019 made several amendments to IAS 19 "Employee Benefits" to clarify that, after the amendment, curtailment or settlement of a defined benefit plan, an entity shall apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period. Given the variety of practices adopted by companies, the regulation specifies that a company is required to update the actuarial assumptions following the amendment/curtailment of the plan, using the most recent information available.
– Regulation 412/2019: this regulation of 14 March 2019, which is part of the ordinary rationalisation and streamlining of the IAS/IFRS, adopted the changes introduced by the IASB within the Annual Improvements to IFRS Standards 2015-2017 Cycle, published on 12 December 2017. These changes include amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".

Finally, due to its importance for the classification of non-performing exposures, the Group has adopted the New Definition of Default for accounting purposes from November 2019, resulting from the implementation of the “RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (Delegated Regulation (EU) 2018/171)” and the related “EBA Guidelines on the application of the definition of default under Article 178 of the CRR”.
The new regulations – while still confirming the concepts of late payment and unlikely-to-pay status of the debtor as the basis for default – have also made several significant changes relating to materiality thresholds, netting rules, and criteria for return to performing status. For more details, see Part E – Section 3 - Non-performing credit exposures.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2020 – for financial statements reflecting the calendar year – or after this date, and for which Intesa Sanpaolo has not exercised the option of early adoption.

IFRS endorsed as at 31.12.2019 applicable subsequent to 31.12.2019

Regulation endorsement	Title	Effective date
2075/2019	Amendments to References to the Conceptual framework in IFRS Standards (*)	01/01/2020 First financial year starting on or after 01/01/2020
2014/2019	Amendments to IAS 1 Presentation of Financial Statements	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	01/01/2020 First financial year starting on or after 01/01/2020

(*) The document amends references to Conceptual Framework in: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32.

A summary of the above-mentioned Endorsement Regulations is provided below:

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

The table below shows the new international financial reporting standards or amendments to existing standards that have not yet been endorsed by the European Commission.

IFRS not endorsed as at 31.12.2019

Standard/ Interpretation	Title	Date of issue
IFRS 17	Insurance Contracts	18/05/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IFRS 3	Business Combination	22/10/2018

In this context, given its significance, details are provided regarding IFRS 17 - Insurance Contracts, published by the IASB in May 2017 and still not yet endorsed by the European Commission.
This standard, once it has been endorsed by the European Commission, will replace the current IFRS 4, which, from the time of its initial publication, was considered an interim standard and – as such – its objectives did not include establishing a single approach for the presentation of insurance contracts. Addressing this aspect – together with better disclosure regarding the operating performance of the insurance undertaking – forms the basis for the publication of the new standard. Accordingly, the significance of the impacts will vary according to the “distance” between the current practices – in each jurisdiction – compared to the model adopted by the new standard. In any event, the main impacts will be on insurance companies operating in the life business.
IFRS 17 is applicable from 1 January 2021, but, due to the complexity of this standard, the IASB has recently proposed postponing the date of first-time adoption by one year – to 1 January 2022 – together with the possibility of extending the deadline for the temporary deferral of the adoption of IFRS 9 for insurance companies (the "Deferral Approach") by one year – again to 2022 – in order to align it with the adoption of IFRS 17. The deferral is proposed in the Exposure Draft ED 2019/4,

published on 26 June 2019, which also contains several proposals to amend IFRS 17 without substantially changing its requirements, but with the aim of providing significant support to the companies that will implement the standard.

Descriptions are provided below of the main elements of IFRS 17:
- initial recognition of the insurance liability: when the contract is signed with the policyholder, the insurance entity recognises a liability whose amount represents the sum of the present value of the expected contractual cash flows (discounted also taking account of an appropriate risk margin, for non-financial risks) and the contractual service margin or CSM (representing the present value of the future profits);
- subsequent measurement of the insurance liability: IFRS 17 requires the measurement at each reporting period of the above elements (cash flows and contractual service margin), to verify the consistency of the estimates with the current market conditions. The effects of any mismatches must be immediately recorded in the financial statements: in profit or loss for changes relating to events that have already occurred in the past or as a reduction of the contractual service margin when the changes relate to future events;
- grouping of contracts: the application of IFRS 17 involves the identification of “portfolios” of insurance contracts (units of account, or groups of contracts that are subject to similar risks and managed together) broken down into groups composed of contracts signed by policyholders in the same years (cohorts, or annual generations of insurance contracts) and similar characteristics of expected profitability. In this regard, the standard establishes clear separations (also in terms of disclosure) between the contracts defined as “onerous”[15] and the remaining contracts;
- measurement of the insurance revenue: IFRS 17 requires the presentation in profit or loss of the earnings "by margins" achieved during the life of the policies, i.e. when the entity actually earns the profits estimated with respect to the exposure of the insurance premiums received by the insurance company;
- measurement of the performance: with a view to improving (and harmonising) the disclosure of the performance of the insurance companies, a distinct and separate presentation is required of the two main components that typically contribute to making up the earnings of insurance undertakings: the first, which represents the profit from the “coverage” provided (the “technical margin”) and the second, which brings together all the financial components (results of investments, effects of financial variables used in the valuations of the contracts, etc.);
- contract modifications: following contract modifications (agreed between the parties or due to regulatory changes) whose presence at inception would have resulted in the exclusion of the contract from the insurance area, IFRS 17 requires the derecognition and accompanying recognition of a new entry, measured according to the accounting standards that refer to it;
- approach for contracts with direct participation features: a specific approach is established for contracts that give the policyholders direct participation in the results of (some) assets held by the insurance company, according to which the entities have the option of recognising those changes in liabilities (due to variations in the yields of the hedging assets, and therefore essentially related to the variable component of revenue) in other comprehensive income.

IFRS 17 therefore introduces new criteria for determining the earnings of insurance companies, also with a view to achieving better comparability of the financial disclosure produced by the competitors in the sector. These new criteria will lead to potential impacts in the design of new insurance products, as well as their pricing, and to new risk management approaches in relation to asset and liability management. The financial disclosure will see the introduction of new key performance indicators based on product margins compared to the current collected premiums used as a reference at both national and international level.
Lastly, the insurance companies will need to design a new target operational model that will enable the management of the new earnings measurements established by the standard, with significant investments both in terms of internal processes and information technology.

During the year the project to implement IFRS 17 in the companies of the Insurance Division began and is divided into several streams:
- definition of the methodological framework: the key topics have been identified for which the related methods are to be adopted in terms of product classification, determination of future cash flows and calculation of the "contractual service margin*"* or CSM*,* i.e. the new financial statements caption introduced by the standard and representing the company's future profits;
- evolution of information systems: migration to the new SAP accounting system is planned for 2020 and the analysis and subsequent implementation work will be initiated, aimed at including the part of the processes relating to the calculation of the forward-looking measures introduced by IFRS 17 (mainly cash flow, risk adjustment and CSM) into the accounting and financial reporting process. The analyses for the establishment of the new technical accounting system in all the insurance companies have also been initiated;
- development of training activities for the entire duration of the project allocated across the technical and operational areas and top management;
- changes to internal processes and regulations.

In the interests of completeness, the documents still awaiting endorsement include the amendments to IFRS 3 "Business Combinations", which provide clarification on the definition of a business. According to the definition in the standard, a business is defined as an integrated set of activities capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income, such as dividends or interest, or generating other income from ordinary activities. The changes made also include an optional concentration test[16], which should help companies determine whether an acquisition made is a business combination or otherwise an acquisition of a group of assets.

[15] Contracts where the costs on exit are greater than the estimated benefits.

[16] The concentration test is passed if the fair value of the acquired asset (gross asset) is substantially concentrated in a single asset or in a group of similar identifiable assets. In such case it does not qualify as a business.

SECTION 2 – GENERAL PREPARATION PRINCIPLES

The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the consolidated financial statements and the related comparative information; the Report on operations prepared by the Directors, on the economic results achieved and on the Intesa Sanpaolo Group's balance sheet and financial position has also been included.
In compliance with the provisions of Article 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.
The amounts indicated in the Consolidated financial statements and in the Notes to the consolidated financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.
The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific financial reporting standards endorsed by the European Commission and illustrated in Part A.2 of these Notes to the consolidated financial statements, as well as in compliance with the general assumptions set forth by the Conceptual Framework for the preparation and presentation of Financial Statements issued by IASB.
No exceptions to the application of IAS/IFRS have been made.
The Report on operations and the Notes to the consolidated financial statements contain all information required by the IAS/IFRS, by current regulations, by the Bank of Italy and by Consob (Italian Securities and Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Group's situation.

In accordance with IFRS 5, the balance sheet and the relevant disclosures in the Notes include among the components relating discontinued operations, in addition to various real properties, the portfolio of bad loans/unlikely-to-pay loans set to be disposed of and the residual so-called "high-risk" loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation. Assets and liabilities attributable to business lines of the Parent Company to be disposed of, relating to pledge lending activity and acquiring activity within the context of the payment systems contributed to Nexi under the agreement entered into in December 2019, have also been included.
Since this latter transaction qualifies as a discontinued operation in accordance with IFRS 5, the related income and expenses have also been presented in summary form in the specific caption of the income statement and the related disclosures in the Notes.

The financial statement forms and the Notes to the consolidated financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2018. With regard to the first-time adoption (FTA) of IFRS 16, the Group has chosen to adopt the modified retrospective approach, which provides the option, established by the standard, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the financial statement figures for 2019 and the related explanatory notes are not comparable with the previous year with regard to the valuation of the rights of use and the corresponding lease liability, as well as the related income statement items. In the Report on Operations, the income statement and balance sheet figures affected by the standard have been restated to enable like-for-like comparison.
The comparative figures in the income statement and the related explanatory notes have been restated in accordance with IFRS 5 to take into account the profit or loss effects from the business line transferred to Nexi, as this is a discontinued operation.
The comparative figures in the balance sheet and the related explanatory notes have been amended in accordance with IFRS 3 to take account of the final purchase price allocation for Autostrade Lombarde.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2018 financial statements, together with specific reconciliations between the 2018 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

Contents of financial statement forms

Balance sheet and income statement

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions).
As further detailed in the 2018 financial statements, following the Group's decision to exercise the option of adopting the Deferral Approach, provided for by IFRS 9 "Financial Instruments" also for banking-led financial conglomerates, under which the financial assets and liabilities of subsidiary insurance companies continue to be recognised in the financial statements in accordance with IAS 39, specific balance sheet and income statement captions have been added to the consolidated financial statement layouts established in Circular 262 to present the valuation of assets and liabilities pertaining to insurance companies and the related profit or loss effects measured in accordance with IAS 39.
In the interests of completeness, it should be noted that with regard to the compulsory forms defined by the Bank of Italy, captions which do not have amounts for the reporting year and the previous year have also been shown. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

Statement of comprehensive income

The Statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.
Consolidated comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. The statement also distinguishes between the portion of income pertaining to the Parent

Company and that pertaining to minority interests. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reporting year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

The statement of changes in shareholders' equity presents shareholders' equity accounts and changes which occurred in the reference year and in the previous year, broken down in share capital, reserves, reserves from retained earnings, valuation reserves and net income. Treasury shares are deducted from shareholders' equity. The table is presented by inverting the rows and the columns with respect to the same form provided for by the updating of Bank of Italy Circular 262/2005.

Statement of cash flows

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.
Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.
In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

Contents of the Notes to the consolidated financial statements

The Notes to the consolidated financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.
As already mentioned in relation to the financial statements, as a result of the application of the Deferral Approach by the Group's insurance companies, the disclosures in the explanatory notes envisaged by Circular 262 have been supplemented with the tables required by the previous 4th update of Circular 262 to present the information required by IAS 39.

Transition to IFRS 16

The regulations

The new accounting standard IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation no. 1986/2017, replaced IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases – Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease", with effect from 1 January 2019, and established the requirements for accounting for lease contracts.
In accordance with the new standard, entities are required to decide whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a set period of time. As a result, rental, hire or free loan agreements come under the scope of the new rules.
In view of the above, significant changes have been made to the accounting for lease transactions in the financial statements of the lessee/user, with the introduction of a single accounting model for lease contracts for the lessee, based on the right-of-use model. Specifically, the main change consists of the elimination of the distinction between operating and finance leases, established by IAS 17: all lease contracts must therefore be accounted for in the same way with the recognition of an asset and a liability. Unlike the standards in force until 31 December 2018, the accounting model envisages the recognition of the right of use of the leased asset under the Balance Sheet Assets and the liabilities for lease payments not yet paid to the lessor under the Balance Sheet Liabilities. The method of recognition of the profit or loss components has also changed: in IAS 17 lease payments were shown under the caption Administrative Expenses, whereas under IFRS 16 the charges relating to the amortisation of the "right of use" and the interest expense on the payable are recognised.
In terms of disclosure, the minimum information required from the lessees includes:

- the sub-division of the leased assets among different "classes";
- an analysis by due date of the liabilities related to the leases;
- the information that is potentially helpful for a better understanding of the entity's activities with regard to the lease contracts (for example, prepayment or extension options).

However, there are no substantial changes, other than some additional disclosure requirements, for the accounting for leases by the lessors, where the current distinction is maintained between operating leases and finance leases.
In addition, in accordance with the requirements of IFRS 16 and the IFRIC clarifications ("Cloud Computing Arrangements" document of September 2018), software has been excluded from the scope of IFRS 16 and is therefore accounted for in accordance with IAS 38 and its requirements.
From 1 January 2019, the effects on the financial statements resulting from the adoption of IFRS 16 can be identified for the lessee – with the same income and final cash flows – as an increase in the assets recorded in the financial statements (leased assets), an increase in the liabilities (the payable for the leased assets), a reduction in administrative expenses (lease payments) and an accompanying increase in financial costs (the remuneration of the payable recognised) and depreciation (relating to the right of use). With regard to the income statement, when the entire term of the contracts is considered, the economic impact does not change over the period of the lease, both when the former IAS 17 or the new IFRS 16 are applied, but its distribution over time is different.
Finally, please note that already in 2018, the Intesa Sanpaolo Group initiated a specific project for the implementation of IFRS 16 – Leases, aimed at examining and determining the qualitative and quantitative impacts, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of its individual subsidiaries. From a procedural perspective, a specific application has been implemented at Group level (except for some companies located abroad, which have adopted a solution specific to their circumstances) for the determination of values according to IFRS 16.

Scope of the contracts - lessee side

Classification and analysis of lease transactions in the light of the applicable regulations

As noted above, the Standard applies to all types of contracts containing a lease, i.e. contracts that give the lessee the right to control the use of an identified asset for a particular period of time (period of use) in exchange for consideration.
The logic underlying the Standard is that "control" over an asset requires that asset to be identified, for example when it is explicitly specified in the contract, or if it is implicitly specified at the time it is made available for use by the customer. An asset is not specified if the supplier has the substantive right to substitute it, or if the supplier has the practical ability to substitute the asset with alternative assets throughout the period of use and benefits economically from the exercise of that right.
Once it has been established that the underlying asset of the contract is an identified asset, it is necessary to assess whether the entity has the right to control its use because it has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the identified asset.
For the Intesa Sanpaolo Group, the analysis of contracts falling within the scope of this standard concerned those relating to the following cases: (i) real estate, (ii) vehicles, and (iii) hardware. The real estate lease contracts represent the most significant area of impact from implementation, because these contracts represent 98% of the value of the rights of use. In contrast, although they are significant in terms of number, the impact of vehicles is negligible in terms of the amount of the right of use. Lastly, the impacts of the hardware component are marginal.

Real estate lease contracts in Italy include, for the most part, properties designated for use as offices or bank branches. The contracts normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions.
These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the Bank.

The contracts relating to other leases concern vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. They have a multi-year term, with no renewal options, and these contracts generally do not include the option to purchase the asset.

The choices made by the Intesa Sanpaolo Group

It is worth noting some "general" choices made by the Intesa Sanpaolo Group regarding the methods of presentation of the effects of first-time adoption of the standard, as well as some rules to be applied upon full adoption for the accounting for lease contracts.

The Group has chosen to carry out the first-time adoption (FTA) of IFRS 16 through the modified retrospective approach, which provides the option, established by the standard, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the financial statement figures for 2019 will not be comparable with regard to the valuation of the rights of use and the corresponding lease liability. However, in the Report on Operations, the income statement and balance sheet figures affected by the standard have been restated – as at 1 January 2019 – to enable like-for-like comparison.

Upon first-time adoption, the Group has adopted some of the practical expedients provided for in the standard in paragraph C10 and following. In particular, contracts with a remaining lease term of 12 months or less ("short term") have not been included. The Group has not made any provisions for onerous leases measured pursuant to IAS 37 and recognised in the Financial Statements as at 31 December 2018.

Also after full adoption, the Group has also decided not to apply the new standard to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of 5,000 euro or less ("low value"). In this case, the lease payments for these leases are recognised as an expense – in the same way as in the past – on a straight-line basis for the lease term or on another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

With regard to the sale and leaseback agreements outstanding as at the date of first-time adoption, the Intesa Sanpaolo Group has applied the transition model for the other lease contracts to the leases resulting from these transactions, and classified as operating leases according to IAS 17 requirements, as required by the standard.

A summary is provided below of some of the choices made by the Group regarding the treatment of leases on the lessee side, such as, for example, the contractual term, discount rate, and lease and non-lease components.

Contractual term

The lease term is determined by the non-cancellable period for which the Group has the right to use the underlying asset, also considering: (i) the periods covered by the option to extend the lease, if the lessee is reasonably certain to exercise that option; and (ii) the periods covered by the option to terminate the lease, if the lessee is reasonably certain not to exercise that option.

At the transition date and at the commencement date of each contract entered into after 1 January 2019, each Group Company has established the term of the lease, based on the facts and circumstances that exist at that date and that have an impact on the reasonable certainty of exercising the options included in the lease arrangements.

With regard to the real estate leases, the Group has decided to consider only the first renewal period for all new contracts (and as at the FTA date) as reasonably certain, unless there are particular contractual clauses, facts or circumstances that suggest that additional renewals should be considered or that determine the end of the lease.

On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be at least twelve years. This general rule is superseded if there are new elements or specific situations within the contract.

For the international companies, each Legal Entity will apply the general rule of considering a renewal in the first period, unless local regulations and business decisions lead to different choices. In the latter case, the company must assess the reasonable certainty of exercising the option, taking into account both the requirements of the Standard and the strategy regarding the Real Estate contracts, the general business plan and the local laws and customs.

In line with the choice made for the real estate contracts, for the other types of leases, in which the contract includes a renewal clause, the Group has decided – for all the new contracts (and also at the FTA date) – to assess the reasonable certainty of exercising the option, taking into account both the requirements of the Standard and the strategy regarding the individual contracts.

Discount rate

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. For leases from the lessee's point of view, in some cases, for example for rental agreements, the implicit interest rate cannot always be readily determined without using estimates and assumptions (the lessee does not have enough information about the unguaranteed residual value of the leased asset). In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

Lease and non-lease components

The Group has also decided not to separate the service components from the lease components and to consequently recognise the entire contract as a lease, because the service components are not significant.

The effects of first-time adoption (FTA) of IFRS 16

The adjustment of the opening balance sheet following the adoption of IFRS 16 using the modified retrospective approach has resulted in an increase in assets following the recognition of the new rights of use at Group level of 1,599 million euro and in the financial liabilities (payable to the lessor) of the same amount. There have therefore been no impacts on shareholders' equity from the first-time adoption of the standard, because, as a result of the decision to adopt the modified approach (option B), upon first-time adoption the values of the assets and liabilities are the same, net of the reclassification of accruals and deferrals and the presentation of leases previously classified as finance leases under IAS 17.

At the time of the transition, IFRS 16 allows a company to choose whether to apply the new definition of lease contract to all contracts or whether to use a "practical expedient" whereby the company may continue to regard as valid the assessment of the contracts previously identified as leases under IAS 17 and IFRIC 4 (paragraph C3 of IFRS 16).

Specifically, the Group has used the practical expedient provided for in paragraph C3 above for the FTA. In particular, for all operating leases already covered by IAS 17, it has recognised the liability determined as the discounted future lease payments and the right of use of the same amount (so-called modified B).

For leases that were classified as finance leases applying IAS 17, the Group, again in its capacity as the lessee, has decided, as envisaged by paragraph C11 of IFRS 16, to establish that the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17, namely the carrying amount as at 31 December 2018.

To provide a better representation of the differences between the scope of IAS 17 and the new standard, the table below shows the reconciliation between the two scopes (as required by paragraph C12 of IFRS 16), detailing in particular:
– the commitments arising from operating leases disclosed in accordance with IAS 17 as at 31 December 2018;
– the effect of the discounting of the operating leases using the incremental borrowing rate as at the date of initial application;
– the lease liabilities recognised in the balance sheet as at the date of initial application.

For the purpose of reconciling the lease payables as at 1 January 2019, leases previously classified as finance leases, accounted for in accordance with IAS 17 and carried forward, have also been included.

Reconciliation between Commitments for IAS 17 operating leases as at 31 December 2018 and Liabilities for IFRS 16 leases as at 1 January 2019

(millions of euro)

Reconciliation of lease liabilities	**01.01.2019**
Commitments for undiscounted operating leases applying IAS 17 as at 31.12.2018	1,893
Exceptions to recognition pursuant to IFRS 16	-29
- short-term leases	*-18*
- leases of low value	*-11*
Other changes	-106
Undiscounted operating lease liabilities to be recognised in the balance sheet as at 01.01.2019	1,758
Discounting effect on operating lease liabilities	-159
Lease Liabilities for leases applying IFRS 16 as at 01.01.2019	**1,599**
Lease Liabilities for finance leases applying IAS 17 as at 01.01.2019	4
Total Lease Liabilities applying IFRS 16 as at 01.01.2019	**1,603**

The lease liabilities have been discounted at the rate of 1 January 2019, which refers to the expiry dates of the individual contracts.

The weighted average incremental borrowing rate for the lessee applied to the lease liabilities recognised in the balance sheet at the date of initial application is 1.61%.

With regard to the property and equipment, the table below shows the breakdown of the categories of rights of use identified, of which 22 million euro relating to finance leases. Specifically, the rights of use acquired through leases relating to real estate contracts are shown under sub-caption "b) buildings"; those relating to contracts for cars and other vehicles are shown under sub-caption "f) other"; and those relating to hardware are shown under sub-caption "e) electronic equipment".

(millions of euro)

Rights of use acquired through the lease	**01.01.2019**
Property and equipment used in operations:	**1,628**
a) land	
b) buildings	1,591
c) furniture	
d) valuable art assets and furniture	
e) electronic equipment	11
f) other	26
Investment property:	**1**
a) land	
b) buildings	1
Total	**1,629**

Assets, Liabilities and shareholders' equity as at 1 January 2019

The tables below show the breakdown of the figures as at 1 January 2019 relating to the impacts on the balance sheet captions, together with the various categories of rights of use identified.

Assets

(millions of euro)

Assets		**31.12.2018 Published**	**Effect of transition to IFRS 16**	**01.01.2019 IFRS 16**
10.	Cash and cash equivalents	10,350		10,350
20.	Financial assets measured at fair value through profit or loss	42,115		42,115
30.	Financial assets measured at fair value through other comprehensive income	60,469		60,469
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546		149,546
40.	Financial assets measured at amortised cost	476,503		476,503
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952		952
50.	Hedging derivatives	2,993		2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124		124
70.	Investments in associates and companies subject to joint control	943		943
80.	Technical insurance reserves reassured with third parties	20		20
90.	Property and equipment	7,372	1,607	8,979
100.	Intangible assets	9,077		9,077
110.	Tax assets	17,253		17,253
120.	Non-current assets held for sale and discontinued operations	1,297		1,297
130.	Other assets	8,707	-12	8,695
Total assets		**787,721**	**1,595**	**789,316**

The amount of 8,979 million euro for property and equipment includes a total of 1,629 million euro of rights of use, of which 22 million euro relating to finance leases already recognised in the financial statements as at 31 December 2018.
The rights of use have also been adjusted to take account of accruals and deferrals, as well as finance leases.

Liabilities and shareholders' equity

(millions of euro)

Liabilities and Shareholders' Equity		**31.12.2018 Published**	**Effect of transition to IFRS 16**	**01.01.2019 IFRS 16**
10.	Financial liabilities measured at amortised cost	513,775	1,590	515,365
	a) due to banks	*107,815*		*107,815*
	b) due to customers	*323,900*	*1,590*	*325,490*
	c) securities issued	*82,060*		*82,060*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	9	819
20.	Financial liabilities held for trading	41,895		41,895
30.	Financial liabilities designated at fair value	4		4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800		67,800
40.	Hedging derivatives	7,221		7,221
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398		398
60.	Tax liabilities	2,433		2,433
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258		258
80.	Other liabilities	11,645	-4	11,641
90.	Employee termination indemnities	1,190		1,190
100.	Allowances for risks and charges	5,064		5,064
110.	Technical reserves	80,797		80,797
120.	Valuation reserves	-913		-913
125.	Valuation reserves pertaining to insurance companies	9		9
130.	Redeemable shares	-		-
140.	Equity instruments	4,103		4,103
150.	Reserves	13,006		13,006
160.	Share premium reserve	24,768		24,768
170.	Share capital	9,085		9,085
180.	Treasury shares (-)	-84		-84
190.	Minority interests (+/-)	407		407
200.	Net income (loss) (+/-)	4,050		4,050
Total liabilities and shareholders' equity		**787,721**	**1,595**	**789,316**

Lease payables, amounting to a total of 1,599 million euro, have been shown in the table above entitled "Reconciliation of lease liabilities". The caption Financial liabilities measured at amortised cost already included the Payables for finance leases of 4 million euro.

Impacts on Own Funds

The increase in RWAs resulting from the recognition of the total rights of use, weighted at 100%, results in an impact on the CET 1 of -8 bps.

SECTION 3 – SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

Scope of consolidation

The Consolidated financial statements include Intesa Sanpaolo and the companies that it directly and indirectly controls and consider in the scope of consolidation – as specifically set out by IAS/IFRS – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.

Companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.
Control only exists if all of the following conditions are met:
- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

Companies are considered as subject to joint control if control is directly or indirectly contractually shared by the Parent Company with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.
Companies are considered associates, that is subject to significant influence, when Intesa Sanpaolo, directly or indirectly, holds 20% or more of the voting rights (including "potential" voting rights) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates – has the power of participating in the determination of the financial and operating policies of the company.

Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified based on the provisions of IFRS 9, since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests.
Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation. These equity investments are included in the category of Financial assets measured at fair value through profit or loss.
Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.

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

With regard to the changes in the scope of consolidation that occurred in 2019, it should be noted that the equity method was adopted instead of line-by-line consolidation for Intesa Sanpaolo SEC and IMI Finance Luxembourg since they were deemed to have become immaterial.

In the interest of completeness, while the reader is referred to Part G of these Notes for more thorough information, mention should also be made of the main changes that occurred during the year with regard to entities under common control – which consequently have no impact at the consolidated level – and, in particular, of the inclusion of:
- Intesa Sanpaolo Private Bank (Suisse) Morval, the new entity created through the merger of Intesa Private Bank (Suisse) and Morval Vonwiller Holding into Banque Morval;
- Morval Vonwiller Asset Management in liquidation;
- Morval Bank &Trust Cayman;

and of the exclusion of:
- Intesa Sanpaolo Group Services, Banca CR Firenze, Cassa di Risparmio in Bologna, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Apulia, Banca Prossima and Mediocredito Italiano, merged into Intesa Sanpaolo;
- Intesa Private Bank (Suisse) and Morval Vonwiller Holding, merged into Banque Morval, subsequently renamed Intesa Sanpaolo Private Bank (Suisse) Morval;
- Consumer Finance Holding Ceska Republika, merged into Vseobecna Uverova Banka;
- Intesa Sanpaolo Real Estate, merged into Intesa Sanpaolo Holding International;
- Intesa Sanpaolo SEC 3, merged into Intesa Sanpaolo.

The following table lists the investments in consolidated companies at 31 December 2019.

1. Consolidated companies

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
1	Argentea Gestioni S.c.p.a.(c) Capital 120,000 euro	Brescia	Brescia	1	Autostrade Lombarde	63.35	
2	Autostrade Lombarde S.p.a.(c) Capital 467,726,626 euro	Brescia	Brescia	1	Intesa Sanpaolo	55.78	
3	Banca 5 S.p.A. Capital 30,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
4	Banca Comerciala Eximbank S.A. Capital MDL 1,250,000,000	Chișinău	Chișinău	1	Intesa Sanpaolo	100.00	
5	Banca IMI S.p.A. Capital 962,464,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
6	Banca Imi Securities Corp Capital USD 44,500,000	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
7	Banca Intesa AD Beograd Capital RSD 21,315,900,000	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International	100.00	
8	Bank of Alexandria (d) Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
9	Banka Intesa Sanpaolo d.d (e) Capital 22,173,218 euro	Koper	Koper	1	Intesa Sanpaolo Privredna Banka Zagreb d.d.	48.13 51.00 99.13	
10	Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
11	CIB Factor Financial Services Ltd in voluntary liquidation Capital HUF 50,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
12	CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
13	CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost A.S.	100.00	
14	CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
15	CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank Ltd	100.00	
16	Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
17	Consorzio Studi e ricerche fiscali Gruppo Intesasanpaolo (i) Capital 258,228 euro	Roma	Roma	1	Fideuram - Intesa Sanpaolo Private Banking Eurizon Capital SGR Intesa Sanpaolo Vita Intesa Sanpaolo Banca IMI	7.50 5.00 7.50 72.50 7.50 100.00	
18	Duomo Funding Plc (f)	Dublin	Dublin	2	Intesa Sanpaolo	-	
19	Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR	100.00	
20	Etoile Actualis S.a.r.l. Capital 8,665 euro	Paris	Paris	1	Risanamento Europa	100.00	
21	Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
22	Eurizon Capital (HK) limited (i) Capital HKD 40,000,000	Hong Kong	West Kowloon	1	Eurizon Capital SGR	100.00	
23	Eurizon Capital Real Asset SGR S.p.a.(i) Capital 2,500,000 euro	Milano	Milano	1	Eurizon Capital SGR Intesa Sanpaolo Vita	51.00 49.00 100.00	
24	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
25	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
26	Eurizon Slj Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
27	Exelia S.r.l.(i) Capital RON 8,252,600	Brasov	Brasov	1	Intesa Sanpaolo Holding International	100.00	
28	Exetra S.p.a.(i) Capital 128,000 euro	Milano	Milano	1	Intesa Sanpaolo	85.00	
29	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
30	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
31	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
32	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
33	Fideuram Vita S.p.A.	Roma	Roma	1	Intesa Sanpaolo	80.01	
	Capital 357,446,836 euro				Fideuram - Intesa Sanpaolo Private Banking	19.99	
						100.00	
34	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
35	IMI Capital Markets USA Corp. Capital USD 5,000	New York	New York	1	IMI Investments	100.00	
36	IMI Finance Luxemburg S.A. (i) Capital 100,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International S.A.	100.00	
37	IMI Fondi Chiusi SGR S.p.A. (i) Capital 2,000,000 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
38	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
39	IMMIT - Immobili Italiani S.r.l. (i) Capital 100,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
40	Immobiliare Cascina Rubina S.r.l.(c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
41	IN.FRA - Investire nelle Infrastrutture S.r.l. Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
42	Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
43	Intesa Invest AD Beograd (i) Capital RSD 236,975,800	Beograd	Beograd	1	Banca Intesa AD Beograd	100.00	
44	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
45	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
46	Intesa Sanpaolo Agents4you S.p.A. (i) Capital 120,000 euro	Vicenza	Torino	1	Intesa Sanpaolo	100.00	
47	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
48	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
49	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
50	Intesa Sanpaolo Bank Luxembourg S.A. Capital 1,389,370,555 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
51	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
52	Intesa Sanpaolo Brasil S.A. - Banco Multiplo	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	99.90	
	Capital BRL 314,922,234				Intesa Sanpaolo Holding International	0.10	
						100.00	
53	Intesa Sanpaolo Casa S.p.a.(i) Capital 1,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
54	Intesa Sanpaolo Expo Institutional Contact S.r.l (i) 50,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
55	Intesa Sanpaolo Formazione società consortile per azioni (i) Capital 174.600 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
56	Intesa Sanpaolo Forvalue S.p.a.(i) Capital 2,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
57	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25,000	New York	Wilmington	1	Intesa Sanpaolo	100.00	
58	Intesa Sanpaolo Harbourmaster III S.A. Capital 5,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
59	Intesa Sanpaolo Highline S.r.l. (i) Capital 500,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
60	Intesa Sanpaolo Holding International S.A. Capital 2,157,957,270 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
61	Intesa Sanpaolo House Immobiliere S.A. (i) Capital 1,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
62	Intesa Sanpaolo Innovation Center S.c.p.a Capital 9,254,940 euro	Vicenza	Torino	1	Intesa Sanpaolo	99.98	
					Banca Imi	0.01	
					Intesa Sanpaolo Vita	0.01	
						100.00	
63	Intesa Sanpaolo Life Designed activity company (formerly Intesa Sanpaolo Life Ltd) Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
64	Intesa Sanpaolo International Value Services LTD (i) Capital 100,000 euro				Intesa Sanpaolo Holding International	100.00	
65	Intesa Sanpaolo Private Argentina S.A. (i) Capital ARS 13,404,506	Buenos Aires	Buenos Aires	1	Fideuram - Intesa Sanpaolo Private Banking	4.97	
					Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	95.03	
						100.00	
66	Intesa Sanpaolo Private Bank (Suisse) Morval S.A. (g) Capital CHF 22,217,000	Geneva	Geneva	1	Fideuram - Intesa Sanpaolo Private Banking	96.21	
67	Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
68	Intesa Sanpaolo Provis S.p.A. Capital 6,225,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
69	Intesa Sanpaolo RE.O.CO. S.p.A. Capital 13,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
70	Intesa Sanpaolo Romania S.A. Commercial Bank Capital RON 1,156,639,410	Bucharest	Bucharest	1	Intesa Sanpaolo	99.73	
					Intesa Sanpaolo Holding International	0.27	
						100.00	
71	Intesa Sanpaolo Sec S.A. en liquidation(i) Capital 31,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
72	Intesa Sanpaolo Servicos e emprendimentos LTDA EM Liquidacao (i) Capital BRL 162,192,843	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	100.00	
73	Intesa Sanpaolo Servitia S.A. Capital 1,500,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
74	Intesa Sanpaolo Smart Care S.r.l. Capital 1,633,000 euro	Torino	Torino	1	Intesa Sanpaolo	51.01	
					Intesa Sanpaolo Vita	48.99	
						100.00	
75	Intesa Sanpaolo Vita S.p.A. Capital 320,422,508 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
76	Intesa Sec S.r.l.(i) Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
77	ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
78	ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
79	ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
80	Joint-Stock Company Banca Intesa Capital RUB 10,820,180,800	Moscow	Moscow	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	53.02 46.98 100.00	
81	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
82	Milano Santa Giulia S.p.A. (c) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
83	Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Morval Vonwiller Asset Management Co Ltd	100.00	
84	Morval Gestion S.A.M. (i) Capital 500,000 euro	Monaco	Monaco	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	
85	Morval SIM S.p.a. (i) Capital 2,768,000 euro	Torino	Torino	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.00	
86	Morval Vonwiller Advisors S.A. (i) Capital UYU 495,000	Montevideo	Montevideo	1	Southern Group Limited	100.00	
87	Morval Vonwiller Asset Management Co Ltd Capital 2,400,000 euro	Tortola	Tortola	1	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	100.00	
88	MSG Comparto Quarto S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
89	MSG Comparto Secondo S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
90	MSG Comparto Terzo S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
91	MSG Residenze S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
92	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
93	OOO Intesa Realty Russia (i) Capital RUB 10,000	Moscow	Moscow	1	Intesa Sanpaolo	100.00	
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. 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 Capital UAH 979,089,724	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
100	Private Equity International S.A. (h) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	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 Fund Distribution Co. Ltd. Capital CNY 371,000,000	Qingdao	Qingdao	1	Intesa Sanpaolo	100.00	
103	Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
104	Ri. Rental S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
105	Risanamento Europa S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
106	Risanamento S.p.A. (c) Capital 197,951,784 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
107	Romulus Funding Corporation (f)	New York	New York	2	Intesa Sanpaolo	-	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
108	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
109	Società di Progetto Autostrada diretta Brescia Milano S.p.A. (c) Capital 51,414,227 euro	Brescia	Brescia	1	Intesa Sanpaolo Autostrade Lombarde	0.05 81.69 81.74	
110	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	
111	Southern Group Limited (i) Capital 50,000 euro	George Town	George Town	1	Intesa Sanpaolo (Suisse) Morval S.A.	100.00	
112	SRM Studi e Ricerche per il Mezzogiorno (i) Capital 90,000 euro	Napoli	Napoli	1	Intesa Sanpaolo	60.00	25.00
113	Sviluppo Comparto 3 S.r.l.(c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
114	Trade Receivables Investment Vehicle Sarl (f)	Luxembourg	Luxembourg	2	Banca IMI		
115	Vseobecna Uverova Banka a.s. Capital 430,819,064 euro	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
116	VUB Asset Management Sprav. Spol a.s. Capital 4,093,560 euro	Bratislava	Bratislava	1	Eurizon Capital	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 - other forms of control.

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

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

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

(e) Minority shareholders are subject to a legal commitment to purchase the remaining 0.7% of share capital.

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

(g) Please note that there are put and call option agreements on 3.788% of share capital held by minority shareholders.

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

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

2. Significant evaluations and assumptions in determining the scope of consolidation

As stated above, companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.
Control only exists if all of the following conditions are met:
– the power to direct the relevant activities of the subsidiary;
– the exposure, or rights, to variable returns from the involvement with the investee;
– the ability to use the power over the investee to affect the amount of the investor's returns.

In particular, the Group considers the following factors in evaluating the existence of control:
– the purpose and the structure of the investee in order to identify its aims and relevant activities, or the activities that significantly affect the investee's returns, and how those activities are governed;
– power, in order to understand whether the Group has the contractual right to manage the relevant activities;
– the exposure to variable returns from the investee in order to evaluate whether the return recognised by the Group is subject to variations depending on the investee's returns.

Furthermore, in order to evaluate the existence of control, potential principal-agent relationships are taken into consideration. In order to evaluate whether the investee is acting as a principal or an agent, the Group takes account of the following factors:
– the decision-making power on the relevant activities of the subsidiary;
– the rights of other parties;
– the payments to which the Group is entitled;
– the Group's exposure to variable returns resulting from any investment in the investee.

IFRS 10 identifies relevant activities as activities of the investee that significantly affect the investee's returns.
In general terms, when the relevant activities are managed through voting rights, the following factors determine evidence of control:

- direct ownership, or indirect ownership through its subsidiaries, of more than half the voting rights of an entity, unless in exceptional circumstances it can be clearly demonstrated that such ownership does not constitute control;
- ownership of half, or less, of the votes which can be cast at the shareholders' meeting, and the practical ability unilaterally to govern the relevant activities through:
  - the control of more than half the voting rights as enshrined in an agreement with other investors;
  - the power to determine the financial and operational policies of the entity, as conferred by the Articles of Association or by contract;
  - the power to nominate or remove the majority of the members of the Board of Directors or of the equivalent corporate governance body;
  - the power to cast the majority of the votes at meetings of the Board of Directors or of the equivalent corporate governance body.

In order to exercise power, it is necessary for the rights that the Group has over the investee to be material; to be material, the Group must have the ability to use its rights when decisions relating to relevant activities are taken. The existence and the effect of potential voting rights, where material, are taken into consideration in evaluating whether power exists to shape the managerial and financial policies of another entity.
Sometimes the Group has "de facto" control over certain entities when it possesses rights to determine unilaterally the relevant activities of the investee, even though it does not have the majority of the voting rights.
On the contrary, cases may emerge where the Group, though holding more than half of the voting rights, does not control the investee since, consequently to agreements with other investors, the exposure to variable returns from the involvement with the investees is not considered significant.
Subsidiaries can also include "structured entities" in which the voting rights are not the dominant factor in deciding who controls the entity; this includes special purpose vehicles (SPEs/SPVs) and investment funds. Structured entities are considered to be controlled where:

- the Group has powers enshrined in contractual rights allowing it to govern the relevant activities; and
- the Group is exposed to the variable returns deriving from such activities.

3. Investments in subsidiaries with minority interests

3.1 Minority interests, minority voting rights and dividends distributed to minorities

	Companies	Minority interests %	Minority voting rights % (1)	Dividends distributed to minority shareholders
1	Argentea Gestioni S.c.p.a	36.65	36.65	-
2	Autostrade Lombarde	44.22	44.22	-
3	Bank Of Alexandria S.A.E (2)	20.00	29.75	18
4	Banka Intesa Sanpaolo d.d (già Banka Koper d.d.)	0.89	0.89	-
5	Compagnia Italiana Finanziaria - CIF S.r.l.	38.56	38.56	-
6	Eurizon Slj Capital L.t.d.	35.00	35.00	-
7	Fideuram Investimenti - Società di Gestione del Risparmio S.p.A.	0.50	0.50	-
8	Iniziative Logistiche S.r.l.	39.98	39.98	-
9	Intesa Sanpaolo Banka D.D. Bosna I Hercegovina	0.01	-	-
10	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	3.79	3.79	-
11	Intesa Sanpaolo Vita S.p.A.	0.02	0.02	-
12	ISP CB Ipotecario S.r.l.	40.00	40.00	-
13	ISP CB Pubblico S.r.l.	40.00	40.00	-
14	ISP OBG S.r.l.	40.00	40.00	-
15	Private Equity International S.A.	5.61	-	3
16	Privredna Banka Zagreb d.d.	2.19	2.19	4
17	Risanamento S.p.A.	51.12	51.12	-
18	Società di Progetto Autostrada Diretta Brescia Milano S.p.a.	18.26	18.26	-
19	Vseobecna Uverova Banka a.s.	2.97	2.97	4

(1) Available voting rights at Ordinary Shareholders' Meeting.

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

3.2 Investments in companies with significant minority interests: financial highlights

(millions of euro)

	Companies	Total assets	Cash and cash equivalents	Financial assets	Property, equipment and intangible assets	Financial liabilities	Shareholders' equity	Interest margin	Net interest and other banking income	Operating expenses	Income (loss) before tax from continuing operations	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
1	Gruppo Risanamento S.p.A.	752	-	10	690	466	151	-19	-10	3	-19	-13	-	-13	-	-13
2	Bank Of Alexandria S.A.E	5,945	369	5,288	211	5,223	722	317	359	-150	231	170	-	170	-	170
3	Vseobecna Uverova Banka A.S.	17,327	162	16,650	233	15,737	1,590	318	442	-352	136	105	-	105	-	105
4	Gruppo Autostrade Lombarde	2,224	1	808	939	2,132	138	-87	-99	-34	-34	-62	-	-62	-	-62

4. Significant restrictions

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.

On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.

Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations. In addition, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

5. Other information

In preparing the Intesa Sanpaolo consolidated financial statements, the financial statements of all controlled subsidiaries have the same financial year-end.

Consolidation methods

Full consolidation

This method involves the "line by line" aggregation of the individual amounts reported in the balance sheets and income statements of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests, in a specific caption, in equity and in the result for the period, the residual value is eliminated against the book value of the subsidiaries concerned.

Any positive differences arising on consolidation, after the allocation to the assets and liabilities of the consolidated subsidiary, are recorded under Intangible assets as goodwill or other intangible assets. Negative differences are recognised in the income statement.

Assets, liabilities, income and expenses between consolidated companies are totally eliminated.

Business combinations must be accounted for using the "acquisition method" in accordance with IFRS 3, whereby identifiable assets acquired or liabilities assumed (including contingent liabilities) are recognised at their fair value at the acquisition date. Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value or in proportion to the minority investment in the net identifiable assets of the acquired company. Any excess of the consideration transferred (being the fair value of the assets sold, the liabilities incurred and the equity instruments issued) over the fair value recognition of minority interests with respect to the fair value of the assets acquired and the liabilities assumed is recognised as goodwill. If the consideration is lower, the difference is taken to the income statement.

The "acquisition method" is applied starting from the acquisition date, that is from the moment in which control of the acquired company is obtained. Therefore, the economic results of a subsidiary acquired in the reference period are included in the Consolidated financial statements starting from the acquisition date. Likewise, economic results of a subsidiary sold are included in the Consolidated financial statements until the date in which control ceased.

The difference between sale price and book value at the date of disposal (including foreign exchange differences recorded in shareholders' equity on consolidation, over time) is accounted for in the income statement.

Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

Measurement using the equity method

Associates and companies subject to joint control are consolidated with the equity method.

The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the shareholders’ equity of the company.

Any difference between the value of the equity investment and the shareholders’ equity of the company involved is recorded in the book value of the company.

The valuation of the portion of shareholders’ equity does not consider any potential voting rights.

The portion of the company’s results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is under book value the relative difference is recorded in the income statement.

For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group’s Consolidated financial statements.

Conversion of financial statements in currencies other than the euro

The financial statements of the companies which do not operate in the eurozone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the income statement the average exchange rate.

Foreign exchange differences from the conversion of the financial statements of such companies, deriving from the application of different foreign exchange rates to assets and liabilities and the income statement, are recorded in Valuation reserves under shareholders' equity. Foreign exchange differences on the shareholders' equity of the subsidiaries are also recorded in Valuation reserves.

All foreign exchange differences are reversed to the income statement of the year in which the foreign operation is sold.

SECTION 4 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE

After the reporting date, and specifically on 17 February 2020, Intesa Sanpaolo announced that it had decided to launch a voluntary public exchange offer in respect of all ordinary shares of UBI Banca. For each UBI Banca share tendered to the offer, Intesa Sanpaolo will offer a consideration, not subject to any adjustment, equal to 1.7000 newly issued ordinary shares of Intesa Sanpaolo.
The Intesa Sanpaolo shares offered as consideration will be issued by virtue of a capital increase with the exclusion of the pre-emption right pursuant to Article 2441, paragraph 4, of the Italian Civil Code, reserved to the persons tendering UBI Banca's shares to the offer; on 17 February 2020, the Board of Directors of Intesa Sanpaolo resolved to submit this capital increase for approval by the extraordinary shareholders' meeting called for 27 April 2020.
This offer has the strategic objective of strengthening the sustainability of value creation for all stakeholders through a combination based on similar business models and shared values, which does not show significant complexity also in view of Intesa Sanpaolo's proven ability to carry out integrations.
For more detailed information, refer to the market disclosures issued on 17 February 2020.

SECTION 5 - OTHER ASPECTS

Option for the national fiscal consolidation provisions
Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

Set up of a VAT Group
Intesa Sanpaolo and all of the Italian companies in the Group that meet the requirements for participation opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.
This option takes effect from 1 January 2019 and has a duration of three years, automatically renewed each year, unless revoked.
As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties, with a few exceptions. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group.

"Cooperative compliance" regime
Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the "cooperative compliance" regime set out in Legislative Decree 128/2015.
The admission is effective from the tax period 2017.
The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.
Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness.
The gradual adoption of this regime by the main Italian subsidiaries is now also under way.
Fideuram applied for and was granted admission with effect from 2018.
Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura and Fideuram Vita, together with Eurizon SGR and Epsilon SGR, applied for admission, which will presumably be granted in 2020 with effect from 2019.
Accordingly, all the major Italian companies in the Intesa Sanpaolo Group will be authorised to apply the regime in question.

Auditing
KPMG S.p.A. audited the Consolidated financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

Other aspects
A reformulation of the rules on the transparency of government grants laid down in Article 1, paragraphs 125-129 of Law No. 124/2017 has been introduced in Article 35 of Decree Law 34/2019 (the "Growth Decree"), converted by Law 58/2019. This reformulation indicates that the scope of transparency obligations applies to information regarding grants, subsidies, advantages, contributions or aid, in cash or in kind, "not of a general character and which do not represent consideration, remuneration or compensation" effectively disbursed by public authorities and the entities indicated in Article 2-*bis* of Legislative Decree 33/2013.
In the light of this reformulation, additional interpretative clarification provided in Assonime Circular No. 32 of 23 December 2019 has confirmed that the transparency obligation applies to awards of economic benefits arising from a bilateral relationship between a public entity and a specific beneficiary. Sums received by a company as consideration for a service rendered, as remuneration for an assignment received or as compensation for damages are expressly excluded. Economic advantages received in application of a general regime, such as tax or contribution relief accessible to all parties who meet certain conditions, are also excluded.

In consideration of the above, there were no cases to report in 2019 for the Group's Italian companies.
In the interest of completeness, reference should also be made to the National State Aid Registry, available for public consultation on the relevant website, in which aid measures and the related individual aid packages granted and recorded in the system by the managing entities are published, although, given the foregoing, for the Group's Italian companies the circumstances indicated therein for the year 2019 are not subject to financial statement transparency obligations pursuant to paragraphs 125 and 125-*bis*.

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

To ensure uniformity in the accounting policies used for the financial statements, the Intesa Sanpaolo Group has adopted an internal set of rules and policies for the various operational and organisational areas.

The methodological document used for the application of the accounting standards is the Group Accounting Rules, which describes the application models adopted by the Group, within the framework of the standards and the legislation applicable to the various companies/subsidiaries, and sets out the choices made when the regulations envisage alternative or optional accounting treatments.

With regard to the valuation processes, the Group, in the document "Guidelines for the valuation of Balance Sheet Items", has drawn up the principles and regulatory framework for the valuation of the balance sheet items and the roles and responsibilities of the Corporate Bodies, the Manager responsible for preparing the Company's financial reports and the Parent Company's corporate functions involved in the valuation process; the prerequisites for the existing valuation processes and the control system necessary to ensure proper valuation; the general valuation processes based on accounting standards specific to the various categories of balance sheet items being measured (assets and liabilities); and the rules for guidance and coordination of Group Companies on the valuation of balance sheet items.

The guidelines and policies also include the Business Model Rules, the Rules on the measurement of expected credit loss in accordance with IFRS 9 (Impairment Policy), and the Fair Value Policy, in addition to more specific documents relating to non-performing loans, equity investments, and the management of hedging financial instruments.

Finally, with regard to prudential supervision, the Group has drawn up a specific document called Harmonised Prudential Supervision Rules.

In general, these documents are approved by the competent Corporate Bodies. They are updated by the management structures in response to needs arising both from external factors (e.g. changes in regulations) and from internal factors within the Group (e.g. new operations and products) and are subject to a specific approval process, based on the significance and scope of the changes made.

The criteria adopted by the subsidiary insurance companies are discussed in a specific chapter at the bottom of this section. In fact, as a result of the Intesa Sanpaolo Group's decision, as a financial conglomerate primarily engaged in banking activities, to exercise the option of adopting the Deferral Approach, the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts, currently scheduled for 2021[17].

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:

- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model.
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

[17] The Exposure Draft - Amendments to IFRS 17 published by the IASB in June 2019 contains the proposal to defer the date of first-time adoption of the Standard by one year, and thus until 1 January 2022, with the concurrent possibility of an extension of the "Deferral approach" in the application of IFRS 9.

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria
This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;

- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.
Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.
Equity instruments are not subject to the impairment process.
See the paragraph below "Impairment of financial assets" for more details.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

3. Financial assets measured at amortised cost

Classification criteria

This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:

- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria

Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.
In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along with the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Measurement criteria

After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.
The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.
The measurement criteria, as described in more detail in the paragraph "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.

With regard to the accounting representation of the above measurement effects, the adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or "tranches" of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from

the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.
If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "non-performing", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph "Impairment of financial assets", takes account of forward-looking information and possible alternative recovery scenarios.
Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.
The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.
The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment with time value effects are recognised in net interest income.
In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.
In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.
The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
    - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
    - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

4. Hedging transactions

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

Classification criteria: type of hedge

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.

The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. “Fair value change of financial assets in hedged portfolios” or under caption 50. “Fair value change of financial liabilities in hedged portfolios”;
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction. A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:

- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. “Fair value change of financial liabilities in hedged portfolios” are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

5. Investments in associates and companies subject to joint control

Classification, recognition and measurement criteria

The caption includes investments in companies subject to joint control and associates.
Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.
Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.

Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

The investments in associates and companies subject to joint control are measured at cost and accounted for according to the equity method. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.
If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

6. Property and equipment

Classification criteria

Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.
Property and equipment held for use in the production or supply of goods and services are classified as "Property and equipment used in operations", in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.
This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories, and to the real estate portfolio of the Group's real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held for sale.
Finally, this caption also includes the rights of use acquired through leases and relating to the use of an item of property and equipment (for the lessee companies) and the assets leased under operating leases (for the lessor companies).

Recognition criteria

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.
According to IFRS 16, leases are accounted for on the basis of the right of use model, where, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for its right of use of the underlying asset during the lease term.
When the asset is made available to the lessee for use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.
In particular, the right of use acquired with a lease is measured as the sum of the present value of the future payments over the term of the contract, the lease payments made at or before the commencement date, the lease incentives received, if any, the initial direct costs and any estimated costs of dismantling or restoring the underlying asset.

Measurement criteria

Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.
The investment properties are measured with the fair value method.
For the property and equipment subject to assessment according to the revaluation model:

- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in the Statement of consolidated comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; conversely, in the case where an impairment loss on the same asset recognised previously in the income statement is recovered, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in the Statement of consolidated comprehensive income to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise, this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Group's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:
- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.
If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.
With regard to the asset consisting of the right of use, recognised in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and subject to an impairment test if there are indicators of impairment.

Derecognition criteria
Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

7. Intangible assets

Classification criteria
Intangible assets consist of goodwill and other intangible assets governed by IAS 38. They may include the rights of use acquired under a lease and relating to the use of an intangible asset (for lessees) and assets leased under an operating lease (for lessors).
Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

Recognition and measurement criteria
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.
If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:
- technology-related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;
- customer-related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income

margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- intangible assets linked to service concession arrangements for which, in accordance with IFRIC 12, in return for the infrastructure construction or upgrade services, the operator acquires the right to charge the users for the use of the infrastructure; see the paragraph "Service concession arrangements" for more details. Intangible assets of this type are recorded net of government grants received, as required by IAS 20, and amortised on a straight-line basis over the duration of the concession;
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the consideration transferred and the fair value recognition, if any, of minority interests, and the fair value of shareholders' equity acquired is representative of the future income-generation potential of the equity investment.
If this difference is negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.
Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recoverable amount, if lower. The recoverable amount is equal to the higher between the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are posted in the income statement.

Derecognition criteria
Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

8. Other assets

Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

9. Non-current assets held for sale and discontinued operations and related liabilities

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

10. Current and deferred tax

Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accruals basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Group companies claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which the Group companies have requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.
Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.
Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.
Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).
Latent taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named "Reserve pursuant to Article 21 of Legislative Decree 213/98", which qualify for deferred taxation, is charged directly against this reserve. No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.
Latent taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

11. Allowances for risks and charges

Allowances for risks and charges for commitments and guarantees given
This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.
This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

Post-employment benefits
Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Other allowances
Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.
Consequently, a provision is recognised when, and only when:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

12. Financial liabilities measured at amortised cost

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in lease transactions.

Recognition criteria
Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.
Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.
Lease payables are recognised at the present value of the future lease payments, discounted using the implicit interest rate of the transaction or, where it cannot be determined, the marginal financing rate.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.
Lease payables are remeasured when there is a lease modification (e.g. a change in the contract which is not accounted for/considered as a separate contract); the effect of the remeasurement will be a corresponding adjustment to the right-of-use asset.

Derecognition criteria
Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.
Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

13. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value separated from liabilities measured at amortised cost.
It also includes liabilities determined by short selling generated by securities trading activities and certificates.

Measurement criteria
All financial liabilities held for trading are measured at fair value through profit or loss.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

14. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

Recognition criteria
These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

Measurement criteria
These liabilities are measured at fair value according to the following rules established by IFRS 9:

- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

Derecognition criteria
The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

15. Foreign currency transactions

Initial recognition
Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

Subsequent measurement
At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

16. Other information

Own shares
Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Accruals, prepayments and deferrals
Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

Employee termination indemnities
Employee termination indemnities qualify as a “post-employment benefit” classified as:
- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan” to the extent of the portions of employee termination indemnities accrued until 31 December 2006.
  These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.
The plan’s costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments
Share-based payments are recorded in the income statement, with a corresponding increase in shareholders’ equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.
In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.

The combination of the two values supplies the fair value of the assigned instrument.
Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

Employee benefits
Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:
- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and "extraordinary" benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Recognition of revenues and costs
Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:
- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:
- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:
- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  a) hedging interest-generating assets and liabilities;
  b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement when their distribution is approved, unless this date is not known or the information is not immediately available, in which case they may be recognised when they are collected;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

Use of estimates and assumptions in preparing financial reports

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves provided for in insurance regulations, in addition to the shadow reserves, and liability adequacy test provided for in IFRS 4.

For some of the types listed above, the main factors subject to estimates by the Group and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:
  - the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

The classification drivers for financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;

- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test
For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.
The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:
- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.
The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, the Intesa Sanpaolo Group uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).
For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

Business model
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:
- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Other/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.
In this regard, and in relation to the business models under which the financial assets are held, a specific set of "Business Model Rules" (approved by the competent levels of governance) has been drafted for the Parent Company and Banking Group Companies. It defines and sets out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the Intesa Sanpaolo Group's business structures. The initial structure of the document was approved by the Board of Directors, with a favourable opinion from the Risk Committee. In further detail, the mapping of the business model adopted by the various structures through which the Group operates, with regard to both loans and receivables and debt securities, takes account of the structure of the division model and the Corporate Centre; this structure has been identified as the relevant level for formulating and representing the various business models applied by the Group's risk-taking centres.

Within the Chief Risk Officer Area, the Financial and Market Risks Head Office Department of the Parent Company provides high-level supervision of the procedure required for determining the business model within which a given set of assets is held and verifies the need for any updates (to be incorporated, at least annually, in the Business Model Rules document).

Monitoring of the Business Model
The monitoring of the reference business model of the various structures through which the Group operates is performed by the Financial and Market Risks Head Office Department, which uses indicators intended to verify the consistency of the declared strategy with that pursued within the business models; these indicators, differentiated for the various business models, have been developed in accordance with IFRS 9 and corporate rules and procedures.

For the Hold to Collect portfolios, the Group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.
More specifically, within an HTC business model, sales are allowed:
- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;

- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - o frequency is defined as the percentage ratio between the number of positions sold over the observation period and the average of the portfolio positions over the observation period;
  - o significance is defined as the percentage ratio between the nominal value of the sales and the average nominal value of the instruments held in the portfolio over the period considered, using a method, solely for the debt securities, that gives a higher weight to the sales of the most recently acquired positions.

If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).
In general, the criteria for the admissibility of sales of HTC portfolios are to be understood as applicable where not in conflict with what has been established at the level of the Risk Appetite Framework.

With regard to the determination of the “Risks” and the “Reporting” for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter and of internal policies in the area of market risk controls apply in principle, and measures are concurrently established for monitoring the consistency of the HTCS and Other/Trading business models.

With regard to the HTCS business model, IFRS 9 does not provide for the need for limits on the frequency or the value of the sales. However, the Group has established indicators for debt securities only in order to ensure that they are properly assigned to the chosen business model over time. These indicators are:

- The holding period, which measures the time for which a certain instrument has been held in portfolio;
- Turnover rate, which measures the speed with which positions in portfolio turn over during a predefined period of time.

Within the framework of the monitoring of the indicators set out above, limits and early-warning thresholds apply according to the overall strategies pursued by the HTCS portfolio.

Finally, with regard to debt or equity securities held for trading, a measure of the consistency of inclusion in the chosen business model applies, represented by the indicator of "expected average permanence" (so-called Vintage) which measures the observed holding period of all securities in portfolio..

The monitoring measures relating to the various business models are subject to regular reporting through technical committees.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or floating rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or floating) over the life of the loan. For financial assets/liabilities with a floating rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate, the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).

With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.
For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous recognition in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

Impairment of assets

Impairment of financial assets

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.
In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):

- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: which comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.
  The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.
  For details of the significance of the above for the classification of non-performing exposures, see Part A – Accounting Policies (General criteria) regarding the early adoption of the New Definition of Default, and Part E – Section 3 - Non-performing credit exposures.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of “significantly increased” credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;

- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:
- the variation (beyond set thresholds) 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 forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those 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 are also considered for the purposes of the transfer between "stages" where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the "staging" of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (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.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.
The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional conservative margin specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The alternative paths are selected using external information. In particular:
- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.

The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.
Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.
The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the historical series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.
To capture the uncertainty in the estimation models and to prudently compensate for any potential lower explanatory power of some macroeconomic variables, when there are significant (best-case) deviations in the forecasts with respect to the TTC situation, a management overlay is applied, determined based on a process involving the Credit Risk and Pillar 2 Models Committee.
Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets
Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.

Non-performing loans classified as bad loans are subject to the following measurement methods:
- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:
- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the “probation period”). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the "NPL Plan", and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

  In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;

- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the specific analytical measurements and based on a specific Add-On for statistical analytical measurements, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.
In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.

In particular, in its “NPL Guidance” published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.
Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.

In compliance with the “NPL Guidance” the business strategies regarding NPL reduction are illustrated in the “NPL plan”, a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.
Where the “NPL plan” specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the “NPL plan” identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.

In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of the loan;
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.
   Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs:
   - when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
   - they have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of non-performing loans made by the Group.

Impairment of investments in associates and companies subject to joint control

At each balance sheet date the investments in associates and companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.
The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.
Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.
The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.
For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.
Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.
Value in use is determined by discounting future cash flows.

Impairment of non-financial assets

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.
For property and equipment other than real estate and valuable art assets and intangible assets (other than those recognised following business combinations) it is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the

production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.
As clarified in the discussion of “Property and equipment and intangible assets”, the Group measures owner-occupied properties and valuable art assets according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement.
As described in Part A.4 Information on fair value - Fair value of real estate and valuable art assets, for owner-occupied properties each year a scenario analysis is conducted on trends in the real-estate market to assess whether there are any significant deviations in the value of the assets. If significant changes are identified (+ or - 10%), an updated appraisal is prepared to adjust the fair value of the asset to the valuations of the real estate market. If there are no significant differences, the value is redetermined through a new expert appraisal every two years for “trophy assets” (i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities) and every three years for other owner-occupied properties.
For the valuable art assets, the revaluation is carried out by means of a new expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation. If the annual monitoring identifies a possible positive or negative value deviation of more than 15% for individual works of artists in the bank’s collections and comparable on the basis of objective criteria (size, technique, period of production, etc.), new appraisals are commissioned.
Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each reporting date to assess whether there is objective evidence that the asset may have been impaired.
Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset’s specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.
Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. The amount of any impairment is determined on the basis of the difference between the CGU’s book value and its recoverable amount represented by the higher of the fair value, less costs to sell, and the value in use.
The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business.
In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs’ book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
On this basis, the book value of Intesa Sanpaolo’s CGUs may be determined in terms of contribution to consolidated shareholders’ equity including the minority interest.
Thus, the carrying amount of the CGUs consisting of companies that belong to a single operating division or consist of a single legal entity (Asset Management, Private Banking, Insurance and International Subsidiary Banks and Autostrade Lombarde) is determined by summing the individual book values of each company in the consolidated financial statements, namely the contribution to consolidated shareholders’ equity and corresponding to their net book value, taking into account any goodwill and intangibles recorded upon acquisition (net of subsequent amortisations and any write-downs) and the consolidation entries. With regard to the determination of the carrying value of the other two divisions (Banca dei Territori and Corporate and Investment Banking), given that the Parent Company and other banks contribute to the management of these divisions, and this subdivision is not represented in the accounting information, the overall carrying value of the CGUs cannot be determined on the basis of book values. As a consequence, the use of operational factors is required to make the subdivision following a detailed allocation of the intangibles and goodwill to the two CGUs in accordance with the available accounting information. The operational driver is identified as the "regulatory capital" determined by the Financial and Market Risks Department structures for each operating division: it represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules. The resulting book values already take into account the effects of any impairment of the individual assets, including those relating to intangible assets with a finite life.
For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.
The value in use of a CGU is determined by estimating the present value of future cash flows that may be expected to be generated by the CGU. These cash flows are determined by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan or other external information available. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity, using an appropriate growth rate “g” for the purposes of the so-called Terminal value. The “g” rate is determined by assuming that the growth factor is the lower of the average growth rate for the forecasting period of the analysis and the average rate of increase in the Gross Domestic Product in the countries where the cash flows are generated.
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset’s specific risks. Specifically, the discount rates used incorporate the risk free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. In addition, given the diverse risks of the respective operating areas, different Beta coefficients are used for each CGU. All the resulting rates have been adjusted to take into account the “Country Risk”.
The cash flows produced by the international subsidiaries are estimated in the currency in which they are generated and translated into euro using the spot exchange rate as at the date of the determination of the value in use.

Business combinations

Business combinations are governed by IFRS 3.

The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.

To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see Section A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.

Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.

Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.

Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.

Moreover, as specifically required by IFRS 3, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.

If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.

Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.

The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.

In accordance with IFRS 10, acquisitions of further stakes in companies which are already controlled are accounted for as a capital transaction or as a transaction with shareholders acting in their capacity as shareholders. For this reason, the difference between the cost of the acquisition and the book value of the minority stakes acquired is posted to group shareholders' equity; in the same way, the sale of minority stakes without ceding control, does not generate gains or losses in the income statement but is posted to group shareholders' equity.

The following transactions are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business; transactions aimed at acquiring transitory control; transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the business combinations (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.

Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.

Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:
- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

Service concession arrangements

As at 31 December 2018, Intesa Sanpaolo acquired control of Autostrade Lombarde, the concession operator, through its operating subsidiary Società di Progetto Brebemi, of the Milan-Brescia motorway section (A35). For the accounting treatment of the motorway concession, reference was made to the provisions of IFRIC 12 - Service Concession Arrangements. Specifically, IFRIC 12 applies to service concession arrangements in which the grantor is a public sector entity and the operator is a private sector entity, when the following conditions are met:

a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
b) the grantor controls - through ownership or otherwise - any residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC 12 establishes that the operator is not required to recognise the related infrastructure as property and equipment because it does not have “control” over it, but it must only recognise the right to use the infrastructure to provide the service in accordance with the terms and conditions agreed with the grantor. This right may be classified as a financial asset or an intangible asset, in relation, respectively, to the unconditional right to receive compensation irrespective of the actual use of the infrastructure or the right to charge users for the use of the public service.

In accordance with IFRIC 12, in return for the construction and/or upgrade services rendered by the operator, the grantor shall pay the operator a consideration, to be recognised at fair value, which may consist of rights to:
- a financial asset (the financial asset model); or
- an intangible asset (the intangible asset model).

The financial asset model applies when the operator has an unconditional right to receive contractually guaranteed cash flows for the construction services, regardless of the effective use of the infrastructure. By contrast, within the intangible asset model, in return for the infrastructure construction or upgrade services, the operator acquires the right to charge the users for the use of the infrastructure. If the operator is paid for its infrastructure construction and upgrade services in part through a financial asset and in part through an intangible asset, a mixed accounting model applies. In this scenario, the components of the arrangement must be separated into those referring to the financial asset and those relating to the intangible asset. In this case, IFRIC 12 requires that the operator first calculate the part referring to the financial asset and then, on a residual basis (in respect of the value of the construction and/or upgrade services provided) the amount of the intangible asset. Taking into account the characteristics of the motorway concession held by Società di Progetto Brebemi, the mixed accounting model provided for by IFRIC 12 has been applied.

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 according to six business segments with specific operational 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 allows 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 with multiple Internal Fund Transfer Pricing (FTP) 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; for the operating business units these charges 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.

Insurance assets and liabilities

The Intesa Sanpaolo Group has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts (IFRS 17), scheduled for 2021[18]. For completeness, an outline is provided below of:

- the classification and measurement criteria for the financial assets and liabilities used by the Group's insurance companies, with more details provided in Part A "Accounting policies" of the Notes to the consolidated financial statements of the 2017 Annual Report. However, a description has not been provided of the recognition and derecognition criteria, because they are essentially in line with the applicable provisions of IFRS 9 and IAS 39;
- the approaches adopted for specific products of the insurance segment.

For details of the treatment of financial statement captions of the insurance companies other than those of a financial nature, see the information provided above, as the companies of the banking group and the companies of the insurance segment use the same accounting policies.

1. Financial assets held for trading

Classification criteria

This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.

In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

Measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCI and derivatives which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

2. Financial assets available for sale

Classification criteria

This category includes the financial assets that do not fall within any of the other categories such as Loans, Financial assets held for trading, Investments held to maturity or Financial assets measured at fair value through profit or loss. In particular, this caption is made up of i) bonds which are not held for trading and which are not included in Loans and Receivables, in Investments held to maturity or designated at fair value through profit or loss, ii) equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds as well as iii) the portions of syndicated loans that, from inception, are destined for sale.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity. Moreover, debt securities may be reclassified into the category Investments held to maturity as well as under Loans, when there is the intention to hold them in the foreseeable future and when the recognition criteria are met. The transfer value is the fair value at the time of the reclassification.

[18] As stated at the beginning of this chapter, the Exposure Draft - Amendments to IFRS 17 published by the IASB in June 2019 contains the proposal to defer the date of first-time adoption of the Standard by one year, and thus until 1 January 2022, with the concurrent possibility of an extension of the "Deferral approach" in the application of IFRS 9.

Measurement criteria
After initial recognition, Financial assets available for sale are measured at fair value, through the recording in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.
Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.
Equities included in this category and quotas of UCI which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.
Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.
Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity in the case of equities. The size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

3. Investments held to maturity

Classification criteria
Quoted debt securities with fixed or determinable payments and fixed maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category.
In the cases provided for by the accounting standards, reclassifications are only permitted towards the category of Financial assets available for sale. If during a year, prior to expiry, more than an insignificant amount classified under this category is sold or reclassified, the remaining investments held to maturity are reclassified as Financial assets available for sale and the portfolio in question may not be used for the next two years, unless the sales and reclassifications:
- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Measurement criteria
After the initial recognition, Investments held to maturity are measured at amortised cost, using the effective interest method.
Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.
Investments held to maturity are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

4. Loans

Classification criteria
Loans include loans to customers and due from banks, both disbursed directly and acquired from third parties, which entail fixed or in any case determinable payments, which are not quoted on an active market and which are not classified at inception in Financial assets available for sale.
The caption Loans also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities underwritten at issue or via private placements, with determined or determinable payments, not quoted in active markets.
Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

Measurement criteria
After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. 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.
The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.

Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely-to-pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.
Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.
Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.
The original effective rate of each loan remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.
The impairment loss is recorded in the income statement.
The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment.
The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment include time value effects.
Loans for which no objective evidence of loss has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.
Collective adjustments are recorded in the income statement.

5. Financial assets measured at fair value through profit or loss

Classification criteria
IAS/IFRS endorsed by the European Commission enable the classification as financial instruments measured at fair value through profit and loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.
Reclassifications to the other categories of financial assets are not permitted.
The Group classifies investments with respect to insurance policies in this category.

Measurement criteria
After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

6. Payables and securities issued

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in finance lease transactions.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

7. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

8. Financial liabilities designated at fair value through profit or loss

Classification criteria

Financial liabilities designated at fair value through profit or loss are recorded under this caption, on the basis of the fair value option given to companies by IAS 39, in compliance with the cases contemplated in the reference regulations.
The Group exercised the fair value option for liabilities, designating insurance products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary profit-sharing features. Investments relating to such forms of deposits, as already reported, were also designated at fair value, thereby eliminating or considerably reducing "accounting biases" that would otherwise have arisen from measuring assets and liabilities on the basis of different accounting criteria.

Measurement criteria

These liabilities are designated at fair value through profit or loss.

9. Insurance products

Products for which insurance risk is deemed significant include: temporary first class death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, the IAS/IFRS substantially confirm the national accounting standards concerning insurance. In brief, IFRS 4 sets forth that:

- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles;
- the insurance products entered under separate management are valued by applying "shadow accounting", whereby the differences between the carrying value and the market value of securities classified as securities available for sale are allocated to technical reserves as regards the insured parties' portion and to shareholders' equity as regards the insurance companies' portion. If, on the other hand, the securities are measured at fair value through profit or loss, the difference between the carrying value and the market value is recorded in the income statement giving rise to a change in technical reserves equal to the amount of the insured parties' portion;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

In accordance with IFRS 4, the Group assesses the prospective adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT).

10. Financial products included under separate management

Financial products included under separate management, despite their not being subject to significant insurance risk, and which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalisation policies. These are accounted for according to the principles set forth in IFRS 4:

- the products are shown in the financial statements according to principles that essentially reflect those locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the income statement;
- as stated in the previous paragraph, shadow accounting is applied to the insurance products entered under separate management which, therefore, have discretionary participation features;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

11. Financial products not included under separate management

Financial products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary participation features, are stated in the financial statements as financial liabilities and are measured at fair value, on the basis of the envisaged option (Fair Value Option), or at amortised cost. These financial products are essentially index-linked policies and part of the unit-linked ones, as well as policies with specific assets not included under separate management. These products are accounted for according to the principles set forth in IAS 39, as summarised below:

- the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are measured at amortised cost;
- the income statement does not reflect the premiums relating to these products, but just the revenue components, represented by fees and commissions, and the cost components, comprising provisions and other charges; it also reflects the costs or revenues represented by the changes in the fair value of the liabilities incurred against these contracts. More specifically, the international accounting and financial reporting standards, contained in IAS 39 and IFRS 15, provide that, for the liabilities designated at fair value, income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the income statement at the time the

product is issued and (ii) investment and management services, to be amortised over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, incremental cost and income items are included in the calculation of the amount to be amortised;

- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued and recorded.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.
According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, carrying value and interest income
No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income
No disclosure is required since no transfers were carried out between portfolios of financial assets in 2019.

A.3.3 Reclassified financial assets: change in business model and effective interest rate
No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.4 – INFORMATION ON FAIR VALUE

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

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

General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The "Rules for the Measurement of Equity Investments", drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as 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.
The 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 Intesa Sanpaolo 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.

In specific cases, regulated by the Fair Value Policy, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

General independent price verification principles

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.
The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.
According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.
The Intesa Sanpaolo Group has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.
Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities measured at fair value.
If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use valuation techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.

The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable.
Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

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 valuation techniques rather than the valuation techniques themselves.
The attachment “Fair Value Hierarchy” of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.
For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.
When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).
In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;

- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

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

With regard to the change in fair value level of financial assets and liabilities measured at fair value on a recurring basis, the Intesa Sanpaolo Group adopts the following guidelines.

For debt securities, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reporting date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reporting date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reporting date, some of the significant parameters used in determining fair value are not directly observable on the market. The transition from level 2 to level 1 occurs when, as at the reporting date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 1 to level 2 occurs when the presence of an active market, as defined by IFRS 13, has not been successfully identified and the significant parameters used as inputs for the measurement technique are not directly observable on the market, as at the reporting date.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk-free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, the Intesa Sanpaolo Group reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, the Intesa Sanpaolo Group uses valuation techniques that use unobservable inputs.

Valuation of financial instruments

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 valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

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, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. This market data may be both elementary and derived data. In particular, the Fair Value Policy establishes the cut-off procedures and the collection of the contribution sources deemed adequate for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements 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.
The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Head Office 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.

Model Validation - Certification of valuation models
In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.
The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:
- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model's ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring - Monitoring consistency of models over time
The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:
- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.
The Independent Price Verification (IPV) process supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments
As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as "fair value adjustments", which constitute an integral part of the fair value.
These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They 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 particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.
- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.

- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Risk Management function. The introduction and release of the fair value adjustments depends on the factors described above. 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 the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

- Valuation of non-contributed debt securities

  The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:
  - contributed and liquid debt securities of the same issuer;
  - credit default swaps on the same reference entity;
  - contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

  In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.
  In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
  When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
  Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.
  Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

  Similarly, Intesa Sanpaolo's credit spread for the Banking Group's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

  Finally, measurement of the financial liabilities of the Insurance Companies designated at fair value (mainly liabilities associated with unit-linked investment contracts that do not present significant insurance risk) reflects the market value of the underlying assets, which are determined in application of the various methods described herein.

II· Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.
Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

III· Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".
b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Fair value adjustments").

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.
The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

IV· Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).
In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.
In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.
After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.

V· Valuation of non-contributed equities

Level 2 equities include:
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the "relative" models described above are not applicable in significant terms, and, therefore, "absolute" valuation models are used, include:
- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.
This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

VI· The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.
For the funds not managed via an MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.
For the funds managed via an MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.
For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII· The valuation of closed-end private equity and real estate funds

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:

- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund's historical return; (iv) the fund's return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund's resulting risk profile, distinguishing between core, value added and opportunistic funds.

Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:

- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-14	22	%	13,519	-9,329
Structured securities and loans	JD model	JD parameters	-26	7	%	1,349	-201
Structured securities and loans	Two-factor model	Correlation	-17	12	%	521	-400
ABSs	Discounting Cash Flows	Credit Spread	-10	48	%	4,425	-10,023
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-8,236	3,294
CLOs Cash	Discounting Cash Flows	Credit Spread	-1	60	%	416	-18,232
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	-433	173
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	28	-28
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,628	-2,901
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of default (PD) based on counterparty's internal rating	B	BBB	Internal rating	104	-89
OTC Derivatives - Equity basket option	Black - Scholes model	Equity basket correlation	28.03	93.58	%	137	-137
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	14.99	37.01	%	140	-124
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	-4.10	73.37	%	535	-386
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-78.76	97.24	%	1,240	-542

A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

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

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-282	1 bp
FVTPL and FVTOCI securities and loans	JD parameters	-75	1%
FVTPL and FVTOCI securities and loans	Correlation	-50	1%
FVTPL and FVTOCI securities	CPR	-3	1%
FVTPL and FVTOCI securities	Recovery rate	-347	-1%
OTC Derivatives - Interest rate	Correlation by spread options between swap rates	-125	0.1
OTC Derivatives - Equity	Correlation between underlying equity baskets	-134	0.1
OTC Derivatives - Equity	Historical volatility	-156	10%
OTC Derivatives - Equity CPPI	Historical correlation	-119	0.1

A.4.3. Fair value hierarchy (Transfers between the different levels)

A description of the policy for determining when transfers occur between the different levels of fair value hierarchy (see IFRS 13, par. 95) is provided above.

A.4.4. Other information

In calculating the bCVA, the Intesa Sanpaolo Group considers the net positions in derivatives of each counterparty (see paragraph A.4.1 above for further details on the measurement of derivatives). For other cases, the Group does not make use of the option provided in paragraph 48 of IFRS 13, which permits an entity "to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions".

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group's Prudent Valuation Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation means the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.

The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.

The "Rules on Prudent Valuation of Financial Instruments" outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation model as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

Measurement of real estate assets

The revaluation model applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.
For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

Valuation approach

IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of 3 main groups:
- "trophy assets", i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
- "owner-occupied properties";
- "investment properties".

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.
The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards[19] which guarantee:
- determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
- compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.
- The Discounted Cash Flow Method: the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
- Comparative or Market Method: the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-core assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
- Direct capitalisation income approach: the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
- Investment Value (Worth): the Investment Value (Worth) is defined by the IVS as "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives". This definition is consistent with the provisions of the latest edition of the "RICS Valuation - Global Standards 2017" of the Royal Institution of Chartered Surveyors of the United Kingdom, where the Investment Value is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives".
  The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.
  The Investment Value of these properties is determined on the basis of a 12+6 year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

[19] Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document "RICS Valuation – Global Standard 2017" (also known as the "Red Book").

Frequency of valuation
Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.
Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.
The following distinction is made for owner-occupied properties:
- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+/- 10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.
For investment properties, the value is determined on the basis of new appraisals each year.

Scenario analysis
As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period.
In particular, for real estate located in Italy, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.
Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.
Real estate located abroad is grouped, for each country, into different clusters based on location and asset class. Specific market analyses are conducted based on local and national knowledge of the particular target real estate market.
The market study also takes account of the following macroeconomic drivers:
- analysis of economic data (unemployment rate, GDP per capita, inflation and consumer price index); these macroeconomic factors constitute the first economic analysis, supporting the real estate market forecasts;
- movement in average yield;
- movement in market rents;
- range of movement in unit values.

The above-mentioned market survey, together with a qualitative weighting of the macroeconomic key drivers is used to determine a range of percentage deviation from the last assessment carried out, which is compared with the target threshold set, identifying a synthetic percentage factor for each individual property, included in a single worksheet.
This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within a threshold and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.
The permitted variation threshold is +/-10%
If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

Fair value of valuable art assets
The bank's valuable art assets are also valued using the revaluation model, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.
Works of art included in the asset class "valuable art assets" are works of particular importance, recognised for their historic and artistic value by experts and in line with the ministerial guidelines, and particularly those set out in Ministerial Decree 537 of 6 December 2017 on the exportation of works of art, such as: the state of preservation, the historical importance of the artist, the importance of the work in terms of art criticism/history, illustrious origin, certain quality and attribution and the declaration of interest by the Italian government.

Valuation approach
The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts.
These values are obtained from online databases such as Artnet and Artprice, which list over 100 million works of art and monitor the results of leading Italian and international auction houses like Christie's, Sotheby's, Phillips, Dorotheum, Pandolfini, Wannenes, Il Ponte, and Finarte. These are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring galleries and art fairs.
More specifically, the following factors are significant for determining fair value.
The factors considered include historical-critical-artistic value, state of preservation and economic relevance are considered, as well as other factors (which may change over time, depending on the evolution and tastes of the market), such as the reputation of the museum hosting the artist's work, the reputation of fairs/exhibitions/galleries/auction houses, the reputation of critics and collectors, and the quality of the communications concerning the artist's work.
Once these factors have been identified, the fair value is determined comparing them firstly with artworks similar to those examined (in terms of technique, size, type of subject and state of preservation) by the same artist and from the same period, if available (this is more feasible for modern and contemporary works) and, secondly, with works by artists or schools and

areas that are close in style, philosophy and importance in the same historical period. Where several similar artworks are available, average values are used to take account of price volatility.
In addition to considering the trends in auction trading, starting from the most recent trading, including an analysis of unsold transactions (which is a possible indicator of the loss of market value for the work/artist), the valuation also considers the interest measured by recent high-prestige exhibitions in internationally renowned museum facilities accompanied by specific publications.
In the area of ancient art, account is also taken of the declaration of interest (so-called "notification") which ties most of the ancient artworks in the collection to Italy and reduces their price with respect to the international market.
The pricing is also influenced by the importance of the buyers/sellers (e.g. prices paid by collectors or known investors may be more significant).
The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined and uses three methodological principles:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the half year: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

Frequency of valuation
For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

Scenario analysis
In order to identify and determine the changes in the market of the artworks being valued, market trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.
Scenario analyses are pivotal for monitoring the market trends for artworks similar to those owned by Intesa Sanpaolo, since there have been significant increases in the art market in recent years.
These developments are partly due to the global growth of new museum, corporate and individual collections (particularly in the Middle East, the Gulf states, China, South East Asia, the United States, and Europe), as well as the presence of a large group of buyers increasingly interested in art as an alternative form of investment.
With respect to the parameters used for valuation purposes, the growth and evolution of the market has aspects of interest that have a direct impact on the scenario analyses that are conducted regularly to monitor the trends.
In view of the above, a scenario analysis of the art market is conducted annually, based on an examination of the sector publications and the most authoritative annual reports produced by leading consulting firms (Deloitte Luxembourg & ArtTactic, Art & Finance Report) or other accredited banking groups (The Art Market 2019. An Art Basel & UBS Report). The analysis is assigned to experts with proven reliability, independence and professional expertise.
The "valuable art assets" are subject to monitoring of the prices of all the assets within this class.
This monitoring is carried out on a two-fold basis:

I· Monitoring of the market prices of the top artworks in terms of value held in ISP's collections, which represent 75% of the total value of the artworks included in the "valuable art assets" class, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the two main world databases (Artprice and Artnet), whose analytics provide useful tools for monitoring prices;

II· Monitoring the performance of the art market in general, to identify trends and changes with respect to ISP's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the two main world databases (Artprice and Artnet); since the works of many artists in the ISP's collection very rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

The monitoring is carried out throughout the year and the related database is updated twice a year (May/June and October/November). The trend data is entered into the Artistic Heritage Management System of the Art, Culture and Historical Heritage Head Office Department.
If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% (for individual artworks or inventory items of artists in the ISP collections and comparable on the basis of objective criteria, such as size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

Quantitative information

A.4.5. Fair value hierarchy

***A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: fair value by level** - Excluding insurance companies*

(millions of euro)

Assets / liabilities at fair value	**31.12.2019**			**31.12.2018**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Financial assets designated at fair value through profit or loss	17,934	28,658	2,822	11,037	28,462	2,616
a) Financial assets held for trading	17,161	27,622	369	10,748	27,655	403
of which: Equities	*713*	*-*	*1*	*500*	*-*	*-*
of which: quotas of UCI	*661*	*2*	*24*	*913*	*2*	*47*
b) Financial assets designated at fair value	-	195	-	-	208	-
c) Other financial assets mandatorily designated at fair value	773	841	2,453	289	599	2,213
of which: Equities	*2*	*94*	*179*	*2*	*96*	*178*
of which: quotas of UCI	*771*	*128*	*1,410*	*267*	*-*	*1,334*
2. Financial assets designated at fair value through other comprehensive income	63,815	8,173	422	53,527	6,399	543
of which: Equities	*611*	*2,048*	*400*	*593*	*2,119*	*449*
3. Hedging derivatives	8	3,008	13	-	2,983	10
4. Property and equipment	-	-	5,748	-	-	5,720
5. Intangible assets	-	-	-	-	-	-
Total	**81,757**	**39,839**	**9,005**	**64,564**	**37,844**	**8,889**
1. Financial liabilities held for trading	18,422	26,704	100	14,928	26,824	143
2. Financial liabilities designated at fair value	-	4	-	-	4	-
3. Hedging derivatives	-	9,284	4	-	7,216	5
Total	**18,422**	**35,992**	**104**	**14,928**	**34,044**	**148**

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 7%. The majority of level 3 financial assets is represented by units of UCIs, of which 352 million euro is represented by units of the Atlante Fund and the Italian Recovery Fund put in place, as part of the regulations to support the banking system.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.

Over 62% of financial assets designated at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

The captions measured at level 3 fair value under Property and equipment include real estate assets and valuable art assets, which represent 61% of the balance sheet assets at level 3 fair value.
In addition to the transfers relating to financial assets and liabilities designated at level 3 as detailed below, please note that the following transfers were made during 2019:

- from level 1 to level 2:
  - financial assets held for trading for 5 million euro (book value as at 31 December 2019);
  - financial assets measured at fair value through other comprehensive income for 12 million euro (book value as at 31 December 2019);
  - financial liabilities held for trading for 46 million euro (book value as at 31 December 2019);
- from level 2 to level 1:
  - financial assets held for trading for 310 million euro (book value as at 31 December 2019);
  - financial assets measured at fair value through other comprehensive income for 177 million euro (book value as at 31 December 2019);
  - financial liabilities held for trading for 425 million euro (book value as at 31 December 2019);

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's

Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

A.4.5.1 Bis Assets and liabilities measured at fair value on a recurring basis: fair value by level - Insurance companies

(millions of euro)

Assets / liabilities at fair value	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	284	22	46	231	11	47
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*119*	-	*46*	*61*	-	*47*
2. Financial assets designated at fair value through profit or loss	83,816	141	308	73,920	121	273
of which: Equities	*2,315*	-	-	*1,678*	-	-
of which: quotas of UCI	*76,521*	*99*	-	*67,729*	-	*19*
3. Financial assets available for sale	79,315	2,162	1,902	71,254	2,286	1,382
of which: Equities	*1,480*	-	-	*979*	-	-
of which: quotas of UCI	*9,917*	-	*1,902*	*10,256*	*1*	*1,382*
4. Hedging derivatives	-	206	-	-	21	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**163,415**	**2,531**	**2,256**	**145,405**	**2,439**	**1,702**
1. Financial liabilities held for trading	-	45	-	3	41	-
2. Financial liabilities designated at fair value through profit or loss	-	75,886	-	-	67,755	-
3. Hedging derivatives	-	4	-	-	1	-
Total	**-**	**75,935**	**-**	**3**	**67,797**	**-**

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

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

- from level 1 to level 2:
  - financial assets available for sale for 31 million euro (book value as at 31 December 2019);
- from level 2 to level 1:
  - financial assets designated at fair value through profit and loss for 1 million euro (book value as at 31 December 2019);
  - financial assets available for sale for 2,194 million euro (book value as at 31 December 2019).

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of 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.

A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3) - Excluding insurance companies

(millions of euro)

	Assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**2,616**	**403**	**-**	**2,213**	**543**	**10**	**5,720**	**-**
2. Increases	**1,072**	**341**	**-**	**731**	**82**	**4**	**268**	**-**
2.1 Purchases	701	314	-	387	9	-	68	-
2.2 Gains recognised in:	190	18	-	172	47	4	79	-
2.2.1 Income statement	190	18	-	172	-	4	2	-
- of which capital gains	*168*	*16*	-	*152*	-	*4*	*2*	-
2.2.2 Shareholders' equity	-	X	X	X	47	-	77	-
2.3 Transfers from other levels	25	7	-	18	-	-	-	-
2.4 Other increases	156	2	-	154	26	-	121	-
3. Decreases	**-866**	**-375**	**-**	**-491**	**-203**	**-1**	**-240**	**-**
3.1 Sales	-345	-253	-	-92	-16	-1	-10	-
3.2 Reimbursements	-49	-3	-	-46	-26	-	-	-
3.3 Losses recognized in:	-69	-45	-	-24	-11	-	-123	-
3.3.1 Income statement	-69	-45	-	-24	-	-	-107	-
- of which capital losses	*-77*	*-46*	-	*-31*	-	-	-	-
3.3.2 Shareholders' equity	-	X	X	X	-11	-	-16	-
3.4 Transfers to other levels	-168	-32	-	-136	-123	-	-	-
3.5 Other decreases	-235	-42	-	-193	-27	-	-107	-
4. Final amount	**2,822**	**369**	**-**	**2,453**	**422**	**13**	**5,748**	**-**

A.4.5.2. Bis Annual changes in assets measured at fair value on a recurring basis (level 3) - Insurance companies

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**47**	**273**	**1,382**	**-**	**-**	**-**
2. Increases	**46**	**57**	**1,099**	**-**	**-**	**-**
2.1 Purchases	45	1	664	-	-	-
2.2 Gains recognised in:	1	-	106	-	-	-
2.2.1 Income statement	1	-	13	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	93	-	-	-
2.3 Transfers from other levels	-	-	41	-	-	-
2.4 Other increases	-	56	288	-	-	-
3. Decreases	**-47**	**-22**	**-579**	**-**	**-**	**-**
3.1 Sales	-47	-18	-323	-	-	-
3.2 Reimbursements	-	-3	-	-	-	-
3.3 Losses recognized in:	-	-1	-24	-	-	-
3.3.1 Income statement	-	-1	-6	-	-	-
- of which capital losses	*1*	*-3*	*-5*	-	-	-
3.3.2 Shareholders' equity	X	X	-18	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-232	-	-	-
4. Final amount	**46**	**308**	**1,902**	**-**	**-**	**-**

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3) - Excluding insurance companies

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**143**	**-**	**5**
2. Increases	**9**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	4	-	-
2.2.1 Income statement	4	-	-
- of which capital losses	*4*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	5	-	-
2.4 Other increases	-	-	-
3. Decreases	**-52**	**-**	**-1**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-36	-	-1
3.3.1 Income statement	-36	-	-1
- of which capital gains	*-36*	-	*-1*
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-2	-	-
3.5 Other decreases	-14	-	-
4. Final amount	**100**	**-**	**4**

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

Transfers from and to other levels described in the above tables were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

For more exhaustive information on the sensitivity of financial instruments to changes in the main input parameters, reference should be made to the analyses of the trading book in Part E of these Notes to the consolidated financial statements.

A.4.5.3 Bis Annual changes in liabilities measured at fair value on a recurring basis (level 3) - Insurance companies

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

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level - Excluding insurance companies

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2019				31.12.2018			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	467,815	11,302	336,518	129,200	476,503	4,516	328,024	146,854
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	494	-	58	436	1,297	-	-	1,297
Total	**468,309**	**11,302**	**336,576**	**129,636**	**477,800**	**4,516**	**328,024**	**148,151**
1. Financial liabilities measured at amortised cost	519,382	40,488	446,865	33,889	513,942	40,683	441,807	30,422
2. Liabilities associated with non-current assets	41	-	-	41	258	-	241	17
Total	**519,423**	**40,488**	**446,865**	**33,930**	**514,200**	**40,683**	**442,048**	**30,439**

A.4.5.4 Bis Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level - Insurance companies

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2019				31.12.2018			
	Book value	Level 1	Level 2	Level 3	**Book value**	Level 1	Level 2	Level 3
1. Investments held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	581	-	64	516	922	-	123	800
3. Loans to customers	31	-	25	7	30	-	25	6
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**612**	**-**	**89**	**523**	**952**	**-**	**148**	**806**
1. Due to banks	2	-	2	-	5	-	4	-
2. Due to customers	77	-	7	69	68	-	-	67
3. Securities issued	747	-	747	-	737	-	737	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**826**	**-**	**756**	**69**	**810**	**-**	**741**	**67**

Financial assets and liabilities

For financial assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Group measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed-rate instruments, the cash flows are those envisaged by the contracts. For floating-rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or shorter than 12 months and residual maturity equal to or shorter than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - non-performing assets which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

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

(millions of euro)

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

Part B – Information on the consolidated balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

1.1 Cash and cash equivalents: breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
a) Cash	3,795	3,636
b) On demand deposits with Central Banks	5,950	6,714
Total	**9,745**	**10,350**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	15,199	1,953	173	8,755	2,496	116
1.1 Structured securities	*1,133*	*82*	*4*	*165*	*48*	*17*
1.2 Other debt securities	*14,066*	*1,871*	*169*	*8,590*	*2,448*	*99*
2. Equities	713	-	1	500	-	-
3. Quotas of UCI	661	2	24	913	2	47
4. Loans	1	23	-	16	51	8
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	*1*	*23*	-	*16*	*51*	*8*
Total (A)	**16,574**	**1,978**	**198**	**10,184**	**2,549**	**171**
B. Derivatives						
1. Financial derivatives	587	24,730	158	564	24,403	219
1.1 trading	*587*	*24,730*	*158*	*564*	*24,401*	*219*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	*2*	-
2. Credit derivatives	-	914	13	-	703	13
2.1 trading	-	*914*	-	-	*703*	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	*13*	-	-	*13*
Total (B)	**587**	**25,644**	**171**	**564**	**25,106**	**232**
TOTAL (A+B)	**17,161**	**27,622**	**369**	**10,748**	**27,655**	**403**

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 1,564 million euro, of which 1.154 million euro is senior, 404 million euro is mezzanine and 6 million euro is junior.

2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	**17,325**	**11,367**
a) Central Banks	9	10
b) Public administration	12,824	7,444
c) Banks	2,030	1,829
d) Other financial companies	2,002	1,633
of which: insurance companies	*25*	*24*
e) Non financial companies	460	451
2. Equities	**714**	**500**
a) Banks	69	26
b) Other financial companies	64	64
of which: insurance companies	*25*	*3*
c) Non financial companies	581	410
d) Other issuers	-	-
3. Quotas of UCI	**687**	**962**
4. Loans	**24**	**75**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	2	9
of which: insurance companies	-	-
e) Non financial companies	22	66
f) Households	-	-
Total A	**18,750**	**12,904**
B. Derivatives		
a) Central counterparties	596	623
b) Other	25,806	25,279
Total B	**26,402**	**25,902**
TOTAL (A+B)	**45,152**	**38,806**

2.3 Financial assets designated at fair value: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**195**	**-**	**-**	**208**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	195	-	-	208	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-
Total	**-**	**195**	**-**	**-**	**208**	**-**

2.4 Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**195**	**208**
a) Central Banks	-	-
b) Public administration	1	1
c) Banks	194	197
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	10
2. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**195**	**208**

2.5 Other financial assets mandatorily measured at fair value: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**318**	**411**	**-**	**291**	**428**
1.1 Structured securities	-	30	6	-	-	24
1.2 Other debt securities	-	288	405	-	291	404
2. Equities	**2**	**95**	**179**	**2**	**96**	**178**
3. Quotas of UCI	**771**	**127**	**1,410**	**267**	**-**	**1,334**
4. Loans	**-**	**301**	**453**	**20**	**212**	**273**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	301	453	20	212	273
Total	**773**	**841**	**2,453**	**289**	**599**	**2,213**

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 617 million euro, of which 46 million euro is senior, 252 million euro is mezzanine and 319 million euro is junior.

2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Equities	**275**	**276**
of which: banks	*1*	*1*
of which: other financial companies	*6*	*55*
of which: non financial companies	*268*	*220*
2. Debt securities	**729**	**719**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	678	684
of which: insurance companies	*346*	*303*
e) Non financial companies	51	35
3. Quotas of UCI	**2,309**	**1,601**
4. Loans	**754**	**505**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	6	2
d) Other financial companies	191	45
of which: insurance companies	*21*	*20*
e) Non financial companies	474	431
f) Households	83	27
Total	**4,067**	**3,101**

The aggregate of quotas of UCI includes 352 million euro in interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.
The aggregate of Loans includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**63,204**	**5,769**	**14**	**52,934**	**4,260**	**86**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	63,204	5,769	14	52,934	4,260	86
2. Equities	**611**	**2,048**	**400**	**593**	**2,119**	**449**
3. Loans	**-**	**356**	**8**	**-**	**20**	**8**
Total	**63,815**	**8,173**	**422**	**53,527**	**6,399**	**543**

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

The caption above includes the securities connected with securitisations for a total amount of approximately 1.482 million euro, of which approximately 1.407 million euro is senior, 75 million euro is mezzanine and there is no junior.

Sub-caption 2 includes the stake in the capital of the Bank of Italy for an amount of 1,663 million euro. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases made starting from 2015 and continuing in subsequent years. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. In addition, the value of the investment was also supported by the use of an alternative method based on the discounting of future dividends deriving from the investment (DDM – “Dividend Discount Model”). Following the approach taken in the previous year, the use of level 2 inputs (direct transaction price) as the reference for determining fair value for the 2019 financial statements also resulted in the confirmation of level 2 in the fair value hierarchy.
The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 61 million euro.

3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**68,987**	**57,280**
a) Central Banks	22	59
b) Public administration	57,999	51,114
c) Banks	6,003	3,160
d) Other financial companies	3,052	2,046
of which: Insurance companies	*41*	*29*
e) Non financial companies	1,911	901
2. Equities	**3,059**	**3,161**
a) Banks	2,167	2,450
b) Other issuers:	892	711
- other financial companies	399	247
of which: insurance companies	*3*	*5*
- non financial companies	481	428
- other	12	36
3. Loans	**364**	**28**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	16	3
of which: insurance companies	-	-
e) Non financial companies	348	25
f) Households	-	-
Total	**72,410**	**60,469**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write off
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	66,445	*7,637*	2,607	36	-46	-20	-35	-
Loans	347	-	18	-	-1	-	-	-
Total 31.12.2019	**66,792**	***7,637***	**2,625**	**36**	**-47**	**-20**	**-35**	-
Total 31.12.2018	**57,101**	***16,254***	**253**	**36**	**-41**	**-6**	**-35**	-
of which: purchased or originated credit-impaired financial assets	*X*	*X*	-	-	*X*	-	-	-

SECTION 3 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Assets referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the Bank of Italy Circular no. 262, "Caption 35 Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39" was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39 - Caption 35	31.12.2019	31.12.2018
20. Financial assets held for trading	352	289
30. Financial assets designated at fair value	84,265	74,314
40. Financial assets available for sale	83,379	74,922
80. Hedging derivatives	206	21
TOTAL Caption 35	**168,202**	**149,546**

3.1 Bis Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	136	9	-	120	9	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*136*	*9*	-	*120*	*9*	-
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	119	-	46	61	-	47
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**255**	**9**	**46**	**181**	**9**	**47**
B. Derivatives						
1. Financial derivatives:	29	13	-	50	1	-
1.1 trading	*29*	*11*	-	*49*	-	-
1.2 fair value option	-	*2*	-	*1*	*1*	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	1	-
2.1 trading	-	-	-	-	*1*	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**29**	**13**	**-**	**50**	**2**	**-**
TOTAL (A+B)	**284**	**22**	**46**	**231**	**11**	**47**

3.2 Bis Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Cash assets		
1. Debt securities	**145**	**129**
a) Governments and Central Banks	120	103
b) Other public entities	-	-
c) Banks	9	11
d) Other issuers	16	15
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Quotas of UCI	**165**	**108**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
Total A	**310**	**237**
B. Derivatives		
a) Banks	42	52
- Fair value	*42*	*52*
b) Customers	-	-
- Fair value	-	-
Total B	**42**	**52**
Total (A + B)	**352**	**289**

3.3 Bis Financial assets designated at fair value: breakdown

(millions of euro)

Captions/Amounts	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**4,771**	**42**	**1**	**4,189**	**121**	**3**
1.1 Structured securities	-	-	-	-	42	-
1.2 Other debt securities	4,771	42	1	4,189	79	3
2. Equities	**2,315**	**-**	**-**	**1,678**	**-**	**-**
3. Quotas of UCI	**76,521**	**99**	**-**	**67,729**	**-**	**19**
4. Loans	**209**	**-**	**307**	**324**	**-**	**251**
4.1 Structured	-	-	-	-	-	-
4.2 Other	209	-	307	324	-	251
Total	**83,816**	**141**	**308**	**73,920**	**121**	**273**
Cost	**80,338**	**140**	**308**	**74,549**	**187**	**321**

3.4 Bis Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**4,814**	**4,313**
a) Governments and Central Banks	4,107	3,647
b) Other public entities	18	17
c) Banks	324	254
d) Other issuers	365	395
2. Equities	**2,315**	**1,678**
a) Banks	170	128
b) Other issuers:	2,145	1,550
- insurance companies	*109*	*85*
- financial companies	*49*	*32*
- non-financial companies	*1,166*	*828*
- other	*821*	*605*
3. Quotas of UCI	**76,620**	**67,748**
4. Loans	**516**	**575**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	516	575
d) Other counterparties	-	-
Total	**84,265**	**74,314**

3.5 Bis Financial assets available for sale: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**67,918**	**2,162**	**-**	**60,019**	**2,285**	**-**
1.1 Structured securities	18	-	-	17	-	-
1.2 Other debt securities	67,900	2,162	-	60,002	2,285	-
2. Equities	**1,480**	**-**	**-**	**979**	**-**	**-**
2.1 Measured at fair value	1,480	-	-	979	-	-
2.2 Measured at cost	-	-	-	-	-	-
3. Quotas of UCI	**9,917**	**-**	**1,902**	**10,256**	**1**	**1,382**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**79,315**	**2,162**	**1,902**	**71,254**	**2,286**	**1,382**

3.6 Bis Financial assets available for sale: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**70,080**	**62,304**
a) Governments and Central Banks	57,981	49,364
b) Other public entities	104	113
c) Banks	3,805	3,812
d) Other issuers	8,190	9,015
2. Equities	**1,480**	**979**
a) Banks	84	48
b) Other issuers:	1,396	931
- insurance companies	*41*	*23*
- financial companies	*28*	-
- non-financial companies	*1,327*	*905*
- other	-	*3*
3. Quotas of UCI	**11,819**	**11,639**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
Total	**83,379**	**74,922**

3.7 Bis Financial assets available for sale subject to microhedging

There were no financial assets available for sale subject to microhedging referring to insurance companies.

3.8 Bis Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2019			Notional value	Fair value 31.12.2018			Notional value
	Level 1	Level 2	Level 3	31.12.2019	Level 1	Level 2	Level 3	31.12.2018
A) Financial derivatives	**-**	**206**	**-**	**972**	**-**	**21**	**-**	**436**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	206	-	972	-	21	-	436
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**206**	**-**	**972**	**-**	**21**	**-**	**436**

3.9 Bis Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Operations/Type of hedge	FAIR VALUE						CASH FLOWS		FOREIGN. INVESTM.
	Specific					Generic			
	Interest rate risk	foreign exchange risk	Credit risk	various risk	Multiple risk		Specific	Generic	
1. Financial assets available for sale	-	-	-	-	-	X	206	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**-**	**-**
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

DISCLOSURE PURSUANT TO IFRS 4

As previously indicated, the Intesa Sanpaolo Group exercised the option of adopting the Deferral Approach or Temporary Exemption, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39.
In particular, the Group's insurance companies applying IAS 39 are as follows:

- Intesa Sanpaolo Vita S.p.A.
- Intesa Sanpaolo Assicura S.p.A.
- Intesa Sanpaolo Life Ltd
- Fideuram Vita S.p.A.

This section sets out the information required by IFRS 4 Insurance Contracts following exercise of the option, granted to insurance companies belonging to banking-led financial conglomerates, pursuant to Regulation 1988/2017, of postponing the first-time adoption of IFRS 9 until 2021[20].

The Group verified the fulfilment of the requirements to apply the Temporary Exemption. The insurance companies meet the requirement of insurance predominance, which requires that the percentage of the carrying amount of liabilities linked to insurance business on the carrying amount of total liabilities of the entity exceeds 90% (predominance ratio). Moreover, there were no transfers of financial assets other than those measured at FVTPL between Group companies using different accounting standards;

As required by the reference regulations, the quantitative disclosure regarding the entities that will postpone the application of IFRS 9 is provided below.

[20] The Exposure Draft – Amendments to IFRS 7 published by the IASB in June 2019 contains the proposal to defer the date of first-time adoption of the Standard by one year – and thus until 1 January 2022 – with the concurrent possibility of an extension of the "Deferral approach" in the application of IFRS 9.

Details of the securities of the insurance companies that pass the SPPI Test

(millions of euro)

Caption	Fair value at the reporting date	Fair value changes during the year	Other changes during the year (3)	Fair value at the previous reporting date
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	**167,686**	**12,049**	**6,665**	**148,972**
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	69,489	3,774	3,822	61,893
Debt securities	69,489	3,774	3,822	61,893
Structured securities	12	1	-48	59
Other debt securities	69,477	3,773	3,870	61,834
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	14,787	854	63	13,870
Debt securities	785	27	-5	763
Structured securities	6	-	6	-
Other debt securities	779	27	-11	763
Equities	1,480	228	274	978
Quotas of UCI	12,276	414	-196	12,058
Loans	-	-	-	-
Derivatives	246	185	-10	71
Other financial assets	-	-	-	-
Other financial assets connected with contracts where the investment risk is borne by the policyholders	83,410	7,421	2,780	73,209
Debt securities	4,765	80	593	4,092
Structured securities	-	-	-	-
Other debt securities	4,765	80	593	4,092
Equities	2,315	613	25	1,677
Quotas of UCI	76,328	6,727	2,163	67,438
Loans	-	-	-	-
Derivatives	2	1	-1	2
Other financial assets	-	-	-	-
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (*)	**72**	**5**	**2**	**65**
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	50	3	-18	65
Debt securities	50	3	-18	65
Structured securities	-	-	-	-
Other debt securities	50	3	-18	65
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	22	2	20	-
Debt securities	22	2	20	-
Structured securities	-	-	-	-
Other debt securities	22	2	20	-
Equities	-	-	-	-
Quotas of UCI	-	-	-	-
Loans	-	-	-	-
Derivatives	-	-	-	-
Other financial assets	-	-	-	-

(*) Debt securities shows the fair value as required by the amendment to IFRS 4. These securities have been recognised in the balance sheet at amortised cost

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) includes all other financial assets, i.e. any financial asset:
i) with contractual terms that do not give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding;
ii) that meet the definition of held for trading in IFRS 9; or
iii) that are managed and whose return is measured at fair value

(3) Column includes movements that are not attributable to changes in fair value (purchases, sales, repayments, etc.)

The table referred to above includes the investments whose risk is fully borne by policyholders, classified under financial assets measured at fair value.

Loans to customers of 516 million euro are added to the amounts indicated above.

Credit risk exposure for financial instruments of the insurance companies that pass the SPPI test

(millions of euro)

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	Credit risk rating	Current year book value (2)	Previous year book value (2)
Debt securities		68,079	60,457
Structured securities	Investment Grade	12	59
Other debt securities		68,067	60,398
Loans		-	-
Other financial assets		-	-

(millions of euro)

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1), and which do not have a low credit risk	Credit risk rating	Current year book value (2)	Current year market value	Previous year book value (2)
Debt securities		1,458	1,460	1,505
Structured securities		-	-	-
Other debt securities	Non-Investment Grade	1,458	1,460	1,505
Loans		-	-	-
Other financial assets		-	-	-

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) in the case of financial assets measured at amortised cost, before any impairment loss.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

(millions of euro)

Items	**31.12.2019**						**31.12.2018**					
	Book value			**Fair value**			**Book value**			**Fair value**		
	Stage 1 and 2	**Stage 3**	***of which: purchased or originated credit-impaired***	Level 1	Level 2	Level 3	**Stage 1 and 2**	**Stage 3**	***of which: purchased or originated credit-impaired***	Level 1	Level 2	Level 3
A. Due from Central Banks	**17,095**	**-**	**-**	**-**	**15,429**	**1,663**	**38,146**	**-**	**-**	**-**	**36,078**	**2,068**
1. Time deposits	1,325	-	-	X	X	X	1,059	-	-	X	X	X
2. Compulsory reserve	14,982	-	-	X	X	X	35,609	-	-	X	X	X
3. Repurchase agreements	344	-	-	X	X	X	1,069	-	-	X	X	X
4. Other	444	-	-	X	X	X	409	-	-	X	X	X
B. Due from banks	**31,850**	**82**	**-**	**1,128**	**22,740**	**8,064**	**31,161**	**-**	**-**	**176**	**23,799**	**7,251**
1. Loans	30,072	82	-	-	22,011	8,064	30,618	-	-	-	23,476	7,251
1.1 Current accounts and on demand deposits	11,423	-	-	X	X	X	10,903	-	-	X	X	X
1.2. Time deposits	1,765	-	-	X	X	X	2,367	-	-	X	X	X
1.3 Other loans:	16,884	82	-	X	X	X	17,348	-	-	X	X	X
- Reverse repurchase agreements	*6,953*	-	-	*X*	*X*	*X*	*9,482*	-	-	*X*	*X*	*X*
- Finance leases	*5*	-	-	*X*	*X*	*X*	*7*	-	-	*X*	*X*	*X*
- Other	*9,926*	*82*	-	*X*	*X*	*X*	*7,859*	-	-	*X*	*X*	*X*
2. Debt securities	1,778	-	-	1,128	729	-	543	-	-	176	323	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	1,778	-	-	1,128	729	-	543	-	-	176	323	-
TOTAL	**48,945**	**82**	**-**	**1,128**	**38,169**	**9,727**	**69,307**	**-**	**-**	**176**	**59,877**	**9,319**

The sub-caption “Other loans” includes operating loans, i.e. operations connected to the provision of activities and services with no credit facilities, for an amount of 121 million euro. Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	**31.12.2019**						**31.12.2018**					
	Book value			**Fair value**			**Book value**			**Fair value**		
	Stage 1 and 2	**Stage 3**	***of which: purchased or originated credit-impaired***	Level 1	Level 2	Level 3	**Stage 1 and 2**	**Stage 3**	***of which: purchased or originated credit-impaired***	Level 1	Level 2	Level 3
1. Loans	**374,728**	**14,153**	***308***	**-**	**289,575**	**110,175**	**371,961**	**16,487**	***486***	**-**	**261,180**	**132,359**
1.1.Current accounts	20,455	1,780	*1*	X	X	X	21,927	1,990	*5*	X	X	X
1.2. Reverse repurchase agreements	29,531	-	-	X	X	X	33,641	-	-	X	X	X
1.3. Mortgages	176,447	7,435	*250*	X	X	X	173,691	8,938	*428*	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	17,379	508	*2*	X	X	X	15,394	334	*2*	X	X	X
1.5. Finance leases	10,345	2,006	-	X	X	X	11,302	2,248	-	X	X	X
1.6. Factoring	10,192	56	-	X	X	X	11,128	65	-	X	X	X
1.7. Other loans	110,379	2,368	*55*	X	X	X	104,878	2,912	*51*	X	X	X
2. Debt securities	**29,852**	**55**	**-**	**10,174**	**8,774**	**9,298**	**18,704**	**44**	**-**	**4,340**	**6,967**	**5,176**
2.1. Structured securities	-	-	-	-	-	-	5	-	-	-	5	-
2.2. Other debt securities	29,852	55	-	10,174	8,774	9,298	18,699	44	-	4,340	6,962	5,176
Total	**404,580**	**14,208**	***308***	**10,174**	**298,349**	**119,473**	**390,665**	**16,531**	***486***	**4,340**	**268,147**	**137,535**

The sub-caption “Other loans” includes operating loans, i.e. operations connected to the provision of activities and services with no credit facilities, for an amount of 1,056 million euro. Insignificant value adjustments were recorded on those exposures classified as Stage 1.

The caption above includes the securities connected with securitisations for a total amount of approximately 2,703 million euro, of which approximately 2,687 million euro is senior, 16 million euro is mezzanine and there is no junior.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*
1. Debt securities	**29,852**	**55**	**-**	**18,704**	**44**	**-**
a) Public administration	15,844	27	-	11,799	25	-
b) Other financial companies	11,763	13	-	5,684	5	-
of which: insurance companies	-	-	-	-	-	-
c) Non financial companies	2,245	15	-	1,221	14	-
2. Loans:	**374,728**	**14,153**	***308***	**371,961**	**16,487**	**486**
a) Public administration	16,044	238	-	15,099	262	*4*
b) Other financial companies	57,487	315	*5*	60,485	383	*8*
of which: insurance companies	*90*	-	-	*34*	-	-
c) Non financial companies	162,800	10,151	*140*	160,594	12,458	*307*
d) Households	138,397	3,449	*163*	135,783	3,384	*167*
TOTAL	**404,580**	**14,208**	***308***	**390,665**	**16,531**	**486**

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

(millions of euro)

		Gross amount				Total adjustments			Total partial write-offs
		Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		24,388	-	7,425	131	-17	-80	-76	**-**
Loans		379,682	-	43,846	31,312	-649	-1,070	-17,077	**8,135**
Total	**31.12.2019**	**404,070**	**-**	**51,271**	**31,443**	**-666**	**-1,150**	**-17,153**	**8,135**
Total	**31.12.2018**	**412,641**	**-**	**49,587**	**36,405**	**-883**	**-1,373**	**-19,874**	**5,306**
of which: purchased or originated credit-impaired financial assets		*X*	X	37	466	X	-2	-193	**-**

SECTION 4 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 45

The breakdown of the IAS 39 captions included in caption 45 of the Balance Sheet Assets referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the Bank of Italy Circular 262, "Caption 45 Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39" was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 45	**31.12.2019**	**31.12.2018**
50. Investments held to maturity	-	-
60. Due from banks	581	922
70. Loans to customers	31	30
TOTAL Caption 45	**612**	**952**

4.1 Bis Investments held to maturity

There were no investments held maturity relating to the insurance companies.

4.4 Bis Due from banks: breakdown

(millions of euro)

Captions	**31.12.2019**				**31.12.2018**			
	Book value	**Fair value**			**Book value**	**Fair value**		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-				-			
2. Compulsory reserve	-				-			
3. Reverse repurchase agreements	-				-			
4. Other	-				-			
B. Due from banks	**581**	**-**	**64**	**516**	**922**	**-**	**123**	**800**
1. Loans	541	-	24	516	881	-	82	800
1.1 Current accounts and deposits	*541*				*881*			
1.2 Time deposits	-				-			
1.3 Other loans:	-				-			
- Reverse repurchase agreements	-				-			
- Finance leases	-				-			
- Other	-				-			
2. Debt securities	40	-	40	-	41	-	41	-
2.1 Structured	-				-			
2.2 Other	*40*				*41*			
Total	**581**	**-**	**64**	**516**	**922**	**-**	**123**	**800**

4.5 Bis Due from banks subject to microhedging

There were no amounts due from banks subject to microhedging referring to insurance companies.

4.6 Bis Loans to customers: breakdown

(millions of euro)

Captions	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	Performing	Non Performing					Performing	Non performing				
		Purchased	Other	Level 1	Level 2	Level 3		Purchased	Other	Level 1	Level 2	Level 3
Loans	**3**	**-**	**-**	**-**	**2**	**2**	**2**	**-**	**-**	**-**	**2**	**1**
1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit card loans, personal loans, and transfer of one fifth of salaries	-	-	-	X	X	X	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	3	-	-	X	X	X	2	-	-	X	X	X
Debt securities	**28**	**-**	**-**	**-**	**23**	**5**	**28**	**-**	**-**	**-**	**23**	**5**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	28	-	-	X	X	X	28	-	-	X	X	X
Total	**31**	**-**	**-**	**-**	**25**	**7**	**30**	**-**	**-**	**-**	**25**	**6**

4.7 Bis Loans to customers: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**28**	**-**	**-**	**28**	**-**	**-**
a) Governments	9	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	19	-	-	28	-	-
- non-financial companies	*14*	-	-	-	-	-
- financial institutions	*5*	-	-	*5*	-	-
- insurance companies	-	-	-	-	-	-
- other	-	-	-	*23*	-	-
2. Loans:	**3**	**-**	**-**	**2**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other counterparties	3	-	-	2	-	-
- non-financial companies	-	-	-	-	-	-
- financial institutions	*2*	-	-	*1*	-	-
- insurance companies	-	-	-	-	-	-
- other	*1*	-	-	*1*	-	-
Total	**31**	**-**	**-**	**30**	**-**	**-**

4.8 Bis Loans to customers subject to microhedging

There were no Loans to customers subject to microhedging referring to insurance companies.

SECTION 5 - HEDGING DERIVATIVES – CAPTION 50

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.
Derivatives are considered to be of fair value level 1 only if traded on organised markets.

5.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2019			Notional amount 31.12.2019	Fair value 31.12.2018			Notional amount 31.12.2018
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives								
1. Fair Value	8	2,998	13	81,451	-	2,983	10	61,113
2. Cash flows	-	10	-	526	-	-	-	234
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**8**	**3,008**	**13**	**81,977**	**-**	**2,983**	**10**	**61,347**

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions / Type of hedge	Fair Value							Cash-flow		Foreign investm
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	108	-	1	-	X	X	X	1	X	X
2. Financial assets measured at amortised cost	29	X	-	-	X	X	X	8	X	X
3. Portfolio	X	X	X	X	X	X	16	X	-	X
4. Other transactions	-	-	-	-	-	-	X	1	X	-
Total assets	**137**	**-**	**1**	**-**	**-**	**-**	**16**	**10**	**-**	**-**
1. Financial liabilities	1,912	X	385	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	568	X	-	X
Total liabilities	**1,912**	**-**	**385**	**-**	**-**	**-**	**568**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to specific fair value hedges of liabilities issued, as well as generic fair value hedges of demand positions under liabilities (core deposits).

SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

6.1 Fair value change of hedged assets: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged assets / Amount	31.12.2019	31.12.2018
1. Positive fair value change	**1,569**	**125**
1.1 of specific portfolios:	1,558	101
a) financial assets measured at amortised cost	*1,558*	*101*
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	11	24
2. Negative fair value change	**-**	**-1**
2.1 of specific portfolios:	-	-1
a) financial assets measured at amortised cost	-	*-1*
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**1,569**	**124**

SECTION 7 – INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 70

7.1 Investments in associates and companies subject to joint control: information on equity interests

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT direct ownership	INVESTMENT % held	Votes available % (b)
A. COMPANIES SUBJECT TO JOINT CONTROL							
1	Augusto S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
2	Colombo S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
3	Diocleziano S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	
4	Immobiliare Novoli S.p.A. Capital Euro 15,635,514 in shares of Euro 0.60	Firenze	Firenze	7	Intesa Sanpaolo	50.00	
5	Intown Srl (formerly MSG Comparto Primo S.r.l.) Capital Euro 120,000 in shares of Euro 60,000	Milano	Milano	7	Milano Santa Giulia	50.00	
6	Matipay Srl Capital Euro 2,620,875 in shares of Euro 1	Mola di Bari	Mola di Bari	7	Neva Finventures	16.09	
7	Mir Capital Management S.A. Capital Euro 31,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	
8	Mir Capital S.C.A. SICAR Capital Euro 56,910,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	
9	PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management Capital HRK 56,000,000 in shares of HRK 1,000	Zagreb	Zagreb	7	Privredna Banka Zagreb	50.00	
10	Vub Generali Dochodkova Spravcovska Spolocnost A.S. Capital Euro 10,090,976 in shares of Euro 33.194	Bratislava	Bratislava	7	Vseobecna Uverova Banka	50.00	
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE							
1	Adriano Lease Sec S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	
2	AM Invest CO Italy S.p.a. (d) Capital Euro 540,000,000 in shares of Euro 1	Milano	Taranto	2	Intesa Sanpaolo	5.56	
3	Apulia Finance N. 4 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	10.00	
4	Autostrada Pedemontana Lombarda S.p.A. Capital Euro 300,926,000 in shares of Euro 1,000	Assago	Assago	4	Intesa Sanpaolo	17.37	
5	Autostrade Bergamasche S.p.A. Capital Euro 1,357,833 in shares of Euro 0,58	Bergamo	Bergamo	4	Autostrade Lombarde Intesa Sanpaolo	22.70 7.31	
6	Backtowork24 Srl Capital Euro 2,410,576 in shares of Euro 0.01	Milano	Milano	4	Neva Finventures	16.70	
7	Bancomat S.p.A. Capital Euro 1,100,000 in shares of Euro 5	Roma	Roma	4	Intesa Sanpaolo Banca 5	20.28 0.01	
8	Berica ABS 3 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
9	Brera Sec S.R.L. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	
10	Camfin S.p.A. Capital Euro 1,080,000 in shares of Euro 0.003	Milano	Milano	4	Intesa Sanpaolo	6.85	10.70
11	Cassa di Risparmio di Fermo S.p.A. Capital Euro 39,241,088 in shares of Euro 51.65	Fermo	Fermo	4	Intesa Sanpaolo	33.33	
12	Claris Finance 2005 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	5.00	
13	Compagnia Aerea Italiana S.p.A. Capital Euro 3,526,845 in shares of Euro 0.00004	Roma	Fiumicino	4	Intesa Sanpaolo	27.49	

		Registered office	Place of business	Type of relationship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
14	Destination Italia S.p.A. Capital Euro 2,112,450 in shares of Euro 211.25	Milano	Milano	4	Intesa Sanpaolo	20.07	
15	Equiter S.p.A. Capital Euro 150,004,017 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	32.88	
16	Euromilano S.p.A. Capital Euro 1,356,582 in shares of Euro 15.51	Milano	Milano	4	Intesa Sanpaolo	43.43	
17	Eusebi Holdings B.V. Capital Euro 100 in shares of Euro 1	Amsterdam	Amsterdam	4	Intesa Sanpaolo	47.00	
18	Experientia Global S.A. Capital CHF 125,000 in shares of CHF 100	Lausanne	Basel	4	Intesa Sanpaolo	20.00	
19	FI.NAV Comparto A crediti Capital USD 279,415,590 in shares of USD 1	Roma	Roma	4	Intesa Sanpaolo Banca IMI	28.28 13.68	
20	Focus Investments S.p.A. Capital Euro 183,333 in shares of Euro 0.14	Milano	Milano	4	Intesa Sanpaolo	8.33	25.00
21	Fondo di Rigenerazione Urbana Sicilia S.r.l. (e) Capital Euro 50,000 in shares of Euro 1	Palermo	Torino	4	Intesa Sanpaolo	100.00	
22	Fondo per la ricerca e l'innovazione Srl (e) Capital Euro 25,000 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	100.00	
23	Fondo Sardegna Energia Srl (e) Capital Euro 25,000 in shares of Euro 1	Cagliari	Cagliari	4	Intesa Sanpaolo	100.00	
24	Indaco Venture Partners SGR S.p.A. (formerly Venture Capital Partners SGR) Capital Euro 750,000 in shares of Euro 0.50	Milano	Milano	4	Intesa Sanpaolo	24.50	
25	Intrum Italy S.p.A. Capital Euro 300,000 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	49.00	
26	Ism Investimenti S.p.A. Capital Euro 6,654,902 in shares of Euro 1	Mantova	Mantova	4	Intesa Sanpaolo	27.36	
27	Italconsult S.p.A. Capital Euro 18,071,378 in shares of Euro 0.88	Roma	Roma	4	Intesa Sanpaolo	10.00	
28	Leonardo Technology S.r.l. Capital Euro 242,081 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	26.60	
29	Mandarin Capital Management S.A. Capital Euro 271,000 in shares of Euro 10	Luxembourg	Luxembourg	4	Private Equity International	20.00	
30	Marketwall S.r.l. Capital Euro 20,409 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	33.00	
31	Misr Alexandria for Financial Investments Mutual Fund Co. Capital EGP 30,708,000 in shares of EGP 1,000	Cairo	Cairo	4	Bank of Alexandria	25.00	
32	Misr International Towers Co. Capital EGP 50,000,000 in shares of EGP 10	Cairo	Cairo	4	Bank of Alexandria	27.86	
33	Network Impresa S.p.A. under arrangement with creditors Capital Euro 562,342 in shares of Euro 1	Limena	Limena	4	Intesa Sanpaolo	28.95	
34	Oval Money LTD Capital GBP 16,254 in shares of GBP 0.00040	London	London	4	Neva Finventures Eurizon Capital SGR	25.40 12.50	
35	Penghua Fund Management Co. Ltd. Capital CNY 150,000,000 in shares of CNY 1	Shenzhen	Shenzhen	4	Eurizon Capital SGR	49.00	
36	Pietra S.r.l. Capital Euro 40,000 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	22.22	
37	Portocittà S.r.l. Capital Euro 10,000 in shares of Euro 1	Trieste	Trieste	4	Intesa Sanpaolo	25.00	
38	Rainbow Capital Euro 48,500,000 in shares of Euro 50,000	Verona	Verona	4	Intesa Sanpaolo	43.20	

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available % (b)
39	R.C.N. Finanziaria S.p.A. Capital Euro 1,000,000 in shares of Euro 0.50	Mantova	Mantova	4	Intesa Sanpaolo	23.96	
40	Sicily Investments S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	
41	Sisalpay Group S.p.a. Capital Euro 10,050,000 in shares of Euro 0.20	Milano	Milano		Banca 5	30.00	
42	Slovak Banking Credit Bureau s.r.o. Capital Euro 9,958 in shares of Euro 3,319.39	Bratislava	Bratislava	4	Vseobecna Uverova Banka	33.33	
43	Solar Express S.r.l. Capital Euro 116,000 in shares of Euro 1	Firenze	Firenze	4	Intesa Sanpaolo	40.00	
44	Trinacria Capital S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	
45	Yolo Group Srl Capital Euro 28,920 in shares of Euro 0.01	Milano	Milano	4	Neva Finventures	17.50	
46	Berica 5 Residential MBS S.r.l. in liquidation (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
47	Berica 6 Residential MBS S.r.l. in liquidation (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
48	Berica 8 Residential MBS S.r.l. in liquidation (c) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
49	Berica 9 Residential MBS S.r.l. in liquidation (c) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
50	Berica ABS S.r.l. in liquidation (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
51	Berica ABS 2 S.r.l. in liquidation (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
52	Berica 10 Residential MBS S.r.l. in liquidation (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	
53	Consorzio Bancario SIR S.p.A. in liquidation Capital Euro 1,515,151 in shares of Euro 0.01	Roma	Roma	4	Intesa Sanpaolo	38.49	
54	Ideami S.p.A. in liquidation Capital Euro 25,875,000 in shares of Euro 1	Milano	Milano	7	Banca Imi	9.66	8.25
55	Europrogetti e Finanza S.p.A. in liquidation Capital Euro 5,636,400 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	15.97	
56	Impresol S.r.l. in liquidation Capital Euro 112,100 in shares of Euro 1	Milano	Milano	4	Immobiliare Cascina Rubina	30.00	
57	Iniziative Immobiliari Industriali S.p.A. in liquidation Capital Euro 510,000 in shares of Euro 0.51	Arquà Polesine	Arquà Polesine	4	Intesa Sanpaolo	20.00	
58	Sviluppo Industriale S.p.A. in liquidation (formerly Sviluppo Industriale S.p.A. under arrangement with creditors) Capital Euro 628,444 in shares of Euro 22.26	Pistoia	Pistoia	4	Intesa Sanpaolo	28.27	

(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 - company subject to significant influence;
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";
7 - joint control;
8 - other relationship.

(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) These are vehicles used for securitisation transactions within the Group.

(d) Intesa Sanpaolo enjoys veto rights in the shareholders' meetings and in board of directors' meetings on specific issues, including the dividend policy.

(e) Jessica Funds: the economic effects of the investments in equity and loans underlying the fund's operations will be borne in full by the EIB.

The illustration of the criteria and the methods for the definition of the consolidation area and the motivations which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

7.2 Individually material investments in associates and companies subject to joint control: book value, fair value and dividends received

(millions of euro)

		Book value	Fair value	Dividends received (a)
A. COMPANIES SUBJECT TO JOINT CONTROL		-	-	-
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE				
1	Intrum Italy S.p.a.	324	-	-
2	Penghua Fund Management Co Ltd	221	-	2
3	Fi.Nav.Comparto A - Crediti	104	-	-
4	Equiter S.p.a.	103	-	3
5	AM Investco Italy S.p.a.	102	-	-
6	Sisalpay Group S.p.a.	64	-	-
7	Cassa di Risparmio di Fermo S.p.a.	54	-	1
TOTAL		**972**	**-**	**6**

(a) Dividends are received by group companies and are thus netted.

7.3 Individually material investments in associates and companies subject to joint control: financial information

(millions of euro)

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Adjustments to/write-backs on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
A. COMPANIES SUBJECT TO JOINT CONTROL														
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE														
Intrum Italy S.p.a.	X	10	64	9	43	57	X	X	24	17	-	17	-	17
Penghua Fund Management Co Ltd	X	145	395	91	114	463	X	X	96	71	-	71	-	71
Fi.Nav.Comparto A - Crediti	X	-	249	-	-	-	X	X	-	-	-	-	-	-
Equiter S.p.a.	X	148	152	-	9	9	X	X	7	7	-	7	-	7
AM Investco Italy S.p.a.	X	1,786	40	-	-	7	X	X	9	8	-	8	-	8
Sisalpay Group S.p.a.	X	-	-	-	-	-	-	-	-	-	-	-	-	-
Cassa di Risparmio di Fermo S.p.a.	X	381	1,406	140	1,480	46	X	X	20	12	-	12	-	12

Sisalpay Group S.p.A. became operational in 2019, following the contribution of the business lines by Banca 5 and Sisal. The availability of the data from the first financial statements of Sisalpay Group S.p.A. in its new corporate and operational configuration was not compatible with the timetable for closing Intesa Sanpaolo's consolidated financial statements.

(millions of euro)

	Total Shareholders' Equity	Proportionate equity	Goodwill	Other changes	Consolidated book value
A. COMPANIES SUBJECT TO JOINT CONTROL					
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE					
Intrum Italy S.p.a.	22	11	302	11	324
Penghua Fund Management Co Ltd	336	165	56	-	221
Fi.Nav.Comparto A - Crediti	249	104	-	-	104
Equiter S.p.a.	291	96	7	-	103
AM Investco Italy S.p.a.	1,826	102	-	-	102
Sisalpay Group S.p.a.	-	-	64	-	64
Cassa di Risparmio di Fermo S.p.a.	167	56	-	-2	54
	2,891	**534**	**429**	**9**	**972**

7.4 Individually immaterial investments in associates and companies subject to joint control: financial information

(millions of euro)

	Book value of investments in associates and companies subject to joint control	Total assets	Total liabilities	Total revenues	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
COMPANIES SUBJECT TO JOINT CONTROL	**77**	**295**	**145**	**55**	**13**	**-**	**13**	**-**	**13**
COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE	**191**	**5,870**	**4,396**	**3,717**	**474**	**-**	**474**	**-**	**474**

7.5 Investments in associates and companies subject to joint control: annual changes

(millions of euro)

	31.12.2019	31.12.2018
A. Initial amount	**943**	**678**
B. Increases	**348**	**618**
B.1 purchases	182	174
of which business combinations	-	-
B.2 recoveries	-	-
B.3 revaluations	73	427
B.4 other changes	93	17
C. Decreases	**-51**	**-353**
C.1 sales	-10	-7
C.2 impairment losses [(a)]	-15	-21
C.3 write-downs	-12	-
C.4 other changes	-14	-325
D. Final amount	**1,240**	**943**
E. Total revaluations	**3,240**	**3,167**
F. Total impairment losses	**1,999**	**1,984**

The sub-captions B.3 Revaluations and C.3 Write-downs include the profits and losses of companies measured at equity.
The sub-caption B.4 Increases - Other changes includes profits on disposal, reclassifications from other portfolios and the goodwill of Sisal Group S.p.A.
The sub-caption C.4 Decreases - Other changes includes the payment of dividends and mergers.

7.6 Significant evaluations and assumptions to establish the existence of joint control or significant influence

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.
Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

7.7 Commitments referred to investments in companies subject to joint control

As at 31 December 2019, there were no commitments to subscribe recapitalisations of companies subject to joint control.

7.8 Commitments referred to investments in companies subject to significant influence

As at 31 December 2019, there were no commitments to subscribe recapitalisations in companies subject to significant influence.

7.9 Significant restrictions

There is nothing to report in terms of significant restrictions.

7.10 Other information

For most of the companies subject to joint control or significant influence, the timing regarding the availability of the financial statements at the end of the year is not compatible with the terms set for the closure of Intesa Sanpaolo's consolidated financial statements; on this point, for the application of the equity method, reference is made to the last accounting reports available that, in most cases, include the interim statement of the first 9 months for the listed associates or the last financial statements or half-yearly report available for the other associates. In any case, when the accounts of the associate or joint venture used in the application of the equity method refer to a date that is different from that of Intesa Sanpaolo's financial statements, adjustments are made to take into account the effects of operations or significant events which took place between that date and the reference date of Intesa Sanpaolo's financial statements.

Impairment tests of investments in associates and companies subject to joint control
As required under IFRS, investments in associates and companies subject to joint control are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.
With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the equity investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected, the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.
In particular, where impairment indicators were recorded with respect to certain equity investments, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively "fundamental" analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the recognition of impairment losses.
In particular, the main impairment losses regarded the investments in Fondo Rainbow (10 million euro) and in MIR Capital SCA Sicar (2 million euro).

SECTION 8 – TECHNICAL INSURANCE RESERVES REASSURED WITH THIRD PARTIES – CAPTION 80

8.1 Technical insurance reserves reassured with third parties: breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Non-life business	**28**	**20**
A1. Premiums reserves	14	8
A2. Claims reserves	14	12
A3. Other reserves	-	-
B. Life business	**-**	**-**
B1. Mathematical reserves	-	-
B2. Reserves for amounts to be disbursed	-	-
B3. Other reserves	-	-
C. Technical reserves for investment risks to be borne by the insured	**-**	**-**
C1. Reserves for contracts with disbursements connected with investment funds and market indices	-	-
C2. Reserves from pension fund management	-	-
D. Total technical insurance reserves reassured with third parties	**28**	**20**

8.2 Change in caption 80 Technical insurance reserves reassured with third parties

Technical insurance reserves reassured with third parties recorded no significant changes during the year as at 31 December 2019.

SECTION 9 – PROPERTY AND EQUIPMENT – CAPTION 90

(millions of euro)

Assets/Amounts	31.12.2019	31.12.2018
1. Property and equipment used in operations measured at cost	2,224	765
Of which - Property and equipment used in operations - Rights of use acquired under leases	*1,498*	*2*
2. Investment property measured at cost	-	-
3. Property and equipment used in operations, revalued	5,466	5,472
Of which - Property and equipment used in operations, revalued - Rights of use acquired under leases	*-*	*16*
4. Investment property measured at fair value	282	247
Of which - Investment property - Rights of use acquired under leases	*-*	*5*
5. Inventories of property and equipment governed by IAS 2	906	888
Total Property and equipment caption 90	**8,878**	**7,372**

9.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

	31.12.2019	31.12.2018
1. Property and equipment owned	**726**	**763**
a) land	-	-
b) buildings	-	-
c) furniture	171	165
d) electronic equipment	503	547
e) other	52	51
2. Rights of use acquired through the lease	**1,498**	**2**
a) land	-	-
b) buildings	1,464	-
c) furniture	1	-
d) electronic equipment	11	1
e) other	22	1
Total	**2,224**	**765**
of which: resulting from the enforcement of guarantees	*2*	*-*

9.2 Investment property: breakdown of assets measured at cost

There was no investment property measured at cost in the Intesa Sanpaolo Group.

9.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

	31.12.2019			31.12.2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Property and equipment owned	**-**	**-**	**5,466**	**-**	**-**	**5,456**
a) land	-	-	2,206	-	-	*2,190*
b) buildings	-	-	2,972	-	-	*2,996*
c) valuable art assets	-	-	288	-	-	*270*
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Rights of use acquired through the lease	**-**	**-**	**-**	**-**	**-**	**16**
a) land	-	-	-	-	-	*5*
b) buildings	-	-	-	-	-	*11*
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**5,466**	**-**	**-**	**5,472**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-

9.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

	31.12.2019			31.12.2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Property and equipment owned	**-**	**-**	**282**	**-**	**-**	**242**
a) land	-	-	*85*	-	-	*66*
b) buildings	-	-	*197*	-	-	*176*
2. Rights of use acquired through the lease	**-**	**-**	**-**	**-**	**-**	**5**
a) land	-	-	-	-	-	*2*
b) buildings	-	-	-	-	-	*3*
TOTAL	**-**	**-**	**282**	**-**	**-**	**247**
of which: resulting from the enforcement of guarantees	-	-	*68*	-	-	*62*

9.5 Inventories of property and equipment governed by IAS 2: breakdown

(millions of euro)

	31.12.2019	*Of which:*			31.12.2018
		Banking group	***Insurance companies***	***Other companies***	
1. Inventories of property and equipment resulting from the enforcement of guarantees	**229**	***197***	**-**	***32***	**200**
a) land	23	*4*	-	*19*	21
b) buildings	205	*192*	-	*13*	178
c) furniture	-	-	-	-	-
d) electronic equipment	-	-	-	-	-
e) other	1	*1*	-	-	1
2. Other inventories of property and equipment	**677**	***28***	**-**	***649***	**688**
Total	**906**	***225***	**-**	***681***	**888**
of which: measured at fair value less cost to sell	*1*	*1*	-	-	*2*

9.6 Property and equipment used in operations - Owned assets and rights of use acquired under leases: annual changes

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount as at 31 December 2018	**2,200**	**3,230**	**1,515**	**5,309**	**270**	**494**	**13,018**
A.1 Total net adjustments	-5	-223	-1,350	-4,761	-	-442	-6,781
A.2 Net carrying amount as at 31 December 2018	**2,195**	**3,007**	**165**	**548**	**270**	**52**	**6,237**
A.3 Changes in opening balances (FTA IFRS16)	-	1,572	-	10	-	25	1,607
A.4 Net initial carrying amount	**2,195**	**4,579**	**165**	**558**	**270**	**77**	**7,844**
B. Increases	**36**	**372**	**39**	**166**	**19**	**40**	**672**
B.1 Purchases	-	180	36	156	17	37	426
of which business combinations	-	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	39	-	-	-	-	39
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in:	24	54	-	-	1	-	79
a) shareholders' equity	23	53	-	-	1	-	77
b) income statement	1	1	-	-	-	-	2
B.5 Positive foreign exchange differences	7	14	-	3	-	-	24
B.6 Transfer from investment property	1	7	X	X	X	X	8
B.7 Other changes	4	78	3	7	1	3	96
C. Decreases	**-25**	**-515**	**-32**	**-210**	**-1**	**-43**	**-826**
C.1 Sales	-1	-3	-	-	-	-2	-6
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-310	-28	-160	-	-20	-518
C.3 Impairment losses recognised in:	-	-	-2	-	-	-1	-3
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-2	-	-	-1	-3
C.4 Negative fair value differences recognised in:	-4	-17	-	-	-1	-	-22
a) shareholders' equity	-3	-12	-	-	-1	-	-16
b) income statement	-1	-5	-	-	-	-	-6
C.5 Negative foreign exchange differences	-	-2	-	-	-	-	-2
C.6 Transfer to:	-14	-29	-	-	-	-	-43
a) investment	-14	-23	X	X	X	X	-37
b) non-current assets held for sale and discontinued operations	-	-6	-	-	-	-	-6
C.7 Other changes	-6	-154	-2	-50	-	-20	-232
D. Net final carrying amount	**2,206**	**4,436**	**172**	**514**	**288**	**74**	**7,690**
D.1 Total net adjustments	5	471	1,435	5,030	-	148	7,089
D.2 Gross final carrying amount	**2,211**	**4,907**	**1,607**	**5,544**	**288**	**222**	**14,779**
E. Measurement at cost	**1,384**	**1,928**	**-**	**-**	**79**	**-**	**3,391**

9.6 Of which - Property and equipment used in operations - Rights of use acquired under leases: annual changes

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount as at 31 December 2018	**5**	**11**	**-**	**2**	**-**	**1**	**19**
A.1 Total net adjustments	**-**	**-**	**-**	**-1**	**-**	**-**	**-1**
A.2 Net carrying amount as at 31 December 2018	**5**	**11**	**-**	**1**	**-**	**1**	**18**
A.3 Changes in opening balances (FTA IFRS16)	-	1,572	-	10	-	25	1,607
A.4 Net initial carrying amount	**5**	**1,583**	**-**	**11**	**-**	**26**	**1,625**
B. Increases	**-**	**230**	**1**	**4**	**-**	**22**	**257**
B.1 Purchases	-	173	-	-	-	22	195
of which business combinations	-	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in:	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	-	57	1	4	-	-	62
C. Decreases	**-5**	**-349**	**-**	**-4**	**-**	**-26**	**-384**
C.1 Sales	-	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-210	-	-3	-	-9	-222
C.3 Impairment losses recognised in:	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in:	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to:	-	-	-	-	-	-	-
a) investment	-	-	X	X	X	X	-
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-
C.7 Other changes	-5	-139	-	-1	-	-17	-162
D. Net final carrying amount	**-**	**1,464**	**1**	**11**	**-**	**22**	**1,498**
D.1 Total net adjustments	-	210	-	4	-	9	223
D.2 Gross final carrying amount	**-**	**1,674**	**1**	**15**	**-**	**31**	**1,721**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**

9.7 Investment property - Owned assets and rights of use acquired under leases: annual changes

(millions of euro)

	TOTAL	
	Land	**Buildings**
A. Gross initial carrying amount as at 31 December 2018	**68**	**179**
A.1 Total net adjustments	-	-
A.2 Net carrying amount as at 31 December 2018	**68**	**179**
A.3 Changes in opening balances (FTA IFRS16)	**-**	**-**
A.4 Net initial carrying amount	**68**	**179**
B. Increases	**23**	**48**
B.1 Purchases	1	4
of which business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	2
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	14	23
B.7 Other changes	8	19
C. Decreases	**-6**	**-30**
C.1 Sales	-2	-4
of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-1	-10
C.4 Impairment losses	-	-1
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-1	-7
a) property used in operations	*-1*	*-7*
b) non-current assets held for sale and discontinued operations	-	-
C.7 Other changes	-2	-8
D. Final carrying amount	**85**	**197**
E. Fair value measurement	**-**	**-**

9.7 Of which - Investment property - Rights of use acquired under leases: annual changes

(millions of euro)

	TOTAL	
	Land	**Buildings**
A. Gross initial carrying amount as at 31 December 2018	**2**	**3**
A.1 Total net adjustments	-	-
A.2 Net carrying amount as at 31 December 2018	**2**	**3**
A.3 Changes in opening balances (FTA IFRS16)	**-**	**-**
A.4 Net initial carrying amount	**2**	**3**
B. Increases	**-**	**-**
B.1 Purchases	-	-
of which business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	-	-
B.7 Other changes	-	-
C. Decreases	**-2**	**-3**
C.1 Sales	-	-
of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	-	-
C.7 Other changes	-2	-3
D. Final carrying amount	**-**	**-**
E. Fair value measurement	**-**	**-**

9.8 Inventories of property and equipment governed by IAS 2: annual changes

(millions of euro)

Assets/Amounts	**Inventories of property and equipment resulting from the enforcement of guarantees**					**Other inventories of property and equipment**	**TOTAL**
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Initial carrying amount	23	178	-	-	1	686	**888**
B. Increases	**9**	**54**	**-**	**-**	**-**	**10**	**73**
B.1 Purchases	-	21	-	-	-	6	27
B.2 Recoveries	3	2	-	-	-	1	6
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	6	31	-	-	-	3	40
C. Decreases	**-9**	**-27**	**-**	**-**	**-**	**-19**	**-55**
C.1 Sales	-6	-18	-	-	-	-15	-39
C.2 Impairment losses	-1	-4	-	-	-	-2	-7
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-2	-5	-	-	-	-2	-9
D. Final carrying amount	**23**	**205**	**-**	**-**	**1**	**677**	**906**

9.8 Of which: Banking group

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
A. initial carrying amount	**2**	**159**	**-**	**-**	**1**	**27**	**189**
B. Increases	**6**	**52**	**-**	**-**	**-**	**8**	**66**
B.1 Purchases	-	21	-	-	-	6	27
B.2 Recoveries	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	6	31	-	-	-	2	39
C. Decreases	**-4**	**-19**	**-**	**-**	**-**	**-7**	**-30**
C.1 Sales	-2	-10	-	-	-	-4	-16
C.2 Impairment losses	-	-4	-	-	-	-1	-5
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-2	-5	-	-	-	-2	-9
D. Final carrying amount	**4**	**192**	**-**	**-**	**1**	**28**	**225**

9.8 Of which: Insurance companies

There were no inventories of property and equipment governed by IAS 2 pertaining to insurance companies of the Intesa Sanpaolo Group.

9.8 Of which: Other companies

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
A. initial carrying amount	**21**	**19**	**-**	**-**	**-**	**659**	**699**
B. Increases	**3**	**2**	**-**	**-**	**-**	**2**	**7**
B.1 Purchases	-	-	-	-	-	-	-
B.2 Recoveries	3	2	-	-	-	1	6
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	-	-	-	-	1	1
C. Decreases	**-5**	**-8**	**-**	**-**	**-**	**-12**	**-25**
C.1 Sales	-4	-8	-	-	-	-11	-23
C.2 Impairment losses	-1	-	-	-	-	-1	-2
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Final carrying amount	**19**	**13**	**-**	**-**	**-**	**649**	**681**

9.9 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2019 amounted to approximately 4 million euro.

SECTION 10 – INTANGIBLE ASSETS - CAPTION 100

10.1 Intangible assets: breakdown by type of asset

(millions of euro)

	31.12.2019		*Of which:*						31.12.2018	
			Banking group		***Insurance companies***		***Other companies***			
	Finite useful life	Indefinite useful life	*Finite useful life*	*Indefinite useful life*	*Finite useful life*	*Indefinite useful life*	*Finite useful life*	*Indefinite useful life*	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**4,055**	***X***	***3,390***	***X***	***494***	***X***	***171***	**X**	**4,227**
A.1.1 Group	x	4,055	*x*	*3,390*	*x*	*494*	*x*	*171*	x	4,227
A.1.2 Minority interests	x	-	*x*	*-*	*x*	*-*	*x*	*-*	x	-
A.2 Other intangible assets	**3,274**	**1,882**	***2,184***	***1,882***	***154***	***-***	***936***	***-***	**3,032**	**1,882**
A.2.1 Assets measured at cost	3,274	1,882	*2,184*	*1,882*	*154*	*-*	*936*	*-*	3,032	1,882
a) Internally generated intangible assets	*1,613*	*-*	*1,611*	*-*	*2*	*-*	*-*	*-*	*1,349*	*-*
b) Other assets	*1,661*	*1,882*	*573*	*1,882*	*152*	*-*	*936*	*-*	*1,683*	*1,882*
A.2.2 Assets measured at fair value	-	-	-	-	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-	-	-	-
Total	**3,274**	**5,937**	***2,184***	***5,272***	***154***	***494***	***936***	***171***	**3,032**	**6,109**

The other intangible assets as at 31 December 2019 include 936 million euro relating to concession rights, net of the financial component, connected with the motorway concession held by Autostrade Lombarde (through the subsidiary Brebemi).

The allocation of goodwill between "Cash Generating Units" is reported in the following table.

(millions of euro)

CGUs/Goodwill (*)	**31.12.2019**	**31.12.2018**
Banca dei Territori	983	1,211
Corporate and Investment Banking	56	-
Insurance	494	494
Asset Management	1,060	1,060
Private Banking	1,291	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	171	107
Total	**4,055**	**4,163**

(*) The table does not include goodwill attributable to the acquiring business line that will be transferred to Nexi, which has been reclassified among discontinued operations.

For a breakdown of the CGUs, see the next chapter "Information on intangible assets and goodwill".

10.2 Intangible assets: annual changes

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**20,481**	**4,941**	**-**	**9,732**	**2,384**	**37,538**
A.1 Total net adjustments	-16,254	-3,592	-	-8,049	-502	-28,397
A.2 Net initial carrying amount	**4,227**	**1,349**	**-**	**1,683**	**1,882**	**9,141**
B. Increases	**-**	**759**	**-**	**211**	**-**	**970**
B.1 Purchases	-	-	-	209	-	209
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	759	-	-	-	759
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	2	-	2
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-172**	**-495**	**-**	**-233**	**-**	**-900**
C.1 Sales	-123	-	-	-	-	-123
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-493	-	-199	-	-692
- Amortisation	X	-490	-	-198	-	-688
- Write-downs recognised in	-	-3	-	-1	-	-4
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-3*	-	*-1*	-	*-4*
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-49	-2	-	-20	-	-71
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-14	-	-14
D. Net final carrying amount	**4,055**	**1,613**	**-**	**1,661**	**1,882**	**9,211**
D.1 Total net adjustments	16,254	4,082	-	8,247	502	29,085
E. Gross final carrying amount	**20,309**	**5,695**	**-**	**9,908**	**2,384**	**38,296**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The sub-caption C.1 Sales includes the decrease in Goodwill due to the contribution of the business line following the partnership transaction between Banca 5 and SisalPay.

10.2 Of which: Banking group

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**19,043**	**4,931**	**-**	**7,795**	**2,384**	**34,153**
A.1 Total net adjustments	-15,481	-3,583	-	-7,252	-502	-26,818
A.2 Net initial carrying amount	**3,562**	**1,348**	**-**	**543**	**1,882**	**7,335**
B. Increases	**-**	**756**	**-**	**187**	**-**	**943**
B.1 Purchases	-	-	-	185	-	185
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	756	-	-	-	756
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	2	-	2
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-172**	**-493**	**-**	**-157**	**-**	**-822**
C.1 Sales	-123	-	-	-	-	-123
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-491	-	-124	-	-615
- Amortisation	X	-488	-	-123	-	-611
- Write-downs recognised in	-	-3	-	-1	-	-4
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-3*	-	*-1*	-	*-4*
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-49	-2	-	-20	-	-71
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-13	-	-13
D. Net final carrying amount	**3,390**	**1,611**	**-**	**573**	**1,882**	**7,456**
D.1 Total net adjustments	15,481	4,071	-	7,375	502	27,429
E. Gross final carrying amount	**18,871**	**5,682**	**-**	**7,948**	**2,384**	**34,885**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.2 Of which: Insurance companies

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**1,230**	**10**	**-**	**962**	**-**	**2,202**
A.1 Total net adjustments	-736	-9	-	-797	-	-1,542
A.2 Net initial carrying amount	**494**	**1**	**-**	**165**	**-**	**660**
B. Increases	**-**	**3**	**-**	**16**	**-**	**19**
B.1 Purchases	-	-	-	16	-	16
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	3	-	-	-	3
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-2**	**-**	**-29**	**-**	**-31**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-2	-	-28	-	-30
- Amortisation	X	-2	-	-28	-	-30
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	*X*	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-1	-	-1
D. Net final carrying amount	**494**	**2**	**-**	**152**	**-**	**648**
D.1 Total net adjustments	736	11	-	825	-	1,572
E. Gross final carrying amount	**1,230**	**13**	**-**	**977**	**-**	**2,220**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.2 Of which: Other companies

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**208**	**-**	**-**	**975**	**-**	**1,183**
A.1 Total net adjustments	-37	-	-	-	-	-37
A.2 Net initial carrying amount	**171**	**-**	**-**	**975**	**-**	**1,146**
B. Increases	**-**	**-**	**-**	**8**	**-**	**8**
B.1 Purchases	-	-	-	8	-	8
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-47**	**-**	**-47**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-47	-	-47
- Amortisation	X	-	-	-47	-	-47
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	*X*	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	**171**	**-**	**-**	**936**	**-**	**1,107**
D.1 Total net adjustments	37	-	-	47	-	84
E. Gross final carrying amount	**208**	**-**	**-**	**983**	**-**	**1,191**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.3 Other information

As at 31 December 2019, there were commitments relating to investments in intangible assets, primarily software, of approximately 27 million euro.

Information on intangible assets and goodwill

The application of IFRS 3 to the accounting of acquisitions may lead to the recognition of new intangible assets and goodwill.
In the case of the Intesa Sanpaolo Group, the merger between Banca Intesa and Sanpaolo IMI and the subsequent acquisitions carried out in the previous years (of the asset management portfolio of former Nextra, CR Firenze, Pravex Bank, Intesa Vita, the bank branches, Banca Monte Parma, certain assets and liabilities of the former Venetian banks, the Morval Group and the Autostrade Lombarde Group) led to the recognition of significant amounts for intangible assets and goodwill.
During 2019, no business combinations were finalised that resulted in the recognition of new amounts of specific intangible assets or goodwill. However, several events occurred which resulted in a reduction or different allocation within the Group of total intangible assets recognised compared to 31 December 2018.
In December 2019 the partnership between Banca 5 and SisalPay was finalised, which involved the establishment of a newco controlled by SisalPay, to which Banca 5 contributed its business lines dedicated to payment activities and commercial operations. The transaction resulted in the derecognition from the financial statements of the goodwill previously allocated to Banca 5, and thus, to Banca dei Territori, of 123 million euro, which was recorded as a decrease in the capital gain deriving from the transaction.
On 11 November 2019, the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo was finalised, as envisaged by the 2018-2021 Business Plan. Therefore, Leasing and Factoring operations for customers classified as corporate customers were transferred from the Banca dei Territori CGU to the Corporate and Investment Banking CGU. Since the operation was an “internal” reorganisation, it did not change the overall value of the intangible assets at Group level and had no effects in the income statement: the change simply led to a different attribution of the value of the intangible assets among the CGUs. Specifically, taking suitable account of the provisions of IAS 36, 56 million euro was reallocated as the portion of goodwill from the Banca dei Territori CGU to the Corporate and Investment Banking CGU, based on the proportion of the value of the business transferred out of the value of the original CGU.
On 19 December 2019, Intesa Sanpaolo also signed a strategic agreement in respect of payment systems, which provides for the transfer to Nexi, through the contribution to a Nexi subsidiary, for a value of 1,000 million euro, of the business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. Based on the provisions of IFRS 5, the goodwill attributable to the business line, equal to 49 million euro, as well as the specific intangible assets recognised in 2018, deriving from the acquisition from Nexi of acquiring contracts with customers of the former Venetian banks, equal to 20 million euro, were reclassified to discontinued operations. The goodwill attributable to the business line, estimated at around 49 million euro, was calculated, as envisaged by IAS 36, based on the proportion of the value of the business line that will be transferred out of the value of the CGU it is part of, in this case, Banca dei Territori.
Moreover, it is also noted that in the fourth quarter of 2019 the acquisition of control of Autostrade Lombarde was recognised on a final basis, as permitted by IFRS 3, retrospectively adjusting several amounts recognised on a provisional basis at the acquisition date, in order to reflect the new information obtained on the facts and circumstances in place at that date which, if they had been known about at the time, would have influenced the process of Purchase Price Allocation (PPA). Please note that, based on IFRS 3, provisional amounts allocated can be adjusted retroactively within 12 months from the acquisition date which, for the operation in question, is 31 December 2018. The recognition on a final basis of the PPA for Autostrade Lombarde resulted in an increase of 64 million euro in the goodwill recorded on that CGU. In that regard, in the 2018 Financial Statements, Autostrade Lombarde was already identified as a separate CGU in the Intesa Sanpaolo Group, considering the indications set out in IAS 36, based on which a CGU must represent “… *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*” and that Autostrade Lombarde operates in a sector extraneous to the Group’s operations, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code. For more details on the operation, see Part G of these Notes to the consolidated financial statements.
The table below summarises the values of the intangible assets and goodwill recorded in the consolidated financial statements with the related performance during the year, subdivided by Cash Generating Unit (CGU), which represent the groups of assets subject to impairment testing on goodwill in order to determine the recoverable amount.

(millions of euro)

CGU	Financial Statements 31.12.2018	Amortisation	Reclassification of the acquiring business line under discontinued operations	Transfer of leasing and factoring business to Corporate and Investment Banking	Partnership between Banca 5 and SisalPay	Retrospective adjustment of the PPA of Autostrade Lombarde	Financial Statements 31.12.2019
BANCA DEI TERRITORI DIVISION	**2,826**	**-10**	**-69**	**-56**	**-123**	**-**	**2,568**
- Asset management intangibles - distribution	71	-6	-	-	-	-	65
- Insurance intangibles - distribution	16	-3	-	-	-	-	13
- Brand name intangibles	1,507	-	-	-	-	-	1,507
- Customer relations intangibles	21	-1	-20	-	-	-	-
- Goodwill	1,211	-	-49	-56	-123	-	983
CORPORATE AND INVESTMENT BANKING DIVISION	**-**	**-**	**-**	**56**	**-**	**-**	**56**
- Brand name intangibles	-	-	-	-	-	-	-
- Goodwill	-	-	-	56	-	-	56
ASSET MANAGEMENT DIVISION	**1,060**	**-**	**-**	**-**	**-**	**-**	**1,060**
- Asset management intangibles - production	-	-	-	-	-	-	-
- Goodwill	1,060	-	-	-	-	-	1,060
PRIVATE BANKING DIVISION	**1,699**	**-2**	**-**	**-**	**-**	**-**	**1,697**
- Asset management intangibles - prod. and distribut.	33	-2	-	-	-	-	31
- Brand name intangibles	375	-	-	-	-	-	375
- Goodwill	1,291	-	-	-	-	-	1,291
INSURANCE DIVISION	**640**	**-22**	**-**	**-**	**-**	**-**	**618**
- Insurance intangibles - production	146	-22	-	-	-	-	124
- Goodwill	494	-	-	-	-	-	494
INTERNATIONAL SUBSIDIARY BANKS DIVISION	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Goodwill	-	-	-	-	-	-	-
BANK OF ALEXANDRIA (Egypt)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PRAVEX BANK (Ukraine)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AUTOSTRADE LOMBARDE	**107**	**-**	**-**	**-**	**-**	**64**	**171**
- Goodwill	107	-	-	-	-	64	171
GROUP TOTAL	**6,332**	**-34**	**-69**	**-**	**-123**	**64**	**6,170**
- Asset management intangibles	104	-8	-	-	-	-	96
- Insurance intangibles	162	-25	-	-	-	-	137
- Brand name intangibles	1,882	-	-	-	-	-	1,882
- Customer relations intangibles	21	-1	-20	-	-	-	-
- Goodwill	4,163	-	-49	-	-123	64	4,055
NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (acquiring activities business line)	**-**	**-**	**69**	**-**	**-**	**-**	**69**
- Customer relations intangibles	-	-	20	-	-	-	20
- Goodwill	-	-	49	-	-	-	49

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

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

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under "220. Net adjustments to/recoveries on intangible assets") for a total of 34 million euro gross of the tax effect.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. In addition, intangible assets with a finite useful life must be tested for impairment whenever there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.
Lastly, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows arising from intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those relating to the asset outstanding at the impairment test date. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others.
This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the volatility of the financial markets and the available market values for calculation of the recoverable amount, the value in use was used in the impairment tests for the 2019 financial statements.
The exceptions to the approach just above are: the verification of the goodwill recognised on Autostrade, for which reference was made to the fair value, and the goodwill referring to the acquiring business line which will be transferred to Nexi which, in the 2019 Financial Statements, was reclassified under discontinued operations. In line with the provisions of IFRS 5, the latter was measured at the lower of the book value and the sale price, considering that the latter was significantly higher than the value of the assets of the business line, including goodwill.
It is noted that the tests mentioned above did not concern the International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs in consideration of the absence, as of the date of the test, of intangible assets with an indefinite life to be subject to impairment test.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2019.

Impairment testing of intangibles

Insurance portfolio

Valuation of the insurance portfolio uses models normally applied to determine the embedded value, by discounting flows representing the income margins over a period deemed to express the residual maturity of the insurance portfolio outstanding at the valuation date. The resulting value, considered to have a finite life, is amortised at variable rates over a period representing the residual life of the insurance contracts. For the 2019 financial statements, the amortisation of the asset for the year was recognised to the income statement. The amortisation for the year amounted to approximately 16% of the carrying amount of the asset at the end of 2018 (amortisation for a total of 25 million euro gross of the tax effect). The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since the trend of the insurance business did not present any particular critical issues in 2019.
The table below provides the value of mathematical reserves (including the components that in the IFRS financial statements are classified under financial liabilities of the insurance segment) detailing the various product types that contributed to the initial valuation of the insurance portfolio.

(millions of euro)

Insurance portfolio	MODEL TECHNICAL RESERVES [a]	
	31.12.2019	Change compared to 31.12.2018
Traditional	72,613	+ 3.5%
Pension funds	3,340	+ 20.1%
Unit-linked	77,170	+ 13.4%
TOTAL	**153,123**	**+ 8.6%**

(a) The mathematical reserve and the premium reserve are included. The figure is gross of the "shadow reserve".

In 2019, technical reserves increased over the period considered. By year-end, the reserves amounted to around 153 billion euro, increasing sharply (+8.6%) on the value recorded in December 2018 of 141 billion euro. In particular, the reserves for traditional products showed moderate growth in the period considered (+3.5%), totalling around 73 billion euro as at 31 December 2019. The reserves for unit-linked products recorded strong growth as at 31 December 2019 (+13.4%), with overall total reserves of approximately 77 billion euro.
An analysis of profitability of the products held in portfolios did not yield any indication of possible impairment of the asset.

The following table presents a summary of the values of insurance intangibles according to the relevant CGU.

(millions of euro)

CGU	Financial statements 31.12.2018	Amortisation	Other changes	Financial statements 31.12.2019
Banca dei Territori				
Insurance intangibles - distribution	16	-3	-	13
Insurance				
Insurance intangibles - production	146	-22	-	124
GROUP TOTAL	**162**	**-25**	**-**	**137**

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation, in 2017 the intangible assets linked to Assets Under Management (AUM) were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. The valuation method used to estimate the economic value of those intangible assets is based on the future net cash flows from indirect deposits. Those flows are estimated based on the evolution of the customer assets and the net interest and other banking income net of operating costs and taxes. In particular, the evolution of assets gathered and under management was estimated over a defined time horizon, taking account of their decay physiologically observed over a past time frame deemed significant, specifically equal to 13 years. The valuation, supported by a survey by an independent third party, resulted in the recognition of an intangible asset linked to the asset management portfolio of the former Venetian banks of 80 million euro at the acquisition date, fully allocated to the Banca dei Territori CGU. Considering amortisation for the period, amounting to 6 million euro, as at 31 December 2019 the intangible asset is posted in the consolidated financial statements at a value of 65 million euro.
Similarly, as part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, starting in 2018, intangible assets were recognised referring to asset management relationships, fully allocated to the Private Banking CGU. Considering amortisation for the period, amounting to 2 million euro, as at 31 December 2019 that intangible asset is posted in the consolidated financial statements at a value of 31 million euro.
With regard to impairment testing, it is noted that the analyses conducted showed no signs of impairment of the intangible assets recorded. In that regard, it is noted that, the volumes of assets underlying the measurement of the intangible assets, if compared with the respective values of their CGUs (Banca dei Territori and Private Banking), showed negligible differences, thus confirming the strength of the value of the intangible asset recognised in the financial statements and taking account of the fact that impairment testing must not be limited only to the cash flows deriving from the assets acquired, but should take account of all the cash flows linked to the assets of the specific CGU.

The following table presents an overview of the values of the AUM intangible asset.

(millions of euro)

CGU	Financial statements 31.12.2018	Other changes	Amortisation	Financial statements 31.12.2019
BANCA DEI TERRITORI DIVISION				
Intangibile asset management - distribution	71	-	-6	65
PRIVATE BANKING DIVISION				
Intangibile asset management - produc. and distribut.	33	-	-2	31
GROUP TOTAL	**104**	**-**	**-8**	**96**

Other intangible assets with a finite life

Considering the operation entailing the transfer to Nexi in 2020 of a larger business unit relating to all the acquisitions ccarried out by Intesa Sanpaolo, including those for customers of the former Venetian banks, the book value of the intangible assets recognised in 2018 following the acquisition of the business line of Nexi Payments relating to acquiring for customers of the former Venetian banks was reclassified among discontinued operations pursuant to IFRS 5 and the strength of that value was verified for the purposes of impairment testing, based on the total price offered by Nexi, which broadly supports the carrying amount.

Brand name

IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the Purchase Price Allocation (PPA) process.
For this purpose, please note that the term "brand” is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.
With reference to acquisition of the Sanpaolo IMI Group, it was decided to limit the analysis to just two brands: the corporate brand Sanpaolo IMI, intended as an “umbrella” brand to which the brands of the other network banks were also related, and the brand of the subsidiary Banca Fideuram, as an autonomous brand widely recognised on the market for the placement of financial products through a network of financial advisors. Both are considered intangibles with indefinite useful life, since they are deemed to contribute indefinitely to the formation of income flows. Market methods and flow-based methods (and, thus, based on fundamental analyses) were used in the valuation of the two brands. Value was determined as the average of the values obtained using the various methods.
As this intangible asset has no independent cash flows, for impairment testing purposes for the 2019 financial statements it was included in the verification of the retention of goodwill for the various CGUs. As discussed in further detail below, the results of the impairment test did not suggest a need for an impairment loss on the brand name intangible asset.

Impairment testing of CGUs and goodwill

Definition of Cash Generating Units (CGUs)

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them.
In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs). The meaning of the impairment test is significant for identification of the CGUs.
IAS 36 indicates the necessity to correlate the level at which the goodwill is tested with the level of internal reporting at which management controls the increases and decreases of such value. Definition of the level closely depends on the organisational models adopted and on the managerial responsibilities governing the operating guidelines and monitoring activity. Organisational models may ignore (and in the case of the Intesa Sanpaolo Group they do ignore) the network of legal entities through which operations are carried out, and are instead very often closely designed around the definition of business operating segments as envisaged by IFRS 8. Furthermore, the identification of CGUs for goodwill impairment test purposes is consistent with the definition of the recoverable amount of an asset - which is in itself the base for impairment tests - according to which the relevant item is the amount that the company expects to recover from that asset, considering any synergies with other assets.

Therefore, in accordance with the criteria applied for the determination of the prices of the business combinations that gave rise to goodwill recognition, the recoverable amount for impairment testing purposes of the CGU to which goodwill is allocated must include not only the value of external (or universal) synergies but also the internal ones, the reason being that the specific acquirer may obtain additional value from the integration of activities obtained through business combinations, according to its business model.
The Intesa Sanpaolo Group’s organisational model envisages that:
- management decisions be highly centralised at the level of the heads of the operational segments;
- strategies, identification of new products or services and commercial penetration initiatives be outlined and directed centrally for each operating division;
- planning processes and reporting systems be managed at the operational segment level;
- specialised transversal areas be defined to provide support and develop products benefiting many subsidiaries;
- the management of financial risks also be highly centralised in order to maintain, also as a result of regulatory provisions, a balance between the capital allocation policies and the financial risks in development of the various business lines;
- the divisions operate in homogeneous markets or sectors in terms of economic characteristics and development level.

As a result of this centralisation, income flows are highly dependent on the policies set up at the operational segment level, based on balanced development of the entire division and not of the individual operating areas or legal entities considered individually.
The operating divisions identified in the Intesa Sanpaolo Group are as follows:
- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks.

For the foregoing reasons, the operating divisions cited above correspond, in general terms, to the Group’s CGUs, while also representing the core business areas considered for segment reporting. These divisions are considered representative of cash generating units since each constitutes the smallest group of assets generating independent incoming cash flows and, as mentioned above, also the minimum level set by the Parent Company Intesa Sanpaolo for planning and reporting processes. Therefore, this is the minimum level to which goodwill may be allocated and monitored according to non-arbitrary criteria.

The International Subsidiary Banks Division needs specific comments, given the particular structure and conditions under which it operates.
It should firstly be mentioned that the cash flows of the various Group companies forming this business unit are strictly dependent upon policies formulated by the Division Governance Centres and Head Office Departments of the Parent Company. These policies are defined and implemented in compliance with a management plan designed to develop the entire Division in an organised manner, and not focusing only on the individual companies' strategies. Specifically, the expansion strategies for the various operating units, the identification and development of new credit, savings and service products, limits to the assumption of financial risk, commercial penetration and operations specialisation initiatives are outlined and steered at central level, following a portfolio strategy, and not devolved to the individual subsidiaries. Therefore, there is strong interaction of the flows that, at the same time, requires both single and integrated governance of all companies in the Division, and the central monitoring and control of operations of the overall business activities of the Division.
However, it is important to consider that not all factors affecting the correlation and interdependence of cash flows within the Division can be controlled by the Division's Head Office Departments.
In fact, there are circumstances outside the Group that could have varying levels of impact on the capacity to systematically manage CGU flows and control over their generation. These are circumstances largely determined in the wider sense by the conditions of the environment in which the various entities are located.
Indeed, for Banks operating abroad, the effects of country risk must be considered: i.e. the risk linked to economic, political and institutional events in the country in which the subsidiary and its business activities are based.
In view of the above, if the cash flows that the Parent Company expects from activities generated by a foreign subsidiary are deeply influenced - in terms of extent, quality and trends - by institutional, economic and political circumstances in the country in which the subsidiary is based, this subsidiary cannot be considered an integral part of the single management model for the CGU which it belongs to. The company in such a situation must, therefore, even if only temporarily, be excluded from the CGU, regardless of the Group Management's willingness to keep it within the CGU, due to the above-mentioned factors over which the Bank and Group's management clearly have no influence. The flows of the company, in fact, would be influenced to a greater extent by the country's conditions than by the unitary and centralised management policy adopted by the Division and, therefore, for impairment testing purposes, the company must be subjected to independent valuation until the conditions for the systemic central control of cash flows of the subsidiary are restored.
With regard to the Ukrainian Pravex Bank, for the purposes of the 2008 impairment testing, careful consideration of the economic and institutional events unfolding in Ukraine, which was undergoing a deep economic and currency crisis, and prudent assessment of their impact on the operational variables of the subsidiary in question, especially from the point of view of their interdependence on variables of the entire CGU, resulted in classification of this company as a completely separate CGU, treating it separately from the Group's International Subsidiary Banks Division. Subsequently, Pravex Bank was functionally allocated to Capital Light Bank (now the NPE Head Office Department), to then be moved back to the International Subsidiary Banks Division in 2018.
With regard to the subsidiary Bank of Alexandria, for the purposes of the 2011 impairment testing the bank was separated from the International Subsidiary Banks CGU due to a profound political crisis in Egypt.
For the purposes of the 2019 impairment testing, as no significant elements arose that cast doubt on the decision taken for the previous financial statements, it was deemed appropriate to maintain the decisions made with respect to the previous financial statements, and thus to consider Pravex Bank and Bank of Alexandria as autonomous, distinct CGUs in conducting the impairment test for the consolidated and separate financial statements. However, it bears recalling that the goodwill associated with Pravex Bank and Bank of Alexandria were fully written down in conjunction with the impairment tests for the 2008 and 2011 financial statements, respectively.
In Pravex Bank's and Bank of Alexandria's cases, the separate assessment of the banks for impairment testing purposes does not affect the Group's intention to support the development of the subsidiaries.

The subsidiary Autostrade Lombarde, functionally allocated to the Corporate Centre, should be separately mentioned. Considering that it operates in a sector extraneous to the Group's mission and that Intesa Sanpaolo does not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code, in relation to the indications set out in IAS 36, which state that a CGU must represent "… *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*", it was identified as a separate CGU in the Intesa Sanpaolo Group.

Lastly, it is noted that in the 2019 Financial Statement, the assets and liabilities of the acquiring business line, which will be transferred to Nexi, were reclassified in specific balance sheet captions, as per the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". That standard states that, from the time it is presumed that the cash flows of an asset or group of assets derive primarily from sale rather than ongoing use, they become less dependent on the cash flows deriving from the other assets and, therefore, discontinued operations that were part of a CGU must be autonomously tested to verify the recoverability of their value. Therefore, with regard to the 2019 Financial Statements, the acquiring business line was identified as a separate, autonomous business.
Moreover, assets classified based on IFRS 5 are excluded from the scope of application of IAS 36. As a result, the goodwill relating to the business line for which the agreement with Nexi was signed, and which showed no signs of impairment at the moment prior to its classification as discontinued operations, as it is significantly lower than the fair values recognised on defining the sale price, was reclassified to discontinued operations and, in line with the provisions of IFRS 5, valued at the lower of the cost and the fair value less costs to sell.

As previously mentioned, the International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs, as of the date of the test, did not possess intangible assets with an indefinite life and, as a result, were not subject to an impairment test.

Book value of the CGUs

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

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

(millions of euro)

Values	Value as at 31.12.2019			
CGU	Book value	*of which goodwill Group share*	*of which brand name*	*of which minority interests*
Banca dei Territori	18,252	*983*	*1,507*	*70*
Corporate and Investment Banking	18,044	*56*	-	*81*
Insurance	6,127	*494*	-	*1*
Asset Management	2,447	*1,060*	-	*13*
Private Banking	4,322	*1,291*	*375*	-
International Subsidiary Banks	6,129	-	-	*85*
Bank of Alexandria (Egypt)	724	-	-	*145*
Pravex Bank (Ukraine)	71	-	-	-
Autostrade Lombarde	158	*171*	-	*27*
TOTAL	**56,274**	***4,055***	***1,882***	***422***
Non-current assets held for sale and discontinued operations (*)	89	*49*	-	-
GROUP TOTAL	**56,363**	**4,104**	**1,882**	**422**

(*) Classified under non-current assets held for sale and discontinued operations as at 31 December 2019.

Criteria for estimates of CGUs' value in use

The value in use of CGUs is determined by estimating the present value of future cash flows that may be expected to be generated by the CGUs. These cash flows are normally estimated by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity (through the use of perpetual return formulae, or, alternatively, temporary return formulae, if it is not realistic to expect the assets subject to measurement to generate positive cash flows over the long term), using an appropriate growth rate "g" for the purposes of the so-called "Terminal Value." The "g" rate is determined by assuming as growth factor the rate of increase in the gross domestic product of the countries in which the cash flows are generated.
Alternatively, the Terminal Value could be determined on the basis of a final sale or liquidation value. For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates to be used must incorporate the present market values with reference to the risk-free component and the risk premium associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles.
In addition, given the diverse risks of the respective operating areas, different Beta coefficients must be used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".
The exceptions to the approach based on the value in use regard the goodwill recognised on Autostrade Lombarde and on the acquiring line that will be transferred to Nexi.
For Autostrade Lombarde, considering that the sector the company operates in does not fall within the scope of operations of the ISP Group, in addition to the fact that ISP does not exercise management and coordination of the company pursuant to Art. 2497 of the Italian Civil Code, no potential synergies were identified between the acquirer and the acquiree that normally characterise the flows deriving from the continuous use of an asset and, thus, its value in use. Therefore, with regard to the testing of the goodwill recognised on Autostrade Lombarde, the fair value resulting from the valuation, updated to

31 December 2019 (carried out using the same method as the appraisal which was drawn up by an independent third party to determine the purchase price of Autostrade Lombarde pursuant to IFRS 3 in the 2018 Financial Statements) was used.
As previously described, the assets and liabilities of the acquiring business line were reclassified under discontinued operations and, in line with the provisions of IFRS 5, must be valued at the lower of the cost and the fair value less costs to sell.

Cash flow estimates
Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the 2019 financial statements, the volatility of financial markets and the uncertainties regarding the future macroeconomic environment make the definition of near-term future cash flows from operating activities and the identification of growth rates in order to calculate the Terminal value of CGUs particularly complex.
The medium-term forecasting scenario of reference (for the Eurozone and Italy only, since goodwill is no longer carried in regard to the international network) has been drawn up by the Intesa Sanpaolo Research Department taking account of the forecasts of the main Italian and international organisations and institutions.
In particular, the forecasts for the period 2020-2024 are based on a reference scenario of moderate expansion for the global economy, with growth rates lower than those of the post-crisis period. Following the sharp slowdown in 2019, when trade flows adapted to the raising of trade barriers between the United States and China, a moderate recovery in global trade is expected, whose growth rates will then stabilise at modest levels compared to the average of the last decades.
Several of the risks that loomed over the scenario have attenuated: the United States and China reached a preliminary agreement that interrupted the tariff war, while maintaining barriers at much higher levels than in 2018, without definitively resolving the dispute. The United Kingdom finally ratified the agreement for withdrawal from the EU, clearing the way for an exit facilitated by a transition period that will cover all of 2020. Lastly, the United States did not raise the pressure on the European Union, which it had threatened with tariffs that could have impacted automotive sector exports. Nonetheless, none of the issues raised by the United States has been resolved, and the uncertainty could once again increase, both prior to or following the US presidential elections. In general, the advanced maturity of economic expansion in developed countries increases the probability that a recession will arise in the next few years, despite the lack of inflationary pressures and the very low level of interest rates. However, that risk seems highly unlikely in 2020 and the consensus estimates also consider it unlikely in the following years, meaning that it has not been adopted as the central scenario.
In the United States the GDP growth expected in the next few years has not been significantly revised. The annual growth rate is expected to stabilise around the lowest levels reached in 2019, in connection with full employment being reached, the slowdown of foreign trade flows and private investments and, lastly, the lack of significant monetary and fiscal stimulus. It is also assumed that the Federal Reserve might further cut official rates in the two-year period 2020-21, though just slightly.
In the Eurozone, the slowdown that began in 2018 was coming to a stop at the end of 2019. Quarterly GDP growth stabilised at 0.2%, while year-on-year growth should reach a low point at the start of 2020. The modest recovery forecast over 2020 should keep the annual average near 1%. Growth will be fuelled by domestic demand, while the contribution of net exports, despite the improved conditions of foreign demand, will remain marginally negative. Manufacturing activities are expected to recover in the second quarter of 2020.
The scenario prices in a moderate easing of fiscal policy, with a decline in the structural primary balance for the entire Eurozone equal to 0.3% of the GDP 2020. The lower growth in the economy will stop the decline in the unemployment rate. At the same time, a GDP growth rate of around 1% will be sufficient to avoid a significant increase. The scenario beyond 2020 is highly uncertain, both due to the complex international scenario and due to the advanced stage of expansion in the European economy.
The trend in inflation was revised significantly downwards over the entire horizon of the forecast compared to one year ago. From 2021 to 2024 the forecast is lower than the consensus average, while it is only marginally higher in 2020. That scenario reflects the expectation that wage growth, which has been accelerating since 2018, will stabilise at levels that will not put pressure on end prices. It also reflects the consideration that businesses are still facing very high competitive pressure. The projections suggest that the exact target of 2% could be unreachable for the ECB for several years, unless significant depreciations of the Euro as well as price increases in commodities are triggered which are not included in the reference scenario.
In 2019, the Italian economy grew by 0.2%, less than that forecast one year ago. The sharper than expected slowdown reflects both external components (specifically, the slowdown in foreign demand) and internal factors (the increased uncertainty regarding economic policy and financial conditions that accompanied first the formation of the new government and then the difficult preparation of the 2019 fiscal package). The change in the government during the summer drastically improved market conditions and the outlook on the cost of debt, even if the new majority had great difficulty in handling the 2020 fiscal package and its number of MPs has gradually decreased.
At the time of defining the baseline scenario, the phase of slowdown in economic activity seemed to have stopped, though without convincing signs of a reversal of the trend. The 2020 budget act proposed a substantially unchanged deficit on 2019, insufficient to ensure a decrease in the debt-to-GDP ratio. Moreover, the improvements expected in the long-term projections once again depend on significant increases in indirect taxes, which have never been implemented in the past: without these, or without alternative measures to cut spending or increase income, the debt will grow quickly. Also because of this, the spread between Italian and German 10-year public debt remained at levels higher than those theoretically consistent with the countries' respective ratings, though falling from recent highs.
The scenario takes account of the risk of instability of the political scenario, but assumes that no new highs in volatility will occur in the time horizon of the forecasts. However, to take account of the numerous uncertainties in the economic policy scenario, it is assumed that risk premiums, which in 2020 will still be lower than the average values of the two-year period 2018-2019, will gradually converge with the post-crisis average. The 2020 average has been set at 144bps: that level reflects the possibility of an improvement in the first half of the year, on the assumption that there are no government crises and that the improvement in economic activity is confirmed. Nonetheless, in the reference scenario, the spread will return to above 200 bps from 2024, due to the prudential assumption of a return toward the aforementioned average.
The average annual growth in the GDP expected over the next few years was revised sharply downwards. The 2020 estimate (0.3%) is lower than the consensus for December and the estimates of the government (0.6%), the European Commission

(0.4%) and the IMF (0.5%). Subsequently, growth is expected to remain unchanged on average, slightly above 0.5%, lower than the consensus estimates. This reflects both a more prudent valuation of the Italian economy's potential for growth and the greater probability that the time horizon of the forecast may also include a recessive phase, which is currently impossible to place in the timeline. Though GDP growth rates have been revised downwards, they remain consistent with an additional decrease in the unemployment rate during the forecast period. The outlook for real estate prices is improving.
The European Central Bank has stated that it intends to keep official rates at levels no higher than the current levels until the forecast inflation has clearly neared the target level, and provided that the forecasts are also confirmed by a consistent trend in the underlying inflation. The forecast path has been drawn in a way that maintains alignment with interest rates embedded in futures, which price in an increasing probability of rises in official rates over the forecast period. A revision of the inflation targets by the European Central Bank as a result of a continuing stagnant dynamic in prices that remains lower than the target cannot be ruled out, though in a phase of economic growth near its potential and a partial reconsideration of the usefulness of negative interest rates.
That projected path, translated into changes consistent with the quarterly interbank rates (Euribor) is lower than the consensus estimates over the entire time horizon and, as stated above, in line with the interest rates embedded in futures up to 2023. In the following period, it is assumed that interest rates will very gradually move towards normalisation and, considering the five-year time horizon, the estimate is close to the consensus estimate. Moreover, in November 2019, the European Central Bank once again started net purchases of securities as part of the APP (Asset Purchase Programme), with a net monthly flow of 20 billion euro. The Central Bank announced that purchases will continue until slightly before the increase in official rates. Therefore, estimates of the curve have been drastically cut compared to one year ago.
With regard to the credit market, robust growth in loans to households continued, as regards both mortgage loans for house purchases and consumer credit. Conversely, loans to businesses began falling once again, recording an increase in the negative trend near the end of 2019. The trend was impacted by the weakening of loans to the manufacturing industry and the trade sector, while the sharp decrease in the construction segment continued. The diversity within the credit dynamic remains high: the decline was concentrated on higher risk companies and smaller companies. In conditions of high liquidity of companies that have been continuing for several years, demand for credit remained subdued by low external funding requirements and the stagnation of the economy, despite the fact that access conditions have improved. Therefore, business debt continued to fall.
A gradual improvement in loans to businesses is possible during 2020, in the presence of expansive credit conditions, as a result of the TLTRO III and the new lows in interest rates offered, driven downwards by competition. The very favourable cost of borrowing will benefit from loan impairment rates that are expected to remain at current levels, below pre-crisis levels. However, the performance of loans to businesses will be affected by the weakness of the economy and the continued climate of uncertainty, factors which tend to restrain demand. In the following years, a moderate trend in loans to businesses is expected, which will continue to be restrained due to demand factors, such as the presumable continuation of corporate deleveraging and the diversification in favour of market sources of funding, in a scenario of modest GDP growth.
For households, the lending scenario remains positive. Mortgages for home purchase will continue to be supported by very low rates over the entire time horizon of the forecast and by the prospect of a strong real estate market, which should see a more widespread rise in house prices. Lending to households will be favoured by the reduction in the unemployment rate and the increase in disposable income. That outlook justifies the relaxed tone of the offering of bank credit to households also for the next few years.
During 2019, bank funding recorded a stronger recovery than expected, driven by the continuing highly robust dynamic of deposits, up for the eighth consecutive year, which was accompanied by the rapid improvement in bonds. Following almost eight years of continuous decrease, the drop in the stock of bonds came to an end. In the area of deposits, the sharp increase in the on-demand component continued. The growth in current accounts will also mark 2020, given the very low or negative market yields. The significant liquidity and possible continuing climate of uncertainty will keep fuelling stocks of on-demand deposits. The inversion of the trend in the stock of bonds will be confirmed, with a recovery, though only modest growth. The favourable financial conditions may support issues on the wholesale market, especially in the first half of 2020, while the net redemption in the retail component will continue.
In the following years, with interest rates remaining at very low levels, the growth in current accounts will continue, though at more moderate levels. The use of the ECB refinancing available through the TLTRO III will limit medium- to long-term funding needs. As a result, no specifically significant flows are expected to time deposits. Overall, deposits are expected to grow over the entire forecast period.
For bonds, over the entire time horizon of the scenario, net redemptions of bonds placed in the retail segment are expected to be offset by issues on the wholesale markets, fuelled by placements of instruments that meet the loss absorption requirements, in a scenario of modest acceleration of medium/long-term loans.
Customer deposits will record moderate growth on the whole.
In 2019, bank interest rates reached new historical lows. The year started with a phase of repricing loan interest rates, especially for smaller loans to businesses and fixed-rate mortgages, which, from the summer, gave way to a new round of declines. The annual average of interest rates applied to businesses on new loans of small amounts (up to 1 million euro) were essentially stable compared to 2018, while those on loans of larger amounts decreased. Spreads against the Eurozone remained in negative territory, following a temporary return to positive ground for rates on small loans to businesses. Interest rates on mortgage loans to households also reached new record lows, especially those on fixed-rate disbursement.
Deposit rates remained more or less stable, recording slight decreases given the low levels reached, along with increases on longer durations of new time deposits, which then partially normalised. The cost of funding continued to fall, due in part to the reduced weight of costlier components. The spread between lending and funding rates remained stable in terms of annual average.
With negative key interest rates and a favourable context for credit access, interest rates on loans will remain very low in 2020 and in the following years. In addition, over the horizon of the scenario, at aggregate level, credit risk is not expected to worsen, whereas there will continue to be competition surrounding loans to the best customers. A modest rise in interest rates on loans, especially clear in 2023-24, will follow that in monetary and policy interest rates.
The limited funding needs and the support of the TLTRO III will allow the cost of funding to be contained again in 2020 and the following years. More relaxed conditions will characterise new bond issues on international markets. Current account rates

are expected to remain at record lows, with some possible slight decreases, but remaining higher than the floor of zero. Based on the approach taken for monetary and policy rates, a small rise in interest rates on deposits should be visible particularly from 2023.
The spread between lending and funding rates is expected to remain stable in 2020 at the level recorded at the end of 2019, slightly lower than previous years. The renewed growth of lending rates, along with the slower pace of adjustments to borrowing rates will allow for a gradual widening of the spread in the following years. Nonetheless, unit profitability of dealing will remain very low over the entire horizon, even lower than pre-crisis values.
For the eighth consecutive year, in 2019 the mark-down on on-demand deposits was in negative territory, where it is expected to remain also in 2020 and up to 2023, given the very low Euribor rates. A gradual return to positive territory should start only in 2024, in line with the expected profile of the Euribor.
The mark-up on short-term rates showed some signs of growth in the first half of 2019, to then move towards the levels recorded at the end of 2018. It is expected to stabilise in 2020 and the following year. A new reduction in the mark-up will be seen especially in 2023-24.
Mutual funds and portfolio management schemes experienced weakness in net inflows overall in 2019, despite highly positive results in terms of performance. The first half of the year was characterised by negative net inflows to funds, attributable to the overhang from the disappointing performance in 2018, followed by improvement in the second half. Against this backdrop, life insurance recorded a decrease in subscriptions of unit-linked policies, offset by an increase in traditional policies, which confirmed their status as a defensive product.
For 2020, net inflows to mutual funds and portfolio management schemes are expected to recover, due to an increased interest by investors, given the positive performance in 2019, the continuation of very low interest rates and the stabilisation of domestic financial conditions. The performance of financial markets is expected to remain favourable, which will contribute to the growth of stock, resulting in positive impacts on performance in all segments, though less vibrant than in 2019. In addition to those factors, inflows to mutual funds will benefit from the relaunch of Individual Savings Plans, due to the removal of the restrictions introduced in 2019.
For life insurance, a still favourable phase is expected, driven by the rebound in subscriptions of unit-linked policies, after two consecutive years of decline, which will be accompanied by the continued growth of traditional policies. Multi-line products will continue to provide support to life insurance as a whole.
For the following years, performance is expected to remain positive for funds and portfolio management schemes, as well as for life insurance, supported by inflows. In particular, for life insurance, internal shifts are expected to continue, with growth in premiums of unit-linked policies higher than that of traditional policies.
In conclusion, the framework of interest rates that should remain low for the long-term will continue to favour the asset management and life insurance businesses. Inflows of investments to these segments may be fuelled by the stock of significant capital inflows to bank deposits in recent years. Based on these factors that characterise the medium-term scenario, in 2020 and the following years, the strategy of diversifying revenues implemented by banks in response to the erosion of the profitability of traditional banking activities due to the low level of interest rates should continue. The revision of the business model undertaken by Italian banks has had distinctive results in terms of the shift in revenues in favour of those from services which decrease vulnerability to the continuing situation of very low interest rates as compared to intermediaries of other European systems, while German and Spanish banks are still mainly dependent on revenues from interest rates.

The table below illustrates the macroeconomic variables expected for Italy in the period 2020-2024.

(values as a percentage)

Italy	2019	2020	2021	2022	2023	2024
REAL ECONOMY						
Real GDP Italy	0.2	0.3	0.5	0.6	0.6	0.6
Consumer prices Italy	0.6	0.8	1.2	1.4	1.6	1.6
Period-end ECB rate	0.00	0.00	0.00	0.00	0.25	1.00
3-month Euribor rate	-0.36	-0.43	-0.33	-0.23	-0.10	0.50
10-year IRS	0.3	0.3	0.4	0.4	0.7	1.6
10-year BTP	1.90	1.30	1.58	1.76	2.31	3.33
Spread vs. Bund (basis points)	212	144	168	180	194	207
BANKING SECTOR						
Loans	-1.6	0.5	1.4	1.9	2.1	2.2
Direct customer deposits	3.0	3.5	2.4	2.4	2.5	2.4
Loan rate	2.55	2.47	2.52	2.57	2.66	3.04
Funding rate	0.63	0.60	0.62	0.64	0.68	0.87
Average customer spread	1.92	1.87	1.90	1.93	1.98	2.18
Mutual funds	8.7	2.5	2.0	2.4	1.5	0.7
Portfolio management	8.9	2.0	1.9	2.1	1.2	0.8
Life technical reserves	7.2	4.8	4.6	4.5	4.1	3.7

The various CGUs' expected cash flows were subject to impairment testing, taking account of the macroeconomic scenario described above, and were estimated by following a two-stage assessment process.
In the specific case, forecasting estimates were used drawn up starting from the 2019 actual figures and the 2020 budget figures and considering the expectations, described above, regarding the evolution of the macroeconomic scenario. In particular, the forward-looking estimates for 2021 confirm the strategic actions in the 2018-2021 Business Plan, while the

quantitative forecasts were updated considering the macroeconomic projections envisaged by said scenario. For the following years, up to 2024, flows are determined through inertial tracking of the flows for 2021, always based on the forecasts relating to the macroeconomic scenario. Thus, the forecasts for the years 2021-2024 do not consider the effect of the new managerial leverage in relation to that envisaged in the Business Plan.
The net income projected for the forecast years of the long-term plan has been adjusted, in accordance with IAS 36, to take account of non-monetary components and the minority-interest share of net income, as well as to exclude the effects of any reorganisation and restructuring transactions, with the exception of the effects of the actions already considered in the 2018-2021 Business Plan, and the capital gains on future sales of company assets (such as, for example, the acquiring line, which will be transferred to Nexi). In addition, cash flows include those allocated to the various CGUs deriving from central corporate assets. In accordance with the equity-side approach mentioned above in relation to the determination of the carrying values of CGUs, the cash flows used for impairment testing include the flows correlated with financial assets and liabilities, given that these represent the company's core business.

Among various financial valuation techniques, such as that used for determining the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate “g” rate, of the cash flow achievable "at full capacity”. This rate, even if subject to time variations, may be assumed to be constant or decreasing (or increasing in rarer circumstances).
As an alternative to the terminal value estimation methodology, doctrine also envisages (i) the exit multiple approach and (ii) the approach based on an estimation of the liquidation value of the company. Specifically, with regard to approach (i) it should be mentioned that an exit multiple estimate has complex (and potentially subjective) elements that become even more marked at times of market uncertainty and volatility such as now. Approach (ii) is valid only for companies due to be wound up on termination of the forecasting period, and therefore not applicable with a view to a business as a going concern.
In the decisions to be taken with regard to the criteria for extrapolating cash flows beyond the forecasting period, account must be taken of the market context in which the prospective scenario is being determined.

As regards the impairment test as at 31 December 2019, 2024 - the last year of the analytical forecast, separating out the main non-recurring components - was projected in perpetuity, based on the growth factors described below, for the purposes of the terminal value.
In line with the impairment tests of the previous years, the “g” rate was determined as the average growth rate of Italy’s nominal GDP, observed and forecast in the 2008-2024 period (it should be noted that, in consideration of the impairment made in the previous financial statements, no goodwill is allocated to the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs; consequently, it is not necessary to calculate the “g” rate for the purpose of the goodwill test for the foreign countries where the Group operates). Nominal GDP is the sum of the real GDP growth rate and the inflation rate. Expected real GDP and inflation figures used to calculate the "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above. Each component has been calculated as the average for the period 2008-2024.
The decision made in terms of observation period for the growth rates, considering the current particular macroeconomic situation, calls for specific consideration.
Real GDP dynamics in recent years were negative or only marginally positive due to the economic-financial crisis. A turnaround from the current scenario of macroeconomic crisis took place already in 2015, which is very gradually resulting in a process of growth. In order to consider both the entire period of crisis experienced, beginning in 2008, and the prospects of an economic recovery beginning in 2015, the growth rate for estimating terminal value was calculated as the average GDP rates for the 2008-2024 period, inasmuch as this period was deemed sufficiently extensive to include, and thus average, a period of severe crisis and a prospective period of a return to a scenario of (moderate) economic growth. In short, the reference period is characterised by logics of prudence since it considers, on the one side, the financial crisis beginning in 2008 and, on the other, the expectation of economic growth until 2024. Please note that Italy presents a negative value for its average real growth rate for the period 2008-2024. The forecasting estimates for the next few years show moderate growth in real terms, leading to average growth for the period 2008-2024 near zero, which is also in line with the 2019 actual figure for real GDP growth. Since the "g" rate is used to determine terminal value, it was considered realistic and rational not to assume negative real growth to be projected infinitely. Accordingly, for calculation purposes, real average growth was assumed to be zero and the "g" rate thus corresponded with the average increase in inflation for the period 2008-2024.
Furthermore, with a prudential approach, it was checked that the “g” rate was not higher than Italy’s GDP growth rate in 2024 or, for each CGU, the growth rate of the last year of analytical forecasting.

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

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

- in regard to the risk-free component and the country risk premium (CRP), reference was made to the current extremely low values with respect to the general interest rate scenario. Although the level of interest rates is not expected to increase (at least until the end of 2023), it is in any case appropriate to reflect on whether the current situation may or may not reasonably be expected to last beyond the so-called “explicit period” of forecasting of the financial flows for the assessments regarding the impairment tests. In fact, as is common knowledge, terminal value, calculated as the perpetual return of cash flows "at full capacity" after the forecast period, is an important component to calculate the value of the CGUs: in this sense the reflection must focus on the analysis of the current macroeconomic context, to check whether the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated in the discount rate of the flow implied in the terminal value, according to a long-term calculation logic, such as the one underlying the impairment test process. Based on the situation described above, the currently low level of interest rates (especially in the risk-free component), heavily affected by the monetary policies of the ECB, will unlikely persist beyond the medium term; therefore, considering the aforementioned long-term prospect that must guide the impairment test, for the 2019 Financial Statements it was deemed appropriate to adopt an approach involving the use of differentiated discount rates for the discounting of the cash flows of the CGUs, in line with that adopted for the previous Financial Statements, as permitted by IAS 36. Specifically:
  - concerning the risk-free component included in the cash flow discounting rate of the explicit forecast horizon, a decision was made to use the average monthly return (December 2019) of the 10-year German Government bonds (Bund);
  - concerning the risk-free component included in the cash flow discounting rate of the terminal value (cash flow projectable beyond the explicit forecast period), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast for 2024, which is the last year of flow forecast period, estimated by the Intesa Sanpaolo Research Department. Those forecasts estimated, with reference to interest rates, an increase in 2024, compared to the current figures, therefore infinitely projectable for the purpose of the terminal value, according to the long-term logic underlying the impairment test.

  In line with the above, also for the CRP a methodology was considered that envisages the use of differentiated values. In addition, it should be noted that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy - the “country risk” essentially coincides with the “Italy risk”. Therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2019 Financial Statements, the CRP was calculated as follows:
  - concerning the CRP included in the financial flow discounting rate of the explicit forecast horizon, the average BTP-Bund spread of December 2019 was considered;
  - concerning the CRP included in the financial flow discounting rate of the terminal value, the average annual BTP-Bund spread estimated for 2024 was considered, based on the medium-term forecast scenario mentioned previously;

  Therefore, for the purposes of terminal value, risk-free rates and country-risk spreads 200 bps higher than the current values at year-end overall were prudentially considered.
- the equity risk premium – represented by the difference between stock market yield and the Return on Investment on risk-free securities determined in reference to a sufficiently wide time horizon – was calculated on the basis of historical data, given its higher degree of reliability and visibility and also in the light of the current macroeconomic context, which reflects particularly volatile stock market prices not always representative of economic “fundamentals,” while also creating a framework of uncertainty within which it is difficult to formulate reliable forecasts of results in order to estimate the equity risk premium implicit in stock market quotations. Specifically, the geometric mean for the equity risk premium was used, recorded on the US market for the period 1928-2019, adjusted for the differential between the US inflation rate and the German inflation rate (the market used as the basis for risk-free calculation);
- the Beta coefficient, which measures the specific degree of risk of an individual company or business sector, was calculated by identifying a sample of companies, comparable in business terms, for each CGU, and with reference to this sample the average or median Beta figure used was that recorded on a monthly basis over a five-year period;

Summary of growth rates and discounting rates used
The following table presents a summary, for each CGU subject to impairment test, of the parameters relevant to determining value in use: weighted average 2020-2024 growth rates, the "g" growth rates for terminal value purposes, the various discounting rates and inflation rates.

RATES/PARAMETERS CGU	Nominal growth rates for impairment test (2019-2023)	NOMINAL DISCOUNTING RATES				LONG-TERM "G" GROWTH RATES		INFLATION RATES
		2019 flows	2019 Terminal Value	2018 flows	2018 Terminal Value	2019	2018	2019
CGU subject to impairment test								
Banca dei Territori	51.22%	8.58%	10.57%	10.02%	11.37%	1.32%	1.46%	1.32%
Corporate and Investment Banking	9.45%	7.15%	9.14%	8.63%	9.98%	1.32%	1.46%	1.32%
Insurance	7.73%	6.21%	8.20%	7.65%	9.00%	1.32%	1.46%	1.32%
Asset Management	4.51%	6.97%	8.96%	8.24%	9.59%	1.32%	1.46%	1.32%
Private Banking	8.48%	7.14%	9.13%	8.17%	9.52%	1.32%	1.46%	1.32%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

Impairment testing results

The outcomes of the impairment test showed how, as at 31 December 2019, the values in use (or the fair value for Autostrade Lombarde) of each of the CGUs that feature intangible assets with an indefinite life were higher than the respective book values. Thus, it was not necessary to proceed to any impairment of the goodwill or brand names allocated.
It is specified that, for the sake of completeness of the analysis, the value in use was calculated also for the CGUs to which intangible assets with an indefinite life are no longer allocated, as they are written down in the previous financial statements. The Group's total value in use was confirmed to be greater than the sum of the carrying amounts of the individual CGUs.

Based on its market valuation, the Group's value in use is higher than its market capitalisation. The price of the Intesa Sanpaolo stock as at 30 December 2019 (2.35 euro), was up compared to the values measured at the end of the previous year (about +21%). The performance of the price of the Intesa Sanpaolo stock in 2019 moved in line with that of the FTSE MIB index, while it performed worse than the benchmark sector index during the same period (around +28%). In any event, the Intesa Sanpaolo stock outperformed the Stoxx 600 Banks index, which recorded growth of 11% in 2019. Moreover, in the first two months of 2020 the stock price grew further by around 9% on the values at end 2019.
2019 was another particularly volatile year for the financial markets, which, however, recorded high yields. At global level, the main causes of instability included the persistent concerns of a slowdown in global economic growth, the increase in the likelihood that a recession may arise in the next few years, despite the lack of inflationary pressures and the very low level of interest rates, the “trade war” between the United States and China, though this has been attenuated by the preliminary agreement reached between the two countries, which partially interrupted the intensification of tariffs, while keeping barriers at higher levels than in 2018 and without definitively resolving the dispute, and the uncertainties deriving from the increase in geopolitical tensions.
In Italy, especially in the first half of the year, stock prices were influenced by the high tensions and political uncertainties regarding economic policy and the relationship of the Italian government with EU institutions. On the contrary, in the second half of the year, the average yield of Italian government bonds decreased on the previous year, benefiting from the significant reduction in the risk premium on German government bonds, with the BTP-Bund spread at the end of 2019 around 100 bps lower than the previous year. The change in the government during the summer drastically improved the market’s view and the outlook for the cost of public debt. However, the fiscal package for the three-year period 2020-22, approved by the Parliament in December, increases the deficit compared with year-on-year values, by almost one percentage point of the GDP in 2020 and around 0.6 points on average per year in the following two years. Therefore, it is possible that there are still risks of significant deviations from the budget targets in line with the Stability and Growth Pact for both 2019 and 2020. Therefore, Italy is still destined to be monitored by the EU institutions, given that the high level of public debt remains a significant factor of vulnerability for the country.
Thus, given the foregoing, the price of the Intesa Sanpaolo stock continues to be affected by the national macroeconomic framework and the endogenous conditions of the Italian financial market, specifically those of bank securities, and, therefore, is impacted by factors that are extraneous to the performance of the business policies set up by the Group. It is expected that these difficulties may be eliminated and that the market will then resume valuation of individual financial institutions according to their fundamentals and individual performances.
The target price estimates, published in December 2019 and early January 2020 by investment firms and financial analysts assigned to the Intesa Sanpaolo stock, are currently concentrated around 2.39 euro on average. Compared to the end of 2018, the target price is around 8% lower. It is also noted that in the first two months of 2020 the target prices of analysts grew, reaching an average value of 2.48 euro.
In any event, it bears observing that valuations expressed by financial analysts have different characteristics from the “fundamental” assessment represented by value in use.

The following may be observed regarding the valuations expressed by financial analysts:
- the prospective income flows forecast by analysts extend to 2021 and, compared to the estimates generated within the Group, are lower on average;

- the cost of the capital used (in not particularly frequent cases, where this parameter is explicitly stated) is often determined in overall terms at Group level; the cost of capital of Intesa Sanpaolo used to discount the flow of the terminal value falls within the range identified by the analysts;
- similarly to the observations made for the impairment test of the 2018 Financial Statements, from the methodological standpoint, use was often made of multiples (in terms of P/E or ROE) applied to current market quotations or expected profitability for the coming years; these are thus methods that provide a fair value, rather than a long-term value in use.

It bears observing that the valuations in question were intended for financial investors and thus aimed to determine prices and values in the short term. These valuations represent the value potentially obtainable from sale on the market of limited amounts of securities, i.e. the disposal of a minority interest, and are therefore closely pegged to prices and to current market conditions. Conversely, the value in use is based on the consideration that the value of an asset is a direct expression of the cash flows it is able to generate throughout the period of its use. This value is thus also based on the internal expectations of the company, as opposed to market valuations, which are instead based on the short-term expectations of the market itself.

Finally, it is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as it has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, value in use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.

Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 200 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the "g" growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. If, in the future, the macroeconomic scenario should deteriorate with respect to the assumptions, this would have effects on the estimate of the various CGUs' cash flows and on the main assumptions adopted, which could yield results in the financial statements of the coming years different from those outlined in these Financial Statements.

Sensitivity analyses

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IAS/IFRS.

In particular, for CGUs that present residual values of intangibles with indefinite useful lives, the impact on the value in use of an increase of up to 50 bps in discounting rates or a decrease of up to 50 bps in the growth rate for terminal value purposes was verified. In addition, analyses were conducted of changes in the value in use resulting from a decrease in the cash flows used for terminal value purposes. No events of impairment would emerge in any of the CGUs tested, even in the event of an increase in discounting rates of 50 bps, or a decrease in the "g" rate of 50 bps or a decrease in the terminal value cash flow of 10%.

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

Sensitivity CGU	CHANGE IN VALUE IN USE Sensitivity to growth rate "g" - 10 bps	Sensitivity to discount rate + 10 bps	Sensitivity to Terminal value cash flows - 10%
Banca dei Territori	-0.85%	-1.13%	-7.26%
Corporate and Investment Banking	-0.94%	-1.22%	-9.24%
Insurance	-1.10%	-1.39%	-7.21%
Asset Management	-0.94%	-1.21%	-6.75%
Private Banking	-0.95%	-1.22%	-6.94%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.

(1) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, rather on the fair value of the company calculated with the same method defined for the purpose of determining its purchase price pursuant to IFRS 3 and used for the 2018 appraisal.

Based on the table above, changes in discount rates (increasing) or growth rates (decreasing) within 10 bps would lead to a general decrease in the values in use ranging between 0.85% and 1.39%. Regarding the financial flow considered for the purpose of the terminal value, a 10% decrease of the same would lead to reductions in the values in use ranging between 6.75% and 9.24%.
Moreover, the trend in prospective flows of Banca dei Territori is strongly influenced by the dynamic of expected interest rates. For the purpose of determining the CGU's value in use, that trend is substantially mirrored by growth in the discounting rate of the terminal value.

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

Sensitivity CGU	"g" growth rate	Difference compared to the "g" rate used	TV discounting rate	Difference compared to the Ke discounting rate used
Banca dei Territori	0.59%	-74 bps	11.15%	58 bps
Corporate e Investment Banking	-6.61%	-793 bps	14.89%	575 bps
Insurance	-11.97%	-1.330 bps	17.40%	920 bps
Asset Management (1)	n.a	n.a	n.a	n.a
Private Banking (1)	n.a	n.a	n.a	n.a
Autostrade Lombarde (2)	n.a	n.a	n.a	n.a

(1) For the Asset Management and Private Banking CGUs, the flows discounted over the explicit forecasting horizon are substantially already higher than the carrying amounts. As a result, the sensitivity analysis of the parameters that modify the discounted Terminal Value, if cash flows remain equal, is not applicable, as there would never be a reduction in the Terminal Value that would lead the value in use of the CGU to values close to the carrying amount.

(2) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, rather on the fair value of the company calculated with the same method defined for the purpose of determining its purchase price pursuant to IFRS 3 and used for the 2018 appraisal.

As shown by the data contained in the table, the values in use of the CGUs would reduce until the book values, with consequent impairment problems, only in correspondence with the significant worsening of the discounting rates (Ke) and the "g" growth rates.

SECTION 11 – TAX ASSETS AND LIABILITIES – CAPTION 110 OF ASSETS AND CAPTION 60 OF LIABILITIES

11.1 Deferred tax assets: breakdown

Deferred tax assets, recognised with regard to deductible temporary differences, totalled 13,751 million euro, of which 12,526 million euro refers to taxes recorded through profit or loss and 1.225 million euro to taxes with a balancing entry under shareholders' equity.

The first of these amounts refers to losses brought forward, to the portion of tax benefits not offset in relation to adjustments to loans and provisions for risks and charges deductible in future years, and to the benefit from realignment of the taxable value of goodwill, trademarks and other intangible assets pursuant to Article 15, par. 10, 10-bis and 10-ter of Law Decree 185/2008.

Deferred tax assets recorded as a balancing entry under shareholders' equity almost exclusively refer to tax on negative valuation reserves for financial assets measured at fair value through other comprehensive income, to the cash flow hedges and to recognition of actuarial losses on personnel funds.

11.2 Deferred tax liabilities: breakdown

Deferred tax liabilities amounted to 1,866 million euro and the balancing entry is mostly in the income statement (1,189 million euro) as well as in shareholders' equity (677 million euro).

11.3 Changes in deferred tax assets (through profit or loss)

(millions of euro)

	31.12.2019	Of which: Banking group	Insurance companies	Other companies	31.12.2018
1. Initial amount	**12,696**	***12,346***	***327***	***23***	**12,261**
2. Increases	**434**	***361***	***42***	***31***	**1,745**
2.1 Deferred tax assets recognised in the period	328	*262*	*38*	*28*	454
a) related to previous years	*22*	*22*	-	-	*28*
b) due to changes in accounting criteria	-	-	-	-	-
c) value recoveries	-	-	-	-	-
d) other	*306*	*240*	*38*	*28*	*426*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	106	*99*	*4*	*3*	1,291
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-604**	***-553***	***-40***	***-11***	**-1,310**
3.1 Deferred tax assets eliminated in the period	-458	*-409*	*-38*	*-11*	-689
a) reversals	*-374*	*-364*	*-1*	*-9*	*-567*
b) write-offs	*-6*	*-6*	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-78*	*-39*	*-37*	*-2*	*-122*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-146	*-144*	*-2*	-	-621
a) changes into tax credits pursuant to Law no. 214/2011	*-3*	*-3*	-	-	*-440*
b) other	*-143*	*-141*	*-2*	-	*-181*
3.4 Business combinations	-	-	-	-	-
4. Final amount	**12,526**	***12,154***	***329***	***43***	**12,696**

Increases d) other refers to deductible temporary differences arising during the year, mainly connected to provisions for risks and charges.

Other increases mainly include the write-off of netting against deferred tax liabilities, applied as at 31 December 2018.

Decreases a) reversals mainly refer to the elimination of deferred tax assets previously recorded in relation to provisions for risks and charges, as a result of their use during the year.

Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

Other decreases a) changes into tax credits pursuant to Law 214/2011 refer to the conversion into tax credits, pursuant to Law no. 214/2011 of deferred tax assets deriving from Adjustments to loans deductible in future years and those relating to Goodwill, trademarks and other intangibles already recognised in the financial statements as at 31 December 2014, as also shown in the following detail table. These changes can take place in the presence of statutory tax losses, for an amount equal to the product of the loss for the year recognised in the financial statements of the previous year of the consolidated companies and the ratio of deferred tax assets to the sum of share capital and reserves resulting from the aforementioned financial statements, or with reference to the deferred tax assets recognised in the financial statements of the previous year of the consolidated companies relating to the same type of negative components for the portion of these that contributed to tax losses or negative net production values, deemed significant for IRES and IRAP purposes, respectively.

11.4 Changes in deferred tax assets pursuant to Law 214/2011

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Initial amount	**8,281**	**8,746**
2. Increases	**4**	**-**
3. Decreases	**-38**	**-465**
3.1 Reversals	-	-
3.2 Changes into tax credits	-3	-440
a) from losses for the year	*-3*	*-23*
b) from fiscal losses	*-*	*-417*
3.3 Other decreases	-35	-25
4. Final amount	**8,247**	**8,281**

11.5 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

	31.12.2019	*Of which:*			31.12.2018
		Banking group	***Insurance companies***	***Other companies***	
1. Initial amount	**1,404**	***955***	***425***	***24***	**1,143**
2. Increases	**249**	***197***	***7***	***45***	**613**
2.1 Deferred tax liabilities recognised in the period	102	*95*	*3*	*4*	294
a) related to previous years	*2*	*2*	*-*	*-*	*-*
b) due to changes in accounting criteria	*-*	*-*	*-*	*-*	*-*
c) other	*100*	*93*	*3*	*4*	*294*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	147	*102*	*4*	*41*	319
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-464**	***-320***	***-122***	***-22***	**-352**
3.1 Deferred tax liabilities eliminated in the period	-395	*-253*	*-120*	*-22*	-65
a) reversals	*-21*	*-3*	*-1*	*-17*	*-22*
b) due to changes in accounting criteria	*-*	*-*	*-*	*-*	*-*
c) other	*-374*	*-250*	*-119*	*-5*	*-43*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-69	*-67*	*-2*	-	-287
3.4 Business combinations	-	-	-	-	-
4. Final amount	**1,189**	***832***	***310***	***47***	**1,404**

Increases c) other refers to taxable temporary differences arising during the year, mainly relating to trademarks, goodwill and positive valuations of loans and receivables measured at fair value.
Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous year.
Decreases c) other includes the release of deferred tax liabilities previously recorded on the higher book values of real estate following the option to realign the related tax values, exercised in compliance with the provisions of Art. 1, paragraph 948 of Law no. 145/2018 ("2019 Budget Act").
Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

11.6 Changes in deferred tax assets (recorded in equity)

(millions of euro)

	31.12.2019	Of which: Banking group	Insurance companies	Other companies	31.12.2018
1. Initial amount	**1,242**	***1,003***	***41***	***198***	**938**
2. Increases	**244**	***127***	***90***	***27***	**620**
2.1 Deferred tax assets recognised in the period	240	*123*	*90*	*27*	618
a) related to previous years	-	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*240*	*123*	*90*	*27*	*618*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	4	*4*	-	-	2
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-261**	***-258***	***-3***	**-**	**-316**
3.1 Deferred tax assets eliminated in the period	-219	*-219*	-	-	-274
a) reversals	*-192*	*-192*	-	-	*-258*
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-27*	*-27*	-	-	*-16*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-42	*-39*	*-3*	-	-42
3.4 Business combinations	-	-	-	-	-
4. Final amount	**1,225**	***872***	***128***	***225***	**1,242**

Increases c) other refers to deductible temporary differences arising during the year, mainly connected with the results of measuring CFH derivatives and financial assets measured at fair value through other comprehensive income, as well as allocations to employee termination indemnity.

Decreases a) reversals mainly refer to the elimination of deferred tax assets previously recorded in relation to the fair value measurement of cash flow hedging derivatives (CFH) and financial assets measured at fair value through other comprehensive income following the adjustment of the valuation effects or the related realisation during the year.

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11.7 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

	31.12.2019	Of which: Banking group	Insurance companies	Other companies	31.12.2018
1. Initial amount	**824**	***755***	***36***	***33***	**1,002**
2. Increases	**487**	***183***	***304***	**-**	**240**
2.1 Deferred tax liabilities recognised in the period	471	*167*	*304*	-	208
a) related to previous years	-	-	-	-	*1*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*471*	*167*	*304*	-	*207*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	16	*16*	-	-	32
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-634**	***-601***	**-**	***-33***	**-418**
3.1 Deferred tax liabilities eliminated in the period	-502	*-502*	-	-	-378
a) reversals	*-89*	*-89*	-	-	*-181*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*-413*	*-413*	-	-	*-197*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-132	*-99*	-	*-33*	-40
3.4 Business combinations	-	-	-	-	-
4. Final amount	**677**	***337***	***340***	**-**	**824**

Increases c) other mainly refers to taxable temporary differences arising during the year connected with the measurement of financial assets measured at fair value through other comprehensive income.

Decreases c) other comprises the release of deferred tax liabilities previously recorded on the higher book values of real estate following the option to realign the related tax values, exercised in compliance with the provisions of Art. 1, paragraph 948 of Law no. 145/2018 (“2019 Budget Act”).

Probability test on deferred taxation

IAS 12 requires for tax assets and liabilities to be recognised according to the following criteria:

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

The book value of deferred tax assets must therefore be tested each year to determine whether it is likely that taxable income will be earned in the future that will ensure their recovery.

Regarding deferred tax assets carried among the Group's assets, including in the 2019 Financial Statements, an analysis was conducted to verify projections of future profitability sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carrying them (a procedure known as a "probability test").

Ineligible deferred tax assets subjected to the probability test amounted to 5,504 million euro (joined by 1,866 million euro in deferred tax liabilities), while eligible deferred tax assets amounted to 8,247 million euro.

The probability test on the deferred tax assets carried in the 2019 Financial Statements was conducted separately, due to the different conditions of use of the underlying temporary differences, for the following cases:

- deferred tax assets for IRES (corporate income tax) recognised for the tax losses of Veneto Banca and Banca Popolare di Vicenza ("Venetian Banks") their subsidiaries Banca Nuova and Banca Apulia, as well as, only for the purposes of additional IRES, Intesa Sanpaolo can be used only on an individual basis by Intesa Sanpaolo;
- deferred tax assets recognised for tax losses of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI);
- other deferred tax assets triggered by deductible temporary differences for IRES tax purposes, arising at the Group's Italian companies participating in the national fiscal consolidation ("Other deferred tax assets - IRES");
- deferred tax assets triggered by deductible temporary differences for IRAP tax purposes ("Deferred tax assets - IRAP").

The probability test on the deferred tax assets relating to the tax losses of the Venetian Banks and their subsidiaries – equal to 1,288 million euro (of which 1,120 million euro equal to the base IRES tax rate of 24% and 168 million euro to the additional IRES tax rate of 3.5%), which are added to an additional 172 million euro in tax losses generated, only for the purposes of additional IRES, by Intesa Sanpaolo and the Group's banks merged - was conducted considering the individual position of Intesa Sanpaolo.

For the losses of Veneto Banca and Banca Popolare di Vicenza, the possibility of use on an exclusively individual basis by Intesa Sanpaolo derives from the regulations that set out the transfer (Art. 7, paragraph 3 of Law Decree no. 99/2017, converted with amendments by Law no. 121/2017, and Art. 15 of Law Decree no. 18/2016) at the time of the purchase of the business units of those banks. For the losses of Banca Nuova (formerly an investee of Banca Popolare di Vicenza) and of Banca Apulia (formerly an investee of Veneto Banca), instead, use on an individual basis depends on the merger of those companies into Intesa Sanpaolo (which occurred for Banca Nuova with accounting and tax effects from 1 January 2018 and for Banca Apulia with accounting and tax effects from 1 January 2019).

For the purpose of conducting the probability test, the forecast income of the Parent Company was estimated for the years up to 2021, covered by the Business Plan, taking the values set out in the Plan, updated to January 2020 to take account of the evolution of the macroeconomic scenario. For the years 2022, 2023 and 2024 (in line with the time horizon considered for the impairment test on goodwill) this was estimated through inertial tracking of the flows based on the macroeconomic scenario, without considering the effect of the new managerial leverage, and estimated for years following 2024 by prudentially assuming that gross income will remain steady, equal to that estimated for 2024 (thus without considering either the effect of the new managerial leverage or a growth rate). Based on the analyses conducted, total absorption of the deferred tax assets in question could be achieved over a time horizon deemed compatible with the "probability" of recovery required by IAS 12.

In the 2019 Financial Statements, deferred tax assets of 53 million euro are also entered, which derive from previous years' tax losses being absorbed (212 million euro as at 31 December 2019) of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI). The analyses carried out in relation to the income forecasts of the Luxembourg subsidiary confirm the ability of that company to use the losses against which deferred tax assets are recognised.

Nevertheless, in conducting the probability test for the other deferred tax assets for IRES and the deferred tax assets for IRAP carried in the Group's Financial Statements as at 31 December 2019, as in the case of the 2011-2018 Financial Statements, deferred tax assets arising from temporary deductible differences associated with impairment losses on loans (other than those deriving from the first-time adoption of the IFRS 9; see below), as well as goodwill and other intangible assets with indefinite useful lives[21] ("eligible deferred tax assets" and "eligible temporary differences"), if carried in the financial statements within 2014, were considered separately from others. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of eligible temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011). Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net

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

production value also in relation to IRAP deferred tax assets that pertain to eligible temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above convertibility forms – which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) – provide an additional, supplementary recovery method suited to ensuring the recovery of eligible deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus eligible temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but of the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to Art. 2, paragraphs 56-bis and 56-bis.1, of Law Decree 225/2010. The convertibility of deferred tax assets on tax losses and negative net production values that result from eligible temporary differences is therefore a sufficient condition for the recognition of eligible deferred tax assets, excluding them from the area of application of the probability test.

An additional limit to the straight convertibility of deferred tax assets was introduced by art. 11 of Law Decree 59 of 3 May 2016, amended by Law Decree 237 of 23 December 2016, which subordinated the transformation into tax credits of the eligible deferred tax assets which were not matched by an actual prepayment of taxes (so-called "type 2 DTA") to the payment of an annual fee, equal to 1.5% of their overall value, for the years 2016-2030. No fee is due for the transformation into tax credits of the eligible deferred tax assets which were matched by an actual prepayment of greater taxes ("type 1 DTA"). Considering that both the deferred tax assets recognised by the Companies that are part of the fiscal consolidation of Intesa Sanpaolo, as well as those included in the Parent Company's financial statements following the acquisition of the business units of the Venetian Banks resulted from "type 1 DTA", the Group is not currently required to pay this fee.

Article 1, paragraphs 1067 and 1068 of the 2019 Budget Act (Law 145 of 30 December 2018) envisage the deductibility (both for IRES and IRAP purposes) over ten tax periods, starting from the one under way as at 31 December 2018, of the adjustments to loans to customers recognised in the financial statements of banks and financial institutions on first-time adoption of the International Financial Reporting Standard IFRS 9[22]. According to that clarified in the Explanatory Report on the Measure, deferred tax assets recognised in financial statements in relation to the deferral of said deduction cannot be converted into tax credits based on the aforementioned provisions of Law Decree no. 225/2010. Therefore, those taxes must be subject to probability testing.

Based on the above, the probability test on other deferred tax assets - IRES was carried out as follows:
– identifying the "other deferred tax assets - IRES", i.e. those not relating to the tax losses of the Venetian Banks, their subsidiaries and other Group companies and ISPHI, which were subject to a specific test to determine whether they could be recognised in the financial statements (see above);
– identifying "ineligible" deferred tax assets among other deferred tax assets, as they cannot be converted into tax credits (see above);
– analysing such ineligible deferred tax assets and deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and by foreseeable recovery timing;
– provisionally determining the amount of the Group's future taxable income in order to verify its ability to recover the recognised deferred tax assets set forth in point b) above. The future taxable income was estimated starting with the values set out in the updated Business Plan projected inertially up to 2024 based on the macroeconomic scenario, without considering the effect of the new managerial leverage. It was prudentially assumed, for years following 2024, that gross income will remain steady, equal to that estimated for 2024 (thus without considering either the effect of the new managerial leverage or a growth rate).

The analysis conducted indicated an IRES taxable base that was sufficient and adequate to allow recovery of the deferred tax assets relating to IRES carried in the financial statements as at 31 December 2019.

Also for deferred tax assets - IRAP, the probability test was conducted analytically, referring only to the ineligible deferred tax assets (for those that can be converted into tax credits, as stated, the prospective certain use based on the cases of conversion into tax credits set out in paragraphs 56-bis and 56-bis.1 of Art. 2 of Law Decree 225/2010, effectively constitute a sufficient prerequisite for recognition in the financial statements, implicitly passing the related probability test).
The test was conducted by comparing the estimated forecast taxable income for IRAP purposes of Intesa Sanpaolo estimated on the basis of the same forecast data assumed in carrying out the probability test under point 1, with the cancelled ineligible temporary changes found as at 31 December 2019 and resulting in the residual IRAP taxable base for each year.
Considering that, for IRAP purposes, different from that set out for IRES tax losses, there is no carrying forward of tax losses or the possibility of offsetting them as part of a consolidation, where in one or more years the residual taxable base is negative, the deferred tax assets - IRAP that can be recognised in the financial statements must be limited to only the amounts of the temporary differences that can be recovered in each year considered.
The calculations performed resulted in a positive residual IRAP taxable base in each of the years included in the reference time horizon of the test.

That specified above shows the positive result of the probability test with regard to the various components of deferred taxation which formed at consolidated level.

For the purpose of completeness, it is noted that the 2020 Budget Act (Law no. 160 of 27 December 2019) deferred, for IRES and IRAP purposes, the deduction of the amounts pertaining to 2019 of:

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

i) write-downs and losses on loans to customers recorded (and not deducted) in the previous years by banks and other financial intermediaries, which are now deductible, on a straight-line basis, in the tax periods from 2022 to 2025 (the deductible portions of those components already planned for the same tax periods will be increased in a corresponding manner);
ii) impairment losses on loans to customers recorded by banks and other financial companies on first-time adoption of IFRS 9, whose deduction was deferred to the tax period 2028 (with the resulting extension of the originally planned instalment period by one year);
iii) amortisation relating to the value of goodwill recognised for tax purposes, against which eligible deferred tax assets were posted. For those components, deduction is envisaged on a straight-line basis, in the tax periods from 2025 to 2029 (the deductible portions of those components already planned for the same tax periods will be increased in a corresponding manner).

As a result of said provisions, the timing for the reversal of deferred tax assets relating to said write-downs, impairment losses and amortisation shall be consequently remodulated. Nonetheless, their full absorption by 2029 remains unchanged.
These effects were also considered in the probability tests described above.

11.8 Other information

There is no other information to be noted in addition to the above.

SECTION 12 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 120 OF ASSETS AND CAPTION 70 OF LIABILITIES

12.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Non-current assets held for sale		
A.1 Financial assets	333	939
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	38	355
of which: resulting from the enforcement of guarantees	*12*	*32*
A.4 Intangible assets	-	-
A.5 Other	-	3
Total A	**371**	**1,297**
of which measured at cost	***96***	***362***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***275***	***935***
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	49	-
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
of which: resulting from the enforcement of guarantees	-	-
B.6 Intangible assets	70	-
B.7 Other assets	4	-
Total B	**123**	**-**
of which measured at cost	***123***	***-***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***
C. Liabilities associated with non current assets held for sale		
C.1 Debts	-4	-241
C.2 Securities	-	-
C.3 Other	-2	-17
Total C	**-6**	**-258**
of which measured at cost	***-6***	***-258***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-1	-
D.5 Other	-34	-
Total D	**-35**	**-**
of which measured at cost	***-35***	***-***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***

As regards “Assets held for sale”, the caption “Financial assets” includes the residual “high-risk” loans originating from the Aggregate Set of the former Venetian banks, reclassified as bad loans or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (for an amount of 148

million euro), the non-performing finance leases included under the sale agreement signed with Prelios, whose transfer will be completed during 2020 (for an amount of 127 million euro), and the receivables pertaining to the Montepegni business line (for an amount of 58 million euro), whose sale is planned by the end of the first quarter 2020.
Liabilities associated with assets held for sale are comprised of liabilities linked to the sale of the Montepegni business line.
Discontinued operations and the related associated liabilities comprise the equity investments pertaining to the acquiring business line, which will be transferred to Nexi during 2020.

12.2 Other information

There is no other significant information to note as at 31 December 2019.

12.3 Information on companies subject to significant influence not carried at shareholders' equity

As at 31 December 2019, there were no investments in companies subject to significant influence not carried at equity and classified as held for sale.

SECTION 13 – OTHER ASSETS – CAPTION 130

13.1 Other assets: breakdown

(millions of euro)

Captions	
Other	4,445
Amounts due from tax authorities relating to insurance business	2,196
Amounts to be credited and items under processing	820
Cheques and other instruments held	475
Amounts to be debited - deriving from securities transactions	45
Transit items	7
TOTAL 31.12.2019	**7,988**
TOTAL 31.12.2018	**8,707**

The sub-caption “Other” includes operating loans, i.e. loans for operations granted through the provision of non-financial activities and services, for an amount of 111 million euro.

The sub-caption “Other” includes assets for costs incurred to obtain and execute contracts, for an amount of 386 million euro, mainly referring to costs for bonuses capitalised by Fideuram - Intesa Sanpaolo Private Banking (and, therefore, subject to amortisation for 36 million euro) as they are strictly related to the acquisition and maintenance of the funding.

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

(millions of euro)

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**51,541**	**X**	**X**	**X**	**63,878**	**X**	**X**	**X**
2. Due to banks	**51,783**	**X**	**X**	**X**	**44,104**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	4,457	X	X	X	4,862	X	X	X
2.2 Time deposits	2,396	X	X	X	2,463	X	X	X
2.3 Loans	40,855	X	X	X	33,826	X	X	X
2.3.1 Repurchase agreements	*33,924*	*X*	*X*	*X*	*25,607*	*X*	*X*	*X*
2.3.2 Other	*6,931*	*X*	*X*	*X*	*8,219*	*X*	*X*	*X*
2.4 Debts for commitments to repurchase own equity instruments	175	X	X	X	172	X	X	X
2.5 Lease liabilities	8	X	X	X	-	X	X	X
2.6 Other debts	3,892	X	X	X	2,781	X	X	X
Total	**103,324**	**-**	**90,122**	**13,162**	**107,982**	**-**	**96,594**	**11,291**

Lease payables have been reported from 2019, in application of IFRS 16.
The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E.2.
The amount under Debts for commitments to repurchase own equity instruments refers to put options sold with minority stakes of fully consolidated equity investments as underlying asset, attributable to the Put & Call Agreement to purchase 9.75% of Bank of Alexandria for a total of 175 million euro.
The Group’s repurchase agreements shown in the table include long-term repurchase agreements with a total carrying amount of 329 million euro, attributable to Banca Fideuram for de-risking transactions completed in previous years with the twofold aim of both funding the bank’s operations (through repurchase transactions) and reducing the credit risks associated with the portfolio of securities issued (also through the acquisition of financial guarantees). The transactions have a non-replaceable underlying portfolio of Italian government securities (with maturities from 2020 to 2033) hedged against interest rate risk through interest rate swap contracts and against credit risk through credit default swap contracts, already recorded in the financial statements at the time of execution of the repurchase transactions and recognised under financial assets measured at amortised cost. The nominal value and the maturity date of the repurchase agreements are the same as that of the securities.
For recognition purposes, an assessment was conducted aimed at understanding the purpose underlying the contractual agreements, taking into account the instructions provided by the supervisory authorities in Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013, “Accounting treatment of ‘long-term structured repurchase agreements’.”
The analysis focused on the structure, cash flows and risks associated with the transactions and was aimed at verifying whether the cases described above were similar to the long-term structured repurchase agreements described in the above Document, and, in order to be compliant with the principle of the prevalence of substance over form, whether the indicators referred in paragraph B.6 of the Guidance on Implementing IFRS 9, according to which the transaction may be considered substantially similar to a credit derivative contract, and, in particular, a credit default swap, were present.
The case described above consists of repurchase agreements that are not concurrent with the purchases of the securities and execution of the interest rate swaps, because the securities and derivative instruments were already present in the portfolio. In addition, buying securities and entering into derivatives occurred with market counterparties other than those with which the repurchase agreements were entered into. The credit risk was also closed with financial guarantees.
Consequently, the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document, supporting the inapplicability of the guidelines provided in paragraph B.6 of the Guidance on Implementing IFRS 9, with the result that the transactions must be recognised in the financial statements with the individual contractual components shown separately.

With respect to the first case, the repurchase agreements were not concurrent with the purchases of the securities and execution of the interest rate swaps, inasmuch as the securities and derivative instruments were already present in the portfolio. In addition, buying securities and entering into derivatives occurred with market counterparties other than those with which the repurchase agreements were entered into. The credit risk was also closed with financial guarantees.
With respect to the second case, the specific purpose for which they were undertaken, demonstrated by the nature and origin of the underlying securities, excludes a correlation between the various phases and differentiates the transactions from those described in the above-mentioned Document, and means that these transactions are classed as part of the bank's ordinary stable funding activities. The securities were previously purchased under self-securitisations and have a different nominal value, counterparty and maturity than the repurchase agreement.
Consequently, in both cases the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document, supporting the inapplicability of the guidelines provided in paragraph B.6 of the Guidance on Implementing IFRS 9. All the transactions pertaining to the cases described above have therefore been recognised, considering the individual contractual components separately.

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

(millions of euro)

Transaction type/ Group members	31.12.2019				31.12.2018			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	**294,894**	**X**	**X**	**X**	**267,889**	**X**	**X**	**X**
2. Time deposits	**21,915**	**X**	**X**	**X**	**22,698**	**X**	**X**	**X**
3. Loans	**6,371**	**X**	**X**	**X**	**26,287**	**X**	**X**	**X**
3.1 Repurchase agreements	4,505	X	X	X	24,105	X	X	X
3.2 Other	1,866	X	X	X	2,182	X	X	X
4. Debts for commitments to repurchase own equity instruments	**14**	**X**	**X**	**X**	**15**	**X**	**X**	**X**
5. Lease liabilities	**1,480**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
6. Other debts	**6,507**	**X**	**X**	**X**	**7,011**	**X**	**X**	**X**
Total	**331,181**	**-**	**313,393**	**18,227**	**323,900**	**-**	**306,618**	**17,222**

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

(millions of euro)

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	74,794	40,488	35,761	6	73,269	40,683	31,843	33
1.1 structured	*2,098*	*690*	*1,351*	*6*	*2,727*	*1,210*	*1,382*	*33*
1.2 other	*72,696*	*39,798*	*34,410*	*-*	*70,542*	*39,473*	*30,461*	*-*
2. other	10,083	-	7,589	2,494	8,791	-	6,752	1,876
2.1 structured	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
2.2 other	*10,083*	*-*	*7,589*	*2,494*	*8,791*	*-*	*6,752*	*1,876*
Total	**84,877**	**40,488**	**43,350**	**2,500**	**82,060**	**40,683**	**38,595**	**1,909**

1.4 Details of subordinated debts/securities

There were no subordinated debts with banks and customers as at 31 December 2019.
As at the reporting date, subordinated securities issued amounted to 9,308 million euro, entirely attributable to the Parent Company.

1.5 Details of structured debts

There are no structured debts as at 31 December 2019.

1.6 Lease payables

Lease payables have been reported from 2019, in application of IFRS 16.

SECTION 1 BIS - FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 15

The breakdown of the IAS 39 captions included in caption 15 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, "Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39" was created, which comprises the captions set out in the table below:

Breakdown of financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 15	31.12.2019	31.12.2018
10. Due to banks	2	4
20. Due to customers	77	68
30. Securities issued	747	738
Total - Caption 15	**826**	**810**

1.1 Bis Due to banks: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019	31.12.2018
1. Due to central banks	**-**	**-**
2. Due to banks	**2**	**4**
2.1 Current accounts and deposits	-	-
2.2 Time deposits	-	-
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Financial leasing loans	-	-
2.3.3 Other	-	-
2.4 Debts for commitments to repurchase own equity instruments	-	-
2.5 Lease liabilities	-	-
2.6 Other debts	2	4
TOTAL (Book value)	**2**	**4**
Fair value - level 1	**-**	**-**
Fair value - level 2	**2**	**4**
Fair value - level 3	**-**	**-**
Total Fair value	**2**	**4**

1.2 Bis Breakdown of "Due to banks": subordinated debts

There were no subordinated debts pertaining to Insurance Companies as at 31 December 2019.

1.3 Bis Breakdown of "Due to banks": structured debts

There were no structured debts pertaining to Insurance Companies as at 31 December 2019.

1.4 Bis Due to banks subject to microhedging

There were no structured debts due to banks subject to microhedging pertaining to Insurance Companies as at 31 December 2019.

1.5 Bis Lease payables

Lease payables have been reported from 2019, in application of IFRS 16.

1.6 Bis Due to customers: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019	31.12.2018
1.Current accounts and deposits	-	-
2 Time deposits	-	-
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Financial leasing loans	-	-
3.3 Other	-	-
4. Debts for commitments to repurchase own equity instruments	-	-
5. Lease liabilities	8	-
6. Other debts	69	68
Total (Book value)	**77**	**68**
Fair value - level 1	**-**	**-**
Fair value - level 2	**7**	**-**
Fair value - level 3	**69**	**67**
Total Fair Value	**76**	**67**

1.7 Bis Breakdown of “Due to customers”: subordinated debts

There were no subordinated debts due to customers pertaining to Insurance Companies as at 31 December 2019.

1.8 Bis Breakdown of “Due to customers”: structured debts

There were no structured debts due to customers pertaining to Insurance Companies as at 31 December 2019.

1.9 Bis Due to customers subject to microhedging

There were no amounts due to customers subject to microhedging pertaining to Insurance Companies as at 31 December 2019.

1.10 Bis Lease payables

Lease payables have been reported from 2019, in application of IFRS 16.

1.11 Bis Securities issued: breakdown

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A.Securities								
1. Bonds	747	-	747	-	737	-	737	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	*747*	-	*747*	-	*737*	-	*737*	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
Total	**747**	**-**	**747**	**-**	**737**	**-**	**737**	**-**

1.12 Bis Breakdown of “Securities issued”: subordinated securities

As at 31 December 2019, a total of 747 million euro related to insurance companies, fully attributable to level-2 other bonds (fair value 747 million euro), which at the end of 2018 amounted to 737 million euro.

1.13 Bis Breakdown of “Securities issued”: securities subject to microhedging

There were no Securities issued subject to microhedging pertaining to Insurance Companies.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

2.1 Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019					31.12.2018				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	**3,978**	**4,616**	**8**	**-**	**4,624**	**2,476**	**2,784**	**17**	**-**	**2,801**
2. Due to customers	**2,274**	**2,440**	**4**	**-**	**2,444**	**2,543**	**2,602**	**12**	**-**	**2,614**
3. Debt securities	**6,264**	**5,918**	**442**	**-**	**X**	**6,122**	**4,903**	**726**	**-**	**X**
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 Other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	6,264	5,918	442	-	X	6,122	4,903	726	-	X
3.2.1 Structured	*6,264*	*5,918*	*442*	-	*X*	*6,122*	*4,903*	*726*	-	*X*
3.2.2 Other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	**12,516**	**12,974**	**454**	**-**	**7,068**	**11,141**	**10,289**	**755**	**-**	**5,415**
B. Derivatives										
1. Financial derivatives	**X**	**5,446**	**25,166**	**99**	**X**	**X**	**4,633**	**25,293**	**141**	**X**
1.1 Trading	X	5,446	25,101	75	X	X	4,633	25,213	108	X
1.2 Fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	65	24	X	X	-	80	33	X
2. Credit derivatives	**X**	**2**	**1,084**	**1**	**X**	**X**	**6**	**776**	**2**	**X**
2.1 Trading	X	2	1,084	1	X	X	6	776	2	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**5,448**	**26,250**	**100**	**X**	**X**	**4,639**	**26,069**	**143**	**X**
Total (A+B)	**12,516**	**18,422**	**26,704**	**100**	**X**	**11,141**	**14,928**	**26,824**	**143**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E 2.
The changes in fair value recorded during the year due to the change in the bank's own credit rating were negative by 401 million euro.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2019, the Group did not have any subordinated liabilities classified under Financial liabilities held for trading.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

As at 31 December 2019, the Group had structured debts of 6,421 million euro classified under Financial liabilities held for trading.

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30

3.1 Financial liabilities designated at fair value: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019					31.12.2018				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which: *- commitments to disburse funds*	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
2. Due to customers	**4**	**-**	**4**	**-**	**4**	**4**	**-**	**4**	**-**	**4**
2.1 Structured	4	-	4	-	X	4	-	4	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which: *- commitments to disburse funds*	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**4**	**-**	**4**	**-**	**4**	**4**	**-**	**4**	**-**	**4**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.
The Bank has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies and life policies connected to social initiatives, managed by the Bank based on fair value, under amounts “due to customers”.

3.2 Breakdown of “Financial liabilities designated at fair value”: subordinated liabilities

As at 31 December 2019, the Group did not have any subordinated liabilities classified under Financial liabilities designated at fair value.

SECTION 3 BIS – FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES MEASURED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by Bank of Italy Circular 262, "Caption 35 Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39" was created, which comprises the captions set out in the table below:

Breakdown of financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39 - Caption 35	31.12.2019	31.12.2018
40. Financial liabilities held for trading	45	44
50. Financial liabilities designated at fair value through profit or loss	75,886	67,755
60. Hedging derivatives	4	1
Total - Caption 35	**75,935**	**67,800**

3.1 Bis Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019					31.12.2018				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cashl liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 Other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.2.2 Other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	-	45	-	X	X	3	41	-	X
1.1 Trading	X	-	45	-	X	X	3	40	-	X
1.2 Fair value option	X	-	-	-	X	X	-	1	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	-	45	-	X	X	3	41	-	X
Total (A+B)	X	-	45	-	X	X	3	41	-	X

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

3.2 Bis Breakdown of "Financial liabilities held for trading": subordinated liabilities

With regard to Financial liabilities held for trading: subordinated liabilities, no amounts were recorded for Insurance Companies as at 31 December 2019.

3.3 Bis Breakdown of "Financial liabilities held for trading": structured debts

With regard to Financial liabilities held for trading: structured debts, no amounts were recorded for Insurance Companies as at 31 December 2019.

3.4 Bis Financial liabilities measured at fair value: breakdown

(millions of euro)

Type of transaction/Values	31.12.2019					31.12.2018				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**75,886**	**-**	**75,886**	**-**	**75,886**	**67,755**	**-**	**67,755**	**-**	**67,755**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	75,886	-	75,886	-	X	67,755	-	67,755	-	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**75,886**	**-**	**75,886**	**-**	**75,886**	**67,755**	**-**	**67,755**	**-**	**67,755**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

3.5 Bis Breakdown of “Financial liabilities measured at fair value”: subordinated liabilities

There were no subordinated liabilities classified under Financial liabilities measured at fair value as at 31 December 2019.

3.6 Bis Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2019			Notional value	Fair value 31.12.2018			Notional value
	Level 1	Level 2	Level 3	31.12.2019	Level 1	Level 2	Level 3	31.12.2018
A) Financial derivatives	**-**	**4**	**-**	**141**	**-**	**1**	**-**	**59**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	4	-	141	-	1	-	59
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**4**	**-**	**141**	**-**	**1**	**-**	**59**

3.7 Hedging derivatives: breakdown by hedged portfolio and type of hedge

There were no hedging derivatives for hedged portfolios pertaining to Insurance Companies.

SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

4.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

Captions	Fair value 31.12.2019 Level 1	Level 2	Level 3	Notional value 31.12.2019	Fair value 31.12.2018 Level 1	Level 2	Level 3	Notional value 31.12.2018
A) Financial derivatives	**-**	**9,284**	**4**	**137,400**	**-**	**7,216**	**5**	**136,980**
1) Fair value	-	7,592	4	131,347	-	5,705	5	129,693
2) Cash flows	-	1,692	-	6,053	-	1,511	-	7,287
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**9,284**	**4**	**137,400**	**-**	**7,216**	**5**	**136,980**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions/Type of hedge	FAIR VALUE Specific: debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other	FAIR VALUE Generic	CASH FLOW Specific	CASH FLOW Generic	FOREIGN INVESTM.
1. Financial assets measured at fair value through other comprehensive income	785	-	44	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	3,837	X	273	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	2,365	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**4,622**	**-**	**317**	**-**	**-**	**-**	**2,365**	**-**	**-**	**-**
1. Financial liabilities	183	X	83	-	-	-	X	160	X	X
2. Portfolio	X	X	X	X	X	X	26	X	1,532	X
Total liabilities	**183**	**-**	**83**	**-**	**-**	**-**	**26**	**160**	**1,532**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to fair value micro hedges of loans disbursed and cash flow macro hedges of portfolios of liabilities. These cash flow hedges refer to floating-rate securities used to fund fixed-rate investments.

SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50

5.1 Fair value change of hedged liabilities

(millions of euro)

Fair value change of hedged liabilities/Group members	31.12.2019	31.12.2018
1. Positive fair value change of financial liabilities	527	398
2. Negative fair value change of financial liabilities	-	-
Total	**527**	**398**

SECTION 6 – TAX LIABILITIES – CAPTION 60

For information on this section, see Section 11 of Assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70

For information on this section, see Section 12 of Assets.

SECTION 8 – OTHER LIABILITIES – CAPTION 80

8.1 Other liabilities: breakdown

(millions of euro)

Captions	
Other	6,878
Due to tax authorities	1,921
Due to suppliers	1,534
Amounts to be credited and items under processing	899
Amounts due to third parties	353
Personnel charges	289
Due to social security entities	196
TOTAL 31.12.2019	**12,070**
TOTAL 31.12.2018	**11,670**

As required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers, which are included under the sub-caption “Other”, amounted to 94 million euro.

SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90

9.1 Employee termination indemnities: annual changes

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Initial amount	**1,190**	**1,410**
B. Increases	**315**	**252**
B.1 Provisions in the year	16	15
B.2 Other	299	237
- of which business combinations	-	-
C. Decreases	**-371**	**-472**
C.1 Benefits paid	-147	-182
C.2 Other	-224	-290
- of which business combinations	-	*-2*
D. Final amount	**1,134**	**1,190**
Total	**1,134**	**1,190**

C.1. refers to benefits paid as at 31 December 2019.

For greater detail on actuarial calculations, see Section 10.5 – Post employment defined benefit plans.

9.2 Other information

The present value of employee termination indemnities qualifying as unfunded defined benefit plans totalled 1,134 million euro as at 31 December 2019, while at the end of 2018 it amounted to 1,190 million euro.

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100

10.1 Allowances for risks and charges: breakdown

(millions of euro)

Captions/Components	31.12.2019	31.12.2018
1. Allowances for credit risk associated with commitments and financial guarantees given	**482**	**510**
2. Allowances on other commitments and other guarantees given	**-**	**-**
3. Post-employment benefits	**232**	**261**
4. Other allowances for risks and charges	**3,283**	**4,293**
4.1 legal disputes	770	854
4.2 personnel charges	1,632	1,709
4.3 other	881	1,730
Total	**3,997**	**5,064**

1 – Post employment benefits include allowances for defined benefit plans, illustrated in point 10.5 below.
The contents of 4 – Other allowances for risks and charges are illustrated in point 10.6 below.

10.2 Allowances for risks and charges: annual changes

(millions of euro)

Captions	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
A. Initial amount	**510**	**261**	**4,293**	**5,064**
B. Increases	**208**	**40**	**669**	**917**
B.1 Provisions in the year	142	8	625	775
B.2 Time value changes	-	3	7	10
B.3 Changes due to discount rate variations	-	-	4	4
B.4 Other	66	29	33	128
- of which business combinations	-	-	-	-
C. Decreases	**-236**	**-69**	**-1,679**	**-1,984**
C.1 Uses in the year	-152	-69	-1,211	-1,432
C.2 Changes due to discount rate variations	-	-	-	-
C.3 Other	-84	-	-468	-552
- of which business combinations	-	-	-	-
D. Final amount	**482**	**232**	**3,283**	**3,997**

Other allowances for risks and charges also included the allowances for personnel relating to the charges for voluntary incentive-driven exit plans, seniority bonuses and other charges.

As at 31 December 2019, there were variations amounting to 4 million euro due to changes in the discounting rate.

10.3 Allowances for credit risk associated with commitments and financial guarantees given

(millions of euro)

Captions	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	**Total**
1. Commitments to disburse funds	60	41	71	172
2. Financial guarantees given	27	33	250	310
Total	**87**	**74**	**321**	**482**

10.4 Allowances on other commitments and other guarantees given

As at 31 December 2019, there were no allowances on other commitments and other guarantees given

10.5 Post-employment defined benefit plans

1. Illustration of the characteristics of the funds and related risks

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 "Employee Benefits", is determined via the "projected unit credit method" by an independent actuary.

The defined benefit plans, in which the companies of the Intesa Sanpaolo Group are co-obliged, can be distinguished in:
- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:
- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service;
- Post-retirement medical plan and other benefits for employees of Bank of Alexandria (Egypt): defined benefit plans providing health coverage and other benefits to employees, even after retirement. The bank is responsible for the costs and risks related to the disbursement of said benefits;
- Defined benefit plans in effect within Banca Intesa Beograd: these are long-term benefits established by the Collective Contract (which refers to provisions of law in the Republic of Serbia) for employees in service to be paid upon termination of employment.

External funds include:
- the Intesa Sanpaolo Group Defined-Benefit Pension Fund "Fondo Pensione a Prestazione definita del Gruppo Intesa Sanpaolo", the new name given to the former Supplementary Pension Fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", identified as a collector of other "defined benefit" forms under the reorganisation and rationalisation of the existing pension schemes within the Intesa Sanpaolo Group, with protection of the rights of the (active and retired) subscribers. To this end, the "Fund" – in the virtually separated sections within Section A – has been assigned the asset captions contained in the financial statements of the pre-existing pension schemes, in order to ensure full coverage of the supplementary benefits. The Fund, which is a legal entity with independently managed assets, includes the following: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio in Bologna, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Complementary pension fund for the employees of Banco di Napoli in 2004; retired employees of the Complementary pension fund of the former Fin.Opi, transferred to the Fund in question on 1 June 2005; current and retired employees of Banca Popolare dell'Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell'Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of Cassa di Risparmio di Udine e Pordenone, formerly enrolled in the Complementary pension fund for the Employees of said bank, transferred to the Fund in 2006; retired employees of Cassa di Risparmio di Forlì, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Fund in question on 1 January 2007; retired employees of the former Carive internal Fund, transferred to the Fund in question on 1 January 2008; retired employees of the former CR Firenze FIP internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Terni e Narni internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Pistoia e Pescia internal fund, transferred to the Fund in question on 1 September 2012; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Pension Fund for key Managers, former Key Managers and entitled parties of former Comit, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the "Casse del Centro" Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees already formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January

2016; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Cassa di Risparmio di Mirandola, transferred to the Fund in question on 1 April 2016; retired employees formerly enrolled in the Pension Fund for the Personnel of the former Cassa di Risparmio di Prato transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the Defined Benefit Plan of the former Cassa di Risparmio di Fabriano e Cupramontana transferred to the Fund in question on 1 May 2018; current and retired employees of the Supplementary pension fund for the personnel of Istituto Bancario Sanpaolo di Torino, transferred to the Fund in question on 1 January 2019; and current and retired employees of the Supplementary pension fund for the personnel of Cassa di Risparmio di Padova e Rovigo, transferred to the Fund in question on 1 July 2019.
It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;
- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank's employees in service as at 31 December 1990 and already enrolled in the former "contracted-out" fund.
- Employee pension plan of Intesa Sanpaolo Private Banking (Suisse) Morval SA: the plan provides supplementary benefits when the pension is due under the local social security provisions (LPP) or in the event of an unfavourable event (disability and death); the obligations are covered by dedicated assets, managed through a contractual relationship between the company and Axa Fondazione previdenza professionale, Winterthur.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was carried out in the second half of 2018 and continued during 2019: the subscriptions received in the current year led to a decrease in the obligation of around 39 million euro, partly covered by the Fund's assets (around 20 million euro) and partly through the use of Funds set up specifically for this purpose by the Bank, under the guarantee given (around 19 million euro).

On 26 July 2018, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Cariparo Pension Fund into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Turin) with effect from 1 July 2019. This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was completed in the first half of 2019 for an amount of 29 million euro, partly covered by the Fund's assets (around 9 million euro) and partly through the use of Funds set up specifically for this purpose by the co-obligated banks, under the guarantee given (around 20 million euro). Based on Article 4 of the Agreement, with effect from 1 July 2019, the capital amount of 17 million euro, including the reserves set aside by Intesa Sanpaolo, relating to the "beneficiaries" of the benefits of the Section for Retired Employees who did not accept the offer, was transferred to the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo a Prestazione Definita del Gruppo Intesa Sanpaolo".

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined to satisfy the pension and profitability objectives as adequately as possible.

2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability is determined by the "projected unit credit method" and is recorded in the balance sheet net of any plan assets. Moreover, with application of the new revised IAS 19 from 1 January 2013, actuarial profits and losses calculated in the valuation process for the plans are immediately recognised in the statement of comprehensive income and, therefore, in shareholders' equity.

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2019			31.12.2018		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**1,190**	**199**	**1,775**	**1,410**	**212**	**3,539**
Current service costs	3	3	7	2	4	6
Recognised past service costs	-	-	-	-	1	-
Interest expense	13	15	21	13	13	23
Actuarial losses due to changes in financial assumptions	57	22	125	1	-	14
Actuarial losses due to changes in demographic assumptions	1	3	35	2	4	-
Actuarial losses based on past experience	1	4	2	-	-	24
Positive exchange differences	-	16	3	-	2	1
Increases - business combinations	-	-	-	-	-	-
Participants' contributions	X	-	1	X	-	1
Actuarial profits due to changes in financial assumptions	-	-	-	-23	-17	-10
Actuarial profits due to changes in demographic assumptions	-	-	-	-1	-	-35
Actuarial profits based on past experience	-	-	-30	-10	-2	-23
Negative exchange differences	-	-	-	-	-1	-
Benefits paid	-147	-8	-125	-182	-10	-151
Decreases - business combinations	-	-	-	-2	-	-
Curtailments of the fund	X	-	-77	X	-	-1,675
Settlements of the fund	X	-	-	X	-6	-
Other increases	240	-	1	234	-	61
Other decreases	-224	-1	-4	-254	-1	-
Final amount	**1,134**	**253**	**1,734**	**1,190**	**199**	**1,775**

Liabilities of the defined benefit obligations pension plan	31.12.2019			31.12.2018		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	1,134	2	-	1,190	2	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	251	1,734	-	197	1,775

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average decline of 0.69% for the various maturities, compared to the previous year.

3. Information on the fair value of plan assets

The following tables show the changes in plan assets for certain defined benefit plans and their composition.

(millions of euro)

Plan assets	31.12.2019		31.12.2018	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**109**	**1,616**	**118**	**2,558**
Return on assets net of interest	11	75	-7	-59
Interest income	3	19	3	21
Positive exchange differences	6	2	-	1
Increases - business combinations	-	-	-	-
Employer contributions	6	3	6	2
Participants' contributions	-	-	-	1
Negative exchange differences	-	1	-1	-
Decreases - business combinations	-	-	-	-
Benefits paid	-	-125	-	-151
Curtailments of the fund	-3	-39	-6	-808
Settlements of the fund	-	-	-4	-
Other changes	-	25	-	51
Final amount	**132**	**1,577**	**109**	**1,616**

(millions of euro)

Plan assets: additional information	31.12.2019				31.12.2018			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**70**	**53.0**	**243**	**15.4**	**56**	**51.4**	**194**	**12.0**
- of which level-1 fair value	70		224		56		176	
Mutual funds	**-**	**-**	**224**	**14.2**	**-**	**-**	**99**	**6.1**
- of which level-1 fair value	-		165		-		50	
Debt securities	**50**	**37.9**	**587**	**37.2**	**45**	**41.3**	**550**	**34.0**
- of which level-1 fair value	50		587		-		550	
Real estate assets and investments in real estate companies	**8**	**6.1**	**434**	**27.5**	**8**	**7.3**	**461**	**28.5**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**0.6**
- of which level-1 fair value	-		-		-		-	
Other assets	**4**	**3.0**	**89**	**5.7**	**-**	**-**	**302**	**18.8**
- of which level-1 fair value	-		-		-		-	
TOTAL ASSETS	**132**	**100.0**	**1,577**	**100.0**	**109**	**100.0**	**1,616**	**100.0**

(millions of euro)

Plan assets: additional information	31.12.2019				31.12.2018			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**70**	**53.0**	**243**	**15.4**	**56**	**51.4**	**194**	**12.0**
- of which financial companies	70		59		56		46	
- of which non financial companies	-		184		-		148	
Mutual funds	**-**	**-**	**224**	**14.2**	**-**	**-**	**99**	**6.1**
Debt securities	**50**	**37.9**	**587**	**37.2**	**45**	**41.3**	**550**	**34.0**
Government bonds	50		367		45		389	
- of which investment grade	*50*		*367*		*45*		*386*	
- of which speculative grade	-		-		-		*3*	
Financial companies	-		115		-		70	
- of which investment grade	-		*84*		-		*42*	
- of which speculative grade	-		*31*		-		*28*	
Non Financial companies	-		105		-		91	
- of which investment grade	-		*79*		-		*51*	
- of which speculative grade	-		*26*		-		*40*	
Real estate assets and investments in real estate companies	**8**	**6.1**	**434**	**27.5**	**8**	**7.3**	**461**	**28.5**
Insurance business	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**0.6**
Other assets	**4**	**3.0**	**89**	**5.7**	**-**	**-**	**302**	**18.8**
TOTAL ASSETS	**132**	**100.0**	**1,577**	**100.0**	**109**	**100.0**	**1,616**	**100.0**

The difference between net defined benefit liabilities (Table 10.5.2) and the plan assets (Table 10.5.3) is recognised under the post-employment plans and, in some cases, under other allowances for risks and charges.

4. Description of the main actuarial assumptions

The table below indicates the actuarial assumptions and interest rates used by the various funds.

Actuarial assumptions	31.12.2019				31.12.2018			
	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate
EMPLOYEE TERMINATION INDEMNITIES	0.42-1.72%	X	2.44-2.85%	-	1.07-2.33%	X	2.67-2.85%	0.0%
INTERNAL PLANS								
- of which Italy	-	-	-	-	-	-	-	-
- of which Egypt	13.8%	-	6.5%	6.5%	16.0%	-	8.5%	8.5%
- of which England	2.0%	-	1.9%	1.9%	2.9%	-	2.2%	2.2%
- of which Serbia	3.5%	-	4.0%	-	4.0%	-	4.3%	0.0%
EXTERNAL PLANS								
- of which Italy	0.4-0.8%	4.0%	2.6-2.7%	0.7-1.5%	1-1.6%	2.8-2.9%	2.6-2.7%	1-1.5%
- of which USA	3.0%	3.0%	-	-	4.0%	4.0%	-	-
- of which Svizzera	0.3%	-	-	0.5%	0.9%	-	-	0.5%

Starting from 2013, the Intesa Sanpaolo Group primarily uses the EUR Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The EUR Composite AA curve is obtained daily from the Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2019					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	1,082	1,190	245	260	1,639	1,837
Rate of wage rises	1,134	1,134	255	251	1,761	1,708
Inflation rate	1,168	1,101	257	248	1,804	1,666

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 10.5.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.

The average duration of the defined benefit obligation is 12.48 years for pension funds and 9.70 years for employee termination indemnities.

Any outflows to be made over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo") shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

6. Multi-employer plans

The Group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Supplementary Pension Fund for the Employees of Banco di Napoli (now the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo").
The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer into the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo" did not modify the guarantees and commitments undertaken by the parties in the past.

7. Defined benefit plans that share risks among entities under joint control

The Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo" and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the "projected unit credit method" and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

10.6 Allowances for risks and charges – Other allowances

The allowances for legal and tax disputes mainly refer to provisions for tax disputes and provisions for anatocism, criminal proceedings and operational violations, credit recovery disputes, labour disputes, and other civil and administrative disputes.

The allowance for personnel charges includes charges for voluntary incentive-driven exit plans and charges for seniority bonuses to employees and other charges.

Other allowances mainly relate to operational risks, private bankers indemnities, and other litigation.

(millions of euro)

Captions/Components	31.12.2019	31.12.2018
2. Other allowances		
2.1 legal disputes	770	854
2.2 personnel charges	1,632	1,709
incentive-driven exit plans	*1,006*	*1,163*
employee seniority bonuses	*210*	*188*
other personnel expenses	*416*	*358*
2.3 other risks and charges	881	1,730
other indemnities due to agents of the distribution network	*290*	*272*
other	*591*	*1,458*
Total	**3,283**	**4,293**

Where the time value is significant, provisions are discounted using current market rates.

More specifically, the discount rate used by the Group, for the preparation of the periodic financial reporting, is the rate corresponding to the zero-coupon IRS curve or the current rate of government securities of the country of reference if the specific risk is already considered in the calculation of expected payments.

SECTION 11 – TECHNICAL RESERVES – CAPTION 110

11.1 Technical reserves: breakdown

This caption corresponds to caption C of the insurance company balance sheet liabilities.

(millions of euro)

Captions	Direct work	Indirect work	31.12.2019	31.12.2018
A. Non-life business	**967**	**-**	**967**	**789**
A.1 premiums reserves	711	-	711	591
A2. claims reserves	251	-	251	195
A3. other reserves	5	-	5	3
B. Life business	**81,209**	**-**	**81,209**	**73,916**
B1. mathematical reserves	74,406	-	74,406	70,778
B2. reserves for amounts to be disbursed	686	-	686	791
B3. other reserves	6,117	-	6,117	2,347
C. Technical reserves for investment risks to be borne by the insured	**6,960**	**-**	**6,960**	**6,092**
C1. reserves for contracts with disbursements connected with investment funds and market indices	750	-	750	755
C2. reserves from pension fund management	6,210	-	6,210	5,337
D. Total technical reserves	**89,136**	**-**	**89,136**	**80,797**

11.2 Technical reserves: annual changes

(millions of euro)

Items	31.12.2019	31.12.2018
A. Non-life insurance	**967**	**789**
Initial amount	789	678
Business combinations	-	-
Changes in the reserve (+/-)	178	111
B. Life business and other technical reserves	**88,169**	**80,008**
Initial amount	80,008	82,248
Business combinations	-	-
Change in premiums	9,495	7,628
Change in payments	-6,745	-8,252
Changes due to income and other bonuses recognised to insured parties (+/-)	1,649	1,035
Changes due to exchange differences (+/-)	-	-
Changes in other technical reserves (+/-)	3,762	-2,651
C. Total technical reserves	**89,136**	**80,797**

SECTION 12 – REDEEMABLE SHARES – CAPTION 130

Not applicable to the Group.

SECTION 13 – GROUP SHAREHOLDERS' EQUITY – CAPTIONS 120, 130, 140, 150, 160, 170 AND 180

13.1 Share capital and Treasury shares: breakdown

For information on this section, see point 13.3 below.

13.2 Share capital – Parent Company's number of shares: annual changes

	Ordinary
A. Initial number of shares	**17,509,356,966**
- fully paid-in	17,509,356,966
- not fully paid-in	-
A.1 Treasury shares (-)	**-16,230,033**
A.2 Shares outstanding: initial number	**17,493,126,933**
B. Increases	**4,180,057**
B.1 New issues	371,459
- for consideration	371,459
business combinations	*371,459*
conversion of bonds	-
exercise of warrants	-
other	-
- for free	-
in favour of employees	-
in favour of directors	-
other (conversion of savings shares)	-
B.2 Sale of treasury shares	3,807,723
B.3 Other	875
C. Decreases	**-13,958,570**
C.1 Annulment	-
C.2 Purchase of treasury shares	-12,393,958
C.3 Disposal of companies	-
C.4 Other	-1,564,612
D. Shares outstanding: final number	**17,483,348,420**
D.1 Treasury shares (+)	26,380,005
D.2 Final number of shares	17,509,728,425
- fully paid-in	17,509,728,425
- not paid-in	-

13.3 Share capital: other information

The share capital of the Bank as at 31 December 2019 amounted to 9,086 million euro, divided into 17,509,728,425 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in.

13.4 Reserves from retained earnings: other information

Group reserves amounted to 13,279 million euro and included the legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, art. 7, par. 3 and Law 218 of 30 July 1990, art. 7) and other reserves, as well as the consolidation reserve.

The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year.

Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to international branches and other reserves set up in the past following specific legal provisions.

Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

The valuation reserves amounted to a positive figure of 347 million euro and included valuation reserves for assets measured at fair value through other comprehensive income of 230 million euro, valuation reserves pertaining to insurance companies of 504 million euro and reserves for cash flow hedges of -883 million euro, exchange rate valuation reserves (relating to fully consolidated equity investments) of -956 million euro and reserves for revaluations of property and equipment and legally-required revaluation reserves of 1,834 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans of -410 million euro, in addition to approximately 28 million euro of valuation reserves connected to minority equity investments.

13.5 Equity instruments: breakdowns and annual changes

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Book value (millions of euro)
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	750,000,000	745
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	1,250,000,000	1,240
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	1,250,000,000	1,241
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	1,000,000,000	877
Total								**4,103**

There were no changes in the equity instruments during the year.

13.6 Other information

There is no other information to report.

SECTION 14 - MINORITY INTERESTS – CAPTION 190

For details regarding the breakdown of minority interests, see section F, “Part B.1. Consolidated shareholders’ equity: breakdown by type of company”.

14.1 Breakdown of caption 190 Minority interests

(millions of euro)

Companies		31.12.2019
Investments in consolidated companies with significant minority interests		**158**
1	Bank of Alexandria	144
2	Risanamento S.p.A.	77
3	Vseobecna Uverova Banka A.S.	47
4	Autostrade Lombarde S.p.A.	-110
Other investments		**89**
TOTAL 2019		**247**
TOTAL 2018		**326**

14.2 Equity instruments: breakdown and annual changes

There were no equity instruments pertaining to minority interests.

OTHER INFORMATION

1. Commitments and financial guarantees given – *Excluding insurance companies*

(millions of euro)

	Commitments and financial guarantees given - nominal amount			31.12.2019	31.12.2018
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**172,364**	**19,436**	**1,447**	**193,247**	**192,796**
a) Central Banks	1,573	-	-	1,573	1,865
b) Public administration	4,293	3,542	5	7,840	9,269
c) Banks	28,430	2,462	9	30,901	32,998
d) Other financial companies	14,548	2,693	88	17,329	12,594
e) Non-financial companies	113,606	9,923	1,306	124,835	125,475
f) Households	9,914	816	39	10,769	10,595
2. Financial guarantees given	**33,138**	**4,763**	**792**	**38,693**	**38,760**
a) Central Banks	1	-	-	1	-
b) Public administration	348	184	-	532	565
c) Banks	2,794	496	1	3,291	3,511
d) Other financial companies	905	275	5	1,185	1,134
e) Non-financial companies	28,672	3,771	780	33,223	33,032
f) Households	418	37	6	461	518

In this table - in accordance with the instructions of Circular 262 - the “commitments to disburse funds” include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 130,127 million euro in 2019).

1. Commitments and financial guarantees given – *Insurance companies*

As at 31 December 2019 there were no exposures of this type.

2. Other commitments and other financial guarantees given – *Excluding insurance companies*

As at 31 December 2019 there were no exposures of this type.

3. Assets pledged as collateral of liabilities and commitments

(millions of euro)

Portfolios	31.12.2019	31.12.2018
1. Financial assets measured at fair value through profit or loss	8,195	3,454
2. Financial assets measured at fair value through other comprehensive income	35,316	36,144
3. Financial assets measured at amortised cost	152,316	125,364
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

Intragroup deposits of 1,276 million euro, established to serve securities lending with subjects outside the Group, were netted.

4. Breakdown of investments related to unit-linked and index-linked policies

(millions of euro)

	Disbursements connected with pension funds and market indices	Disbursements in connection with pension fund management	31.12.2019
Assets in the balance sheet	40,448	6,210	46,658
Intra-group assets	282	-	282
Total Assets	**40,730**	**6,210**	**46,940**
Financial liabilities in the balance sheet	39,694	1,761	41,455
Technical reserves in the balance sheet	750	4,449	5,199
Intra-group liabilities	280	-	280
Total Liabilities	**40,724**	**6,210**	**46,934**

5. Management and dealing on behalf of third parties

(millions of euro)

Type of service	31.12.2019	31.12.2018
1. Trading on behalf of customers		
a) Purchases	617,113	668,003
1. settled	*603,029*	*653,637*
2. to be settled	*14,084*	*14,366*
b) Sales	576,949	677,132
1. settled	*576,858*	*677,055*
2. to be settled	*91*	*77*
2. Portfolio management		
a) individual	56,484	52,652
b) collective	133,325	124,159
3. Custody and administration of securities		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	40,817	38,970
1. securities issued by companies included in the consolidation area	-	-
2. other securities	*40,817*	*38,970*
b) third-party securities held in deposit (excluding portfolio management): other	420,034	328,295
1. securities issued by companies included in the consolidation area	*3,831*	*9,293*
2. other securities	*416,203*	*319,002*
c) third party securities deposited with third parties	415,836	371,028
d) portfolio securities deposited with third parties	142,665	124,530
4. Other	**581,284**	**534,131**

Note regarding contractual clauses of financial payables

In relation to point 3: “IFRS 7 – Contractual clauses of financial payables”, of Bank of Italy/Consob/Isvap document no. 4 of March 2010, the following is specified:

- there were no cases of non-compliance by Intesa Sanpaolo Group companies with the relative contractual clauses set forth in bond issues, medium-/long-term loans received from financial entities and other debt contracts, which involved or which could involve the application of acceleration clauses;
- bond issues, medium-/long-term loans received from Supranational Organisations and other debt contracts of Intesa Sanpaolo Group companies may contain standard negative pledges and covenants based on current practice.

Due to the nature of commitments undertaken, in line with market practices, and the remote probability of default, these clauses may be considered as immaterial.

6. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	59,110	37,566	21,544	17,442	3,533	569	1,309
2. Repurchase agreements	37,125	-	37,125	36,957	134	34	330
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2019	**96,235**	**37,566**	**58,669**	**54,399**	**3,667**	**603**	**X**
TOTAL 31.12.2018	**94,107**	**29,451**	**64,656**	**60,897**	**2,945**	**X**	**814**

7. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	70,674	37,566	33,108	16,814	15,967	327	1,126
2. Repurchase agreements	22,908	-	22,908	22,301	88	519	23
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2019	**93,582**	**37,566**	**56,016**	**39,115**	**16,055**	**846**	**X**
TOTAL 31.12.2018	**101,722**	**29,430**	**72,292**	**59,620**	**12,194**	**X**	**478**

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by “netting framework arrangements or similar agreements” that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, Intesa Sanpaolo does not have any netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements.
In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRAs (for repurchase agreements).
With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2019.
For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

– the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) “Financial instruments”, together with the fair value of financial collateral consisting of securities;
– the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) “Cash deposits received/pledged as collateral”;
– repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value.
– derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).
Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount". These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).
Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

8. Securities lending transactions

The securities lending accessory banking service, offered mainly by Intesa Sanpaolo Private Banking (ISPB) to its customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract involves transfer of the ownership of a certain quantity of securities of a specific type, with the obligation for ISPB to return them, paying a consideration amount as remuneration for their availability. The transaction involves government securities that ISPB in turn transfers to the Parent Company Intesa Sanpaolo for non-speculative purposes.
As at 31 December 2019, the collateral of transactions mainly referring to ISPB amounted to 1,276 million euro.

9. Disclosure on joint-control assets

These are not present in the Intesa Sanpaolo Group.

Part C – Information on the consolidated income statement

SECTION 1 – INTEREST – CAPTIONS 10 AND 20

1.1. Interest and similar income: breakdown

(millions of euro)

Captions	Debt securities	Loans	Other transactions	2019	2018
1. Financial assets measured at fair value through profit or loss	**127**	**17**	**-**	**144**	**128**
1.1 Financial assets held for trading	85	1	-	86	95
1.2 Financial assets designated at fair value	4	-	-	4	4
1.3 Other financial assets mandatorily measured at fair value	38	16	-	54	29
2. Financial assets measured at fair value through other comprehensive income	**867**	**4**	**X**	**871**	**756**
3. Financial assets measured at amortised cost	**469**	**9,226**	**X**	**9,695**	**10,060**
3.1 Due from banks	22	608	X	630	690
3.2 Loans to customers	447	8,618	X	9,065	9,370
4. Hedging derivatives	**X**	**X**	**-1,024**	**-1,024**	**-982**
5. Other assets	**X**	**X**	**21**	**21**	**31**
6. Financial liabilities	**X**	**X**	**X**	**486**	**493**
Total	**1,463**	**9,247**	**-1,003**	**10,193**	**10,486**
of which: interest income on impaired financial assets	-	*900*	-	*900*	*1,148*
of which: interest income on financial lease	-	*291*	-	*291*	*318*

Interest and similar income also includes interest income on securities relating to repurchase agreements.
Interest on impaired financial assets also include interest due to the passing of time, equal to 466 million euro (time value) which came to 564 million euro in 2018.
The caption "Hedging derivatives" includes the differentials on hedging transactions, adjusting interest income recognised on hedged financial instruments.
"Financial liabilities" include interest on funding transactions with negative rates.

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

The balance as at 31 December 2019 includes 2,944 million euro relating to financial assets in foreign currency.

1.3 Interest and similar expense: breakdown

(millions of euro)

Captions/Types	Debts	Securities	Other transactions	2019	2018
1. Financial liabilities measured at amortised cost	**1,102**	**2,009**	X	**3,111**	**3,339**
1.1 Due to Central Banks	91	X	X	91	73
1.2 Due to banks	417	X	X	417	360
1.3 Due to customers	594	X	X	594	566
1.4 Securities issued	X	2,009	X	2,009	2,340
2. Financial liabilities held for trading	**15**	**-**	**-**	**15**	**16**
3. Financial liabilities designated at fair value	**10**	**24**	**-**	**34**	**21**
4. Other liabilities and allowances	**X**	**X**	**33**	**33**	**16**
5. Hedging derivatives	**X**	**X**	**-271**	**-271**	**-642**
6. Financial assets	**X**	**X**	**X**	**347**	**394**
Total	**1,127**	**2,033**	**-238**	**3,269**	**3,144**
of which: interest expense on lease liabilities	*-24*	*-*	*-*	*-24*	*-*

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets. Hedging derivatives refer to the interest on liabilities and include the differentials on hedging transactions, adjusting interest expense recognised on hedged financial instruments.
“Financial assets” include interest on lending transactions with negative rates.

1.4. Interest and similar expense: other information

1.4.1 Interest expense on foreign currency financial liabilities

Interest and similar expense in 2019 includes 1,505 million euro relative to financial liabilities in foreign currency.

1.5. Differentials on hedging transactions

(millions of euro)

Captions	2019	2018
A. Positive differentials on hedging transactions	1,677	2,453
B. Negative differentials on hedging transactions	-2,430	-2,793
C. Balance (A-B)	**-753**	**-340**

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

Type of service/Amounts	2019	2018
a) guarantees given	**340**	**353**
b) credit derivatives	**-**	**-**
c) management, dealing and consultancy services	**4,112**	**4,073**
1. trading in financial instruments	94	95
2. currency dealing	52	52
3. portfolio management	2,642	2,565
3.1 individual	*666*	*684*
3.2 collective	*1,976*	*1,881*
4. custody and administration of securities	63	58
5. depositary bank	31	32
6. placement of securities	444	541
7. reception and transmission of orders	126	101
8. consultancy services	164	144
8.1. on investments	*152*	*130*
8.2. on financial structure	*12*	*14*
9. distribution of third party services	496	485
9.1. portfolio management	*391*	*388*
9.1.1. individual	*10*	*14*
9.1.2. collective	*381*	*374*
9.2. insurance products	*47*	*38*
9.3. other products	*58*	*59*
d) collection and payment services	**680**	**657**
e) servicing related to securitisations	**-**	**-**
f) services related to factoring	**92**	**105**
g) tax collection services	**-**	**-**
h) management of multilateral trading facilities	**-**	**-**
i) management of current accounts	**1,218**	**1,258**
j) Other services	**3,216**	**3,102**
Total	**9,658**	**9,548**

“Other services” mostly includes fees on credit and debit cards of 651 million euro as well as commissions on loans of 765 million euro, as well as fee and commission income collected by the insurance companies for 1,526 million euro.

2.2 Fee and commission expense: breakdown

(millions of euro)

Services/Amounts	2019	2018
a) Guarantees received	**115**	**84**
b) Credit derivatives	**10**	**6**
c) Management, dealing and consultancy services	**1,002**	**965**
1.trading in financial instruments	45	41
2. currency dealing	3	3
3. portfolio management	54	51
3.1 own portfolio	*14*	*11*
3.2 third party portfolio	*40*	*40*
4. custody and administration of securities	57	51
5. placement of financial instruments	155	150
6. “out-of-branch” offer of financial instruments, products and services	688	669
d) Collection and payment services	**213**	**213**
e) Other services	**819**	**755**
Total	**2,159**	**2,023**

In subheading e) - Other services includes 306 million euro fees on credit and debit cards, 219 million euro on the placement of investment insurance products, 154 million euro on banking services to Italian branches, 68 million euro on banking services to foreign branches and 72 million euro on other minor services.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.
In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to a 26 million euro, referring to both fee and commission income and expense.

In both 2019 and 2018, fee and commission income and expense include the effects of the reclassification to discontinued operations of the acquiring business line that will be transferred to Nexi in 2020 under the agreement signed with regard to payment systems in December 2019.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2019		2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	36	-	21	-
B. Other financial assets mandatorily measured at fair value	3	28	5	20
C. Financial assets measured at fair value through other comprehensive income	50	-	36	-
D. Investments in associates and companies subject to joint control	-	-	12	-
Total	**89**	**28**	**74**	**20**

SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

4.1 Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**372**	**1,848**	**-88**	**-1,596**	**536**
1.1 Debt securities	334	737	-75	-481	515
1.2 Equities	32	173	-9	-135	61
1.3 Quotas of UCI	6	8	-4	-4	6
1.4 Loans	-	-	-	-	-
1.5 Other	-	930	-	-976	-46
2. Financial liabilities held for trading	**55**	**529**	**-655**	**-857**	**-928**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	48	415	-41	-596	-174
2.3 Other	7	114	-614	-261	-754
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**132**
4. Derivatives	**21,475**	**29,615**	**-21,505**	**-28,636**	**766**
4.1 Financial derivatives:	20,260	26,093	-20,187	-25,182	801
- on debt securities and interest rates	*15,818*	*17,278*	*-15,016*	*-17,467*	*613*
- on equities and stock indexes	*1,255*	*6,432*	*-2,035*	*-5,406*	*246*
- on currencies and gold	*X*	*X*	*X*	*X*	*-183*
- other	*3,187*	*2,383*	*-3,136*	*-2,309*	*125*
4.2 Credit derivatives	1,215	3,522	-1,318	-3,454	-35
of which: natural hedging associated with the fair value option	*X*	*X*	*X*	*X*	-
Total	**21,902**	**31,992**	**-22,248**	**-31,089**	**506**

Net result includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.
Regarding structured financial products and their impact on the income statement, for detailed information please refer to Part E of these Notes to the consolidated financial statements - Information on risks and relative hedging policies.

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

5.1 Fair value adjustments in hedge accounting: breakdown

(millions of euro)

Income component/Amount	2019	2018
A. Income from:		
A.1 fair value hedge derivatives	1,071	686
A.2 financial assets hedged (fair value)	3,491	748
A.3 financial liabilities hedged (fair value)	156	924
A.4 cash flow hedge: derivatives	4	-
A.5 currency assets and liabilities	-	-
Total income from hedging (A)	**4,722**	**2,358**
B. Expenses for		
B.1 fair value hedge derivatives	-2,949	-1,653
B.2 financial assets hedged (fair value)	-1,068	-205
B.3 financial liabilities hedged (fair value)	-750	-525
B.4 cash flow hedge: derivatives	-16	-86
B.5 currency assets and liabilities	-	-
Total expense from hedging (B)	**-4,783**	**-2,469**
C. Fair value adjustments in hedge accounting (A - B)	**-61**	**-111**
of which: fair value adjustments in hedge accounting on net positions	**-**	**-**

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2019			2018		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	228	-131	97	95	-114	-19
1.1 Due from banks	-	*-2*	*-2*	*20*	*-3*	*17*
1.2 Loans to customers	*228*	*-129*	*99*	*75*	*-111*	*-36*
2. Financial assets measured at fair value through other comprehensive income	1,321	-103	1,218	601	-93	508
2.1 Debt securities	*1,321*	*-103*	*1,218*	*601*	*-93*	*508*
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**1,549**	**-234**	**1,315**	**696**	**-207**	**489**
Financial liabilities valued at amortized cost						
1. Due to banks	16	-	16	3	-31	-28
2. Due to customers	1	-	1	1	-1	-
3. Securities issued	77	-24	53	120	-32	88
Total liabilities (B)	**94**	**-24**	**70**	**124**	**-64**	**60**

SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110

7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**2**	**-**	**-4**	**-**	**-2**
1.1 Debt securities	1	-	-4	-	-3
1.2 Loans	1	-	-	-	1
2. Financial liabilities	**-**	**-**	**-105**	**-**	**-105**
2.1 Securities issued	-	-	-96	-	-96
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-9	-	-9
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**4**
Total	**2**	**-**	**-109**	**-**	**-103**

For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of the Notes to the consolidated financial statements.

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**222**	**50**	**-40**	**-6**	**226**
1.1 Debt securities	66	28	-11	-1	82
1.2 Equities	4	14	-1	-	17
1.3 Quotas of UCI	101	-	-19	-3	79
1.4 Loans	51	8	-9	-2	48
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**222**	**50**	**-40**	**-6**	**226**

SECTION 7 BIS – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 - CAPTION 115

The breakdown of the IAS 39 captions included in caption 115 of the Income Statement referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the Bank of Italy Circular no. 262, “Caption 115 Net profit (loss) on financial assets and liabilities pertaining to insurance companies in accordance with IAS 39” was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 - Caption 115	2019	2018
10. Interest and similar income	1,707	1,783
20. Interest and similar expense	-41	-60
70. Dividend and similar income	256	242
80. Profits (Losses) on trading	-86	29
90. Fair value adjustments in hedge accounting (*)	-	-
100. Profits (Losses) on disposal or repurchase of:	226	252
a) loans	-	-
b) financial assets available for sale	*226*	*252*
c) investments held to maturity	-	-
d) financial liabilities	-	-
110. Profits (Losses) on financial assets and liabilities designated at fair value	1,929	994
TOTAL - Caption 115	**3,991**	**3,240**

(*) There are no hedges in hedge accounting

7.1 Bis. Interest and similar income: breakdown

(millions of euro)

Captions/Types	Debt securities	Loans	Other transactions	2019	2018
1. Financial assets held for trading	6	-	-	6	7
2. Financial assets designated at fair value	20	-	-	20	18
3. Financial assets available for sale	1,679	-	-	1,679	1,757
4. Investments held to maturity	-	-	-	-	-
5. Due from banks	1	1	-	2	1
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**1,706**	**1**	**-**	**1,707**	**1,783**

7.2 Bis. Interest and similar income: differentials on hedging transactions

There were no amounts pertaining to insurance companies.

7.3 Bis. Interest and similar income: other information

7.3.1 Bis Interest income on foreign currency financial assets

There were no amounts pertaining to insurance companies.

7.4 Bis. Interest and similar expense: breakdown

(millions of euro)

Captions/Types	Debts	Securities	Other transactions	2019	2018
1. Due to Central Banks	-	X	-	-	-
2. Due to banks	5	X	-	5	4
3. Due to customers	-	X	-	-	-
4. Securities issued	X	36	-	36	56
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and allowances	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	**5**	**36**	**-**	**41**	**60**

7.5. Bis. Interest and similar expense: differentials on hedging transactions

There were no amounts pertaining to insurance companies.

7.6. Bis. Interest and similar expense: other information

7.6.1 Bis Interest expense on foreign currency financial liabilities

There were no amounts pertaining to insurance companies.

7.7 Bis. Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2019		2018	
	Dividends	Income from quotas of UCI	Dividends	Income from quotas of UCI
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	42	160	50	147
C. Financial assets designated at fair value	50	4	40	5
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	**92**	**164**	**90**	**152**

7.8 Bis. Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**15**	**1**	**-**	**-**	**16**
1.1 Debt securities	9	-	-	-	9
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	6	1	-	-	7
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**21**
4. Derivatives	**1**	**29**	**-40**	**-77**	**-123**
4.1 Financial derivatives:	1	29	-39	-76	-121
- on debt securities and interest rates	*-*	*-*	*-7*	*-3*	*-10*
- on equities and stock indexes	*1*	*29*	*-32*	*-73*	*-75*
- on currencies and gold	*X*	*X*	*X*	*X*	*-36*
- other	*-*	*-*	*-*	*-*	*-*
4.2 Credit derivatives	-	-	-1	-1	-2
Total	**16**	**30**	**-40**	**-77**	**-86**

7.9 Bis. Fair value adjustments in hedge accounting: breakdown

There were no fair value adjustments in hedge accounting pertaining to insurance companies.

7.10 Bis. Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2019			2018		
	Profits	**Losses**	**Net result**	**Profits**	**Losses**	**Net result**
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	326	-100	226	401	-149	252
3.1 Debt securities	*210*	*-28*	*182*	*216*	*-59*	*157*
3.2 Equities	*40*	*-2*	*38*	*98*	*-40*	*58*
3.3 Quotas of UCI	*76*	*-70*	*6*	*81*	*-50*	*31*
3.4 Loans	*-*	*-*	*-*	*6*	*-*	*6*
4.Investments held to maturity	-	-	-	-	-	-
Total assets	**326**	**-100**	**226**	**401**	**-149**	**252**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

7.11 Bis. Profits (losses) on financial assets/liabilities designated at fair value:

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**6,509**	**2,067**	**-175**	**-257**	**8,144**
1.1 Debt securities	85	89	-22	-13	139
1.2 Equities	401	116	-21	-25	471
1.3 Quotas of UCI	6,018	1,859	-109	-217	7,551
1.4 Loans	5	3	-23	-2	-17
2. Financial liabilities	**-**	**-**	**-3,609**	**-2,557**	**-6,166**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-24	-24
2.3 Due to customers	-	-	-3,609	-2,533	-6,142
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**6**	**36**	**-7**	**-84**	**-49**
Total	**6,515**	**2,103**	**-3,791**	**-2,898**	**1,929**

SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2019	2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Due from banks	**-81**	**-**	**-14**	**92**	**1**	**-2**	**-4**
- Loans	-57	-	-14	68	1	-2	-4
- Debt securities	-24	-	-	24	-	-	-
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**-780**	**-148**	**-3,680**	**1,167**	**1,268**	**-2,173**	**-2,503**
- Loans	-738	-148	-3,658	1,159	1,268	-2,117	-2,514
- Debt securities	-42	-	-22	8	-	-56	11
of which: purchased or originated credit-impaired	*-1*	*-*	*-40*	*1*	*15*	*-25*	*-4*
C. Total	**-861**	**-148**	**-3,694**	**1,259**	**1,269**	**-2,175**	**-2,507**

8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2019	2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	**-51**	**-**	**-**	**25**	**-**	**-26**	**-3**
B. Loans	**-1**	**-**	**-**	**1**	**-**	**-**	**1**
- to customers	-1	-	-	1	-	-	-
- to banks	-	-	-	-	-	-	1
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
C. Total	**-52**	**-**	**-**	**26**	**-**	**-26**	**-2**

SECTION 8 BIS – NET LOSSES/RECOVERIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 – CAPTION 135

8.1 Bis. Net impairment losses on loans: breakdown

There were no amounts pertaining to insurance companies.

8.2 Bis. Net impairment losses on financial assets available for sale: breakdown

(millions of euro)

	IMPAIRMENT LOSSES		RECOVERIES		2019	2018
	Individual write-offs	other	Individual of interest	other		
A. Debt securities	-	-	-	-	-	-
B. Equities	-	-8	X	X	-8	-26
C. Quotas of UCI	-	-1	-	-	-1	-
D. Due from banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-9**	**-**	**-**	**-9**	**-26**

8.3 Bis. Net impairment losses on investments held to maturity: breakdown

There were no amounts pertaining to insurance companies.

8.4 Bis. Net impairment losses on other financial activities: breakdown

There were no amounts pertaining to insurance companies.

SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140

9.1 Profits (Losses) from changes in contracts: breakdown

As part of profits (losses) from changes in contracts without derecognition, losses of 6 million euro were recognised.

SECTION 10 - NET INSURANCE PREMIUMS - CAPTION 160

10.1 Net insurance premiums: breakdown

(millions of euro)

Premiums deriving from insurance business	Direct work	Indirect work	2019	2018
A. Life business				
A.1 Gross accounted premiums (+)	9,624	-	9,624	7,781
A.2 Premiums ceded for reinsurance (-)	-1	X	-1	-1
A.3 Total	9,623	-	9,623	7,780
B. Non-life business				
B.1 Gross accounted premiums (+)	672	-	672	507
B.2 Premiums ceded for reinsurance (-)	-33	X	-33	-15
B.3 Changes in the gross amount of premium reserve (+/-)	-121	-	-121	-95
B.4 Changes in premium reserves reassured with third parties (-/+)	6	-	6	3
B.5 Total	524	-	524	400
C. Total net premiums	**10,147**	**-**	**10,147**	**8,180**

SECTION 11 - OTHER NET INSURANCE INCOME (EXPENSE) - CAPTION 170

11.1 Other net insurance income (expense): breakdown

(millions of euro)

Captions	2019	2018
1. Net change in technical reserves	-4,446	68
2. Claims accrued during the year	-6,719	-8,715
3. Other income/expenses arising from insurance business	-1,508	-1,321
Total	**-12,673**	**-9,968**

11.2 Breakdown of Net change in technical reserves

(millions of euro)

Net change in technical reserves	2019	2018
1. Life business		
A. Mathematical reserves	**-2,548**	**307**
A.1 Gross annual amount	-2,548	307
A.2 Amount reinsured with third parties (-)	-	-
B. Other technical reserves	**-1,076**	**-27**
B.1 Gross annual amount	-1,076	-27
B.2 Amount reinsured with third parties (-)	-	-
C. Technical reserves for investment risks to be borne by the insured	**-820**	**-211**
C.1 Gross annual amount	-820	-211
C.2 Amount reinsured with third parties (-)	-	-
Total "life business reserves"	**-4,444**	**69**
2. Non-life business		
Changes in other technical reserves of non-life business other than the claims fund, net of ceded reinsurance	-2	-1

11.3 Breakdown of Claims accrued and paid during the year

(millions of euro)

Charges associated to claims	**2019**	**2018**
LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF REINSURANCE CEDED		
A. Amounts paid	**-6,649**	**-8,161**
A.1 Gross annual amount	-6,650	-8,162
A.2 Amount reinsured with third parties (-)	1	1
B. Change in funds for amounts to be disbursed	**105**	**-451**
B.1 Gross annual amount	105	-450
B.2 Amount reinsured with third parties (-)	-	-1
Total life business claims	**-6,544**	**-8,612**
NON-LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF RECOVERIES AND REINSURANCE CEDED		
C. Amounts paid	**-122**	**-92**
C.1 Gross annual amount	-129	-98
C.2 Amount reinsured with third parties (-)	7	6
D. Change in recoveries net of quotas borne by reinsurers	**1**	**1**
E. Change in the claims reserve	**-54**	**-12**
E.1 Gross annual amount	-56	-14
E.2 Amount reinsured with third parties (-)	2	2
Total non-life business claims	**-175**	**-103**

11.4 Breakdown of Other income/expenses arising from insurance business

(millions of euro)

	2019	**2018**
Other income	**118**	**151**
Life business	89	**126**
Non-life business	29	**25**
Other expenses	**-1,626**	**-1,472**
Life business	-1,539	**-1,382**
Non-life business	-87	**-90**

SECTION 12 - ADMINISTRATIVE EXPENSES - CAPTION 190

12.1 Personnel expenses: breakdown

(millions of euro)

Type of expense	2019	2018
1) Employees	**5,794**	**5,898**
a) wages and salaries	3,961	4,073
b) social security charges	1,012	1,034
c) termination indemnities	41	45
d) supplementary benefits	4	5
e) provisions for termination indemnities	16	15
f) provisions for post employment benefits	11	11
- defined contribution plans	-	-
- defined benefit plans	*11*	*11*
g) payments to external pension funds	311	322
- defined contribution plans	*309*	*320*
- defined benefit plans	*2*	*2*
h) costs from share based payments	194	140
i) other benefits in favour of employees	244	253
2) Other non-retired personnel	**13**	**11**
3) Directors and statutory auditors	**18**	**22**
4) Early retirement costs	**-**	**-**
Total	**5,825**	**5,931**

It should be specified that 3) Directors and Statutory Auditors includes remuneration to members of the Board of Directors of the Parent Company and members of the Board of Directors and the Board of Statutory Auditors of the various Group companies.

12.2 Average number of employees by categories

	2019	2018
Personnel employed	**84,617**	**88,340**
a) managers	1,569	1,582
b) total officers	32,421	33,985
c) other employees	50,627	52,773
Other personnel	**157**	**168**
TOTAL	**84,774**	**88,508**

In 2019, the average number of employees (with part-time employees calculated, per standard practice, at 0.5) primarily decreased on 2018 due to the terminations that occurred over the two years.

12.3 Post employment defined benefit plans: costs and revenues

(millions of euro)

	2019			2018		
	Employee Termination Indemnities	**Internal plans**	**External plans**	**Employee Termination Indemnities**	**Internal plans**	**External plans**
Current service cost	-3	-3	-7	-2	-4	-6
Interest expense	-13	-15	-21	-13	-13	-23
Interest income	-	3	19	-	3	21
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

This table illustrates the economic components referred to “Employee termination indemnities” – caption 90 of Balance sheet liabilities and “Allowances for risks and charges - post employment benefits” – caption 100b of Balance sheet liabilities.

12.4 Other benefits in favour of employees

The balance as at 31 December 2019 amounted to 244 million euro, referred to contributions for health assistance, lunch vouchers, premiums of insurance policies stipulated in favour of employees and provisions for seniority bonuses, charges for incentive-driven exit plans and other charges for integration.

12.5 Other administrative expenses: breakdown

(millions of euro)

Type of expense/Amount	2019	2018
Expenses for maintenance of information technology and electronic equipment	628	618
Telephonic, teletransmission and transmission expenses	64	77
Information technology expenses	**692**	**695**
Rentals and service charges - real estate	51	316
Security services	42	45
Cleaning of premises	44	46
Expenses for maintenance of real estate assets furniture and equipment	73	79
Energy costs	104	106
Property costs	10	9
Management of real estate assets expenses	**324**	**601**
Printing, stationery and consumables expenses	36	41
Transport and related services expenses (including counting of valuables)	92	100
Information expenses	184	181
Postal and telegraphic expenses	59	67
General structure costs	**371**	**389**
Expenses for consultancy fees	170	229
Legal and judiciary expenses	143	166
Insurance premiums - banks and customers	44	48
Professional and legal expenses	**357**	**443**
Advertising and promotional expenses	**126**	**140**
Services rendered by third parties	**362**	**305**
Indirect personnel costs	**82**	**85**
Other costs	**708**	**569**
Taxes and duties	**895**	**915**
Recovery of taxes and duties	**-5**	**-7**
Recovery of other expenses	**-45**	**-66**
Total	**3,867**	**4,069**

Other expenses include 473 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund. In 2018 the same expenses amounted to 422 million euro.
The decrease in lease rentals for real estate may be attributed to the application of the accounting standard IFRS 16 with effect from 1 January 2019. Reference should also be made to Part A “Accounting policies” of the Notes to the consolidated financial statements.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 200

13.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown

(millions of euro)

Captions	Provision	Reallocations	Net provision
Stage 1	-48	75	27
Stage 2	-41	45	4
Stage 3	-90	82	-8
Total	**-179**	**202**	**23**

13.2 Net provisions associated with commitments and other guarantees given: breakdown

With regard to net provisions associated with commitments and other guarantees given, there were no amounts as at 31 December 2019.

13.3 Net provisions for other risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	Net provision
Net provisions for legal disputes	-123	82	-41
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-129	74	-55
Total	**-252**	**156**	**-96**

"Net provisions for risks and charges", which amounted to negative 96 million euro, includes the provisions that mainly regarded litigation concerning anatocism, revocatory actions and other disputes.

SECTION 14 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 210

14.1 Net adjustments to property and equipment: breakdown

(millions of euro)

'Assets/Income component	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Used in operations	-518	-3	-	-521
- Owned	*-296*	*-3*	*-*	*-299*
- Licenses acquired through lease	*-222*	*-*	*-*	*-222*
A.2 Investment property	-	*-1*	-	*-1*
- Owned	-	-1	-	-1
- Licenses acquired through lease	-	-	-	-
A.3 Inventories	*X*	*-7*	*6*	*-1*
Total	**-518**	**-11**	**6**	**-523**

Amortisation of rights of use acquired under leases has been based on application of the accounting standard IFRS 16 since 1 January 2019. Reference should be made to Part A “Accounting policies” of the Notes to the consolidated financial statements.

For the determination of adjustments, see the illustration provided in Part A – Accounting policies. Please note that as at 31 December 2019 the analysis of factors internal and external to the Group did not indicate any impairment of rights of use.

SECTION 15 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 220

15.1 Net adjustments to intangible assets: breakdown

(millions of euro)

Assets/Income component	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-688	-4	-	-692
- internally generated	*-490*	*-3*	-	*-493*
- other	*-198*	*-1*	-	*-199*
A.2 Rights of use acquired through the lease	-	-	-	-
Total	**-688**	**-4**	**-**	**-692**

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

SECTION 16 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 230

16.1 Other operating expenses: breakdown

(millions of euro)

Type of expense/Amount	2019
Other expenses for consumer credit and leasing transactions	19
Settlements for legal disputes	9
Amortisation of leasehold improvements	35
Other non-recurring expenses	109
Other	124
Total 2019	**296**
Total 2018	**289**

16.2 Other operating income: breakdown

(millions of euro)

Type of expense/Amount	
Recovery of expenses	760
Rentals and recovery of expenses on real estate	37
Income related to consumer credit and leasing	38
Reimbursements for services rendered to third parties	22
Insurance reimbursements	3
Other non-recurring income	65
Other	145
Total 2019	**1,070**
Total 2018	**1,022**

As required by paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 29 million euro.

SECTION 17 – PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL - CAPTION 250

17.1 Profits (Losses) on investments in associates and companies subject to joint control: breakdown

(millions of euro)

Income components/Sectors	2019	2018
1) Companies subject to joint control		
A. Revenues	9	125
1. Revaluations	*6*	*116*
2. Profits on disposal	-	*9*
3. Recoveries	-	-
4. Other	*3*	-
B. Charges	-2	-6
1. Write-downs	-	*-3*
2. Impairment losses	*-2*	*-3*
3. Losses on disposal	-	-
4. Other	-	-
Net result	**7**	**119**
2) Investments in associates		
A. Revenues	72	73
1. Revaluations	*67*	*72*
2. Profits on disposal	*5*	*1*
3. Recoveries	-	-
4. Other	-	-
B. Charges	-26	-15
1. Write-downs	*-12*	*-11*
2. Impairment losses	*-13*	*-4*
3. Losses on disposal	*-1*	-
4. Other	-	-
Net result	**46**	**58**
Total	**53**	**177**

For companies subject to joint control and significant influence, revenues from recognition at equity of the equity stakes is included under Revaluations, while the losses from the recognition at equity of the equity stakes is recorded under Write-downs.

SECTION 18 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 260

18.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown

(millions of euro)

Assets/Income component	Revalutations	Write-downs	Foreign exchange differences		Net result
			Positive	Negative	
A. Property and equipment	**4**	**-17**	**-**	**-**	**-13**
A.1 Used in operations:	2	-6	-	-	-4
- Owned	*2*	*-6*	-	-	*-4*
- Licenses acquired through lease	-	-	-	-	-
A.2 Investment:	2	-11	-	-	-9
- Owned	*2*	*-11*	-	-	*-9*
- Licenses acquired through lease	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Licenses acquired through lease	-	-	-	-	-
Total	**4**	**-17**	**-**	**-**	**-13**

SECTION 19 – GOODWILL IMPAIRMENT - CAPTION 270

19.1 Goodwill impairment: breakdown

The results of impairment testing on goodwill recorded in the financial statements did not lead to adjustments in 2019. See Part A – Accounting policies for details on the means of determination of goodwill impairment.

For a description of the impairment testing methods for goodwill, reference should be made to Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

SECTION 20 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 280

20.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

Income component/Amount	2019	2018
A. Real estate assets	**-7**	**18**
- profits on disposal	14	23
- losses on disposal	-21	-5
B. Other assets (a)	**103**	**434**
- profits on disposal	103	443
- losses on disposal	-	-9
Net result	**96**	**452**

(a) Included profits and losses on disposal of subsidiaries.

Profits on disposal of other assets include the capital gain realised on the contribution of payment and transaction services to the SisalPay group closed in December. See the information provided in the section on significant events during the year.

SECTION 21 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 300

21.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2019	2018
1. Current taxes (-)	-1,827	-996
2. Changes in current taxes of previous years (+/-)	62	12
3. Reduction in current taxes of the year (+)	38	70
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	3	440
4. Changes in deferred tax assets (+/-)	-133	-658
5. Changes in deferred tax liabilities (+/-)	293	-231
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**-1,564**	**-1,363**

As stated above, during the year the Group exercised the option provided under Article 1, paragraph 948 of Law No. 145/2018 (2019 Budget Law) for the realignment of tax values to the greater accounting values with regard to the Parent Company's owned properties. The exercise of this option resulted in: i) the immediate recognition of substitute tax of 269 million euro, of which 94 million euro posted to the income statement and 175 million euro to shareholders' equity; ii) the derecognition of net deferred tax liabilities (DTLs) of 623 million euro, of which 217 million euro through profit or loss and 406 million euro through shareholders' equity, with a positive impact on the consolidated income statement of the period of 123 million euro and an additional 230 million euro in shareholders' equity.

21.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2019
Income before tax from continuing operations	5,672
Income before tax from discontinued operations	88
Theoretical taxable income	**5,760**

	Taxes	%
Income taxes - theoretical tax charge	**1,904**	**33.1**
Increase of taxes	**235**	**4.1**
Non-deductible interest expense	59	1.0
Other	176	3.1
Decrease of taxes	**-551**	**-9.6**
Effects of the participation exemption	-112	-1.9
Effects of international companies lower rates	-224	-4.0
Other	-215	-3.7
Total changes in taxes	**-316**	**-5.5**
Total income tax expense for the period	**1,588**	**27.6**
of which: - total income tax expense from continuing operations	**1,564**	**27.2**
- total income tax expense from discontinued operations	**24**	**0.4**

SECTION 22 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 320

Income (Loss) after tax from discontinued operations: breakdown

(millions of euro)

Income component/Amount	2019	2018
1. Income	426	363
2. Charges	-338	-292
3. Valuation differences on discontinued operations and related liabilities	-	-
4. Profits (losses) on disposal	-	-
5. Taxes and duties	-24	-23
Income (Loss)	**64**	**48**

Income (Loss) from discontinued operations reflected the income effects of the acquiring business line that will be transferred to Nexi in 2020 under the agreement signed with regard to payment systems.

22.2 Breakdown of taxes on income from discontinued operations

(millions of euro)

Captions	2019	2018
1. Current taxes (-)	-24	-23
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Taxes on income (-1+/-2+/-3)	**-24**	**-23**

SECTION 23 – MINORITY INTERESTS - CAPTION 340

23.1 Breakdown of caption 340 Minority interests

(millions of euro)

		31.12.2019
Investments in consolidated companies with significant minority interests		
1	Bank of Alexandria S.A.E.	-34
2	Privredna Banka Zagreb d.d.	-5
3	Vseobecna Uverova Banka a.s.	-4
4	Autostrade Lombarde S.p.a.	45
5	Intesa Sanpaolo Private Bank (Suisse) Morval S.A.	1
6	Private Equity International S.A.	1
7	Risanamento S.p.a.	6
TOTAL 2019		**10**
TOTAL 2018		**-22**

SECTION 24 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 25 – EARNINGS PER SHARE

Earnings per share

	Ordinary shares	
	31.12.2019	31.12.2018
Weighted average number of shares	17,474,056,021	16,772,376,006
Income attributable to the various categories of shares (millions of euro)	4,182	4,050
Basic EPS (euro)	0.24	0.24
Diluted EPS (euro)	0.24	0.24

25.1 Average number of ordinary shares (fully diluted)

For further information on this section, see the chapters "Shareholder base" and "Stock price performance" in the Report on operations.

25.2 Other information

There is no other information to be provided.

Part D – Consolidated comprehensive income

(millions of euro)

Statement of comprehensive income		2019	2018
10.	**Net income (loss)**	**4,172**	**4,072**
	Other comprehensive income that may not be reclassified to the income statement	**227**	**403**
20.	Equity instruments measured at fair value through other comprehensive income	-16	124
	a) fair value changes	*-7*	*123*
	b) transfer to other components of shareholders' equity	*-9*	*1*
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
	a) fair value changes	-	-
	b) transfer to other components of shareholders' equity	-	-
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50.	Property and equipment	297	-11
60.	Intangible assets	-	-
70.	Defined benefit plans	-60	407
80	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves connected with investments carried at equity	-	-
100.	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	6	-117
	Other comprehensive income that may be reclassified to the income statement:	**997**	**-838**
110.	Hedges of foreign investments:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
120.	Foreign exchange differences:	64	-6
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	*64*	*-6*
130.	Cash flow hedges:	-128	146
	a) fair value changes	*98*	*388*
	b) reclassification to the income statement	*-235*	*-248*
	c) other changes	*9*	*6*
	of which: gains (losses) on net positions	-	-
140.	Hedging instruments (not designated elements)	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
145.	Financial assets measured at fair value through other comprehensive income, pertaining to insurance companies	979	-587
	a) value change	*1,020*	*-474*
	b) reclassification to the income statement	*-37*	*-104*
	c) other changes	*-4*	*-9*
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	781	-883
	a) fair value changes	*837*	*-585*
	b) reclassification to the income statement	*-106*	*-238*
	- adjustments for credit risk	*34*	*7*
	- gains/losses on disposals	*-140*	*-245*
	c) other changes	*50*	*-60*
160.	Non-current assets held for sale and discontinued operations	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves connected with investments carried at equity:	2	89
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	- impairment losses	-	-
	- gains/losses on disposals	-	-
	c) other changes	*2*	*89*
180.	Income taxes associated with other comprehensive income that may be reclassified to the income statement	-701	403
190.	**Total other comprehensive income**	**1,224**	**-435**
200.	**Comprehensive income (Captions 10+190)**	**5,396**	**3,637**
210.	**Total consolidated comprehensive income pertaining to minority interests**	**-35**	**32**
220.	**Total consolidated comprehensive income pertaining to the Parent Company**	**5,431**	**3,605**

Part E – Information on risks and relative hedging policies

INTRODUCTION

In this Part E, the qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.
Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-acceptance activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework establishes the general risk appetite principles, together with the controls for the overall risk profile and the main specific risks.
The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- The Intesa Sanpaolo Banking Group is focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo aims at a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - limits are set for operational risks (including specific treatment for IT, Cyber and Legal Risk);
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles shall be applied, by considering the specific characteristics of the market and the competitive scenario where the growth takes place.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

- the overall risk profile; and
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress, and also contains the non-financial risks with appropriate limits.
In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group has also included asset quality, market-based and macroeconomic indicators as early warning indicators in the RAF, to ensure consistency with its Recovery Plan.

Management of the specific risks is implemented by establishing specific limits and mitigation measures to be taken in order to limit the impact of especially severe future scenarios on the Group. These limits and measures regard the most significant risk concentrations such as, for example, sovereign risk and the public sector risk, as well as other types of operations deemed worth of specific attention from Corporate Bodies (e.g. operations exposed to valuation risk).

Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk. In 2019, the dedicated framework of processes and infrastructures was completed. The scope of application also includes Originate to Share transactions, in relation to which the portion to be sold on the secondary market (hold to collect and sell) is subject to specific limits, while the share retained on the Bank's books (hold to collect) falls within the ordinary CRA limits.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department. These contributed to improving the risk profile of the loan portfolio in terms of expected loss and the distribution of loans by risk class.

The limits set in the RAF are divided into two categories, Hard Limits and Soft Limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, whose governance is established in detail in the Group Risk Appetite Framework Guidelines, the responsibility for approving the remediation plan is assigned:

- to the Board of Directors for the hard limits, typically used for the main metrics used to control overall risk (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for the soft limits, set on the metrics used to monitor the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

The limits themselves may be accompanied by the Early Warning thresholds, the exceeding of which is promptly discussed in the competent management committee[23].

Defining the Risk Appetite Framework is a complex process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. Consistency between the risk-acceptance strategy and policy and the Plan and Budget process is thus guaranteed.

Within the annual RAF update process, a number of key steps can be identified:

- Risk Identification: this is carried out within the Group on an ongoing basis, in order to remain constantly in line with the changing internal and external context and to guarantee the adequacy of the controls and restrictions implemented to safeguard business continuity over the long term. The following are analysed in detail: the regulatory contexts, the reference market situation, the Group's position and the nature of the potential threats, also with the aid of specific stress tests;
- Risk Assessment: this phase assesses the risk actually taken (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the risk appetite, investigating the main types of risk of the Group, including prospective risks, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the elements already considered in the previous phase are analysed;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors sets and approves the risk objectives, the tolerance threshold (where identified) and the risk management policies.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in credit management processes and operational risk control, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

The assessment of the comprehensive Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:

- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the short term (one year) and the medium term (three years) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to three years for the baseline scenario.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's

[23] The competent Management Committee varies according to the RAF metrics considered:

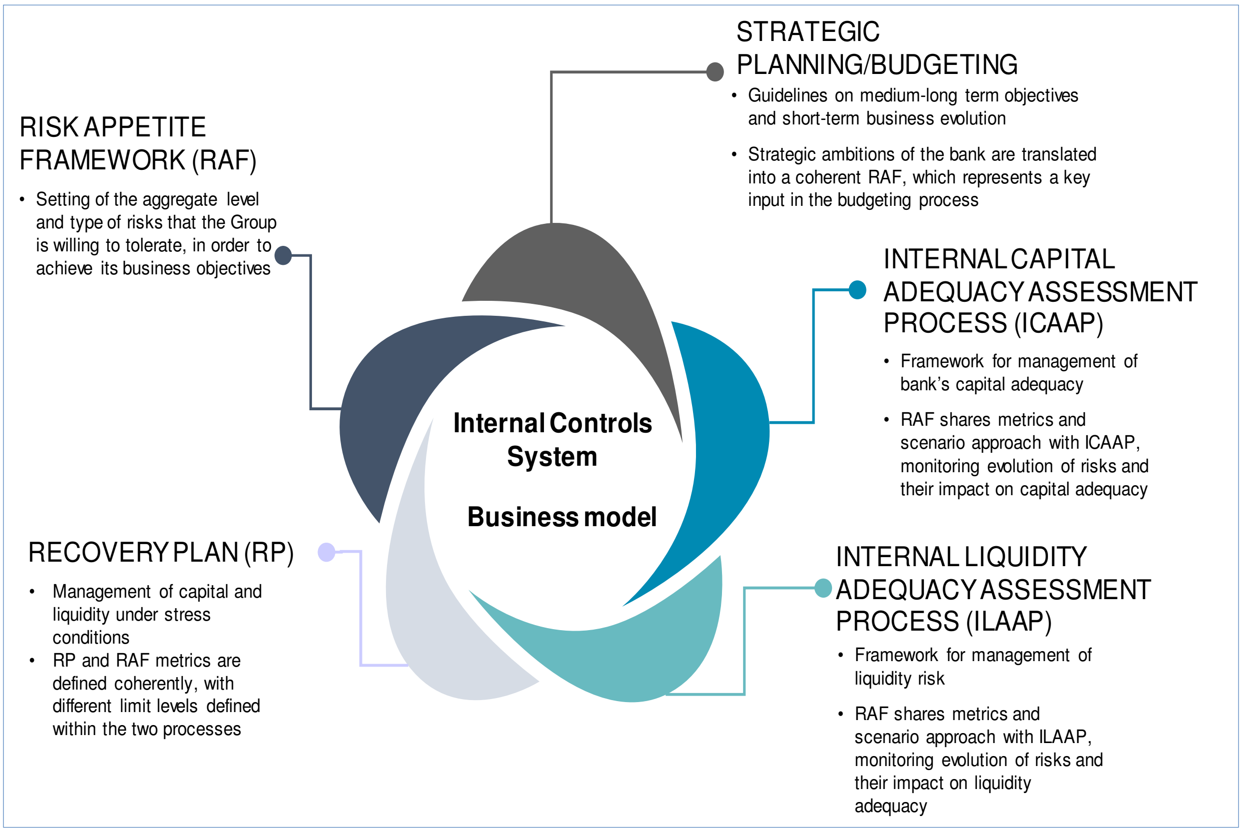
- for capital adequacy, credit risk and profit stability metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risk Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Reputational and Operational Risk Committee.

business model (financial conglomerate).
The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The process that oversees the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan (introduced by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile. The final results showed that the Group has a high level of resilience. Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:
- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2018 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.
The conduct of the stress tests consists of three basic steps:
- selection and approval of scenarios;
- execution of stress tests;
- approval of results.

Intesa Sanpaolo distinguishes between the following types of stress tests:
- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

With specific regard to the regulatory multi-risk exercises, please note that in 2020 the Intesa Sanpaolo Group will take part in the 2020 EU-Wide Stress Test, the exercise conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) on the financial statements of European banks as at 31 December 2019.

Risk culture

Over the last few years, the Bank has increasingly focused on the dissemination of Risk Culture, understood as, firstly, the set of values and resulting behaviours aimed at transversely strengthening aspects of cooperation, information and the assumption of responsibility in relation to the risk inherent in the banking business. The goal is to promote an approach to work focused on innovation, ethical sustainability and the search for pro-active solutions. Particular attention is paid to widespread full awareness of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. *Tableau de Bord,* ICAAP, Risk Appetite Framework) and the information set for the exercise of operational activities.
During 2019 the Risk Culture project moved forward in multiple areas, including internal workshops (specifically, they concerned cyber risk, sustainable financing and climate change, quantum computing, emerging risks and knowledge digitisation), the publication of articles on the issue in the internal magazine, the preparation of a coaching programme focusing on internal cooperation, as well as various initiatives planned and carried out within the single structures.
A new risk assessment survey has been planned for 2020. The survey conducted in the previous years on the entire Group aimed at analysing – through questionnaires and structured interviews that involved around 7,600 people – numerous aspects: awareness of the risks to be addressed, clarity on sustainable risk, compliance with the rules and the limits set, level and diffusion of responsibility, timeliness of response to difficulties, ability to learn from mistakes, quality of the reporting and communication processes, orientation towards cooperation and openness to dialogue, and willingness to nurture talent and experience. Regarding some aspects, the Group demonstrated significant sensitivity and high levels of quality, also compared to a sample of international peers. Thus, the initiatives implemented in the last few years and those currently under way or planned focused on strengthening the aspects that yielded less positive results, such as the timeliness of response to difficulties, orientation towards cooperation and internal communication.
The new version of the survey should manage to confirm the positive results that arose from the assessment of the various initiatives listed.

Risk governance organisation

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risk Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Management committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. In particular:
- the Steering Committee, chaired by the Managing Director and CEO, is a body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, in preparation for the presentation to the Board of Directors, the analysis of the ICAAP and

ILAAP Group packages and of the Risks *Tableau de Bord*.

- The Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life and non-life insurance business (result exposure to the trend in market variables and technical variables). The functions of said Committee are set out in two sessions:
  - o the “Risk Analysis and Assessment” session, chaired by the Chief Risk Officer, responsible for evaluating, inter alia, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk and proposals for operational limits, in addition to defining, within the scope of the powers received, the distribution thereof amongst the Group’s major units; in addition, the session verifies the financial risk profile and the exposure to the liquidity and interest rate risk of the Group or its main operational units;
  - o the Management Guidelines and Operating Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically verifies the Group’s overall financial risk profile, as well as taking appropriate measures aimed at mitigating it.
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - o the internal models for the measurement and management of credit risk;
  - o the internal models for Pillar 2 risks[24].
- the Group Control Coordination, Reputational and Operational Risk Committee is divided into specific and distinct sessions:
  - o the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - o the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company’s financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility.
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). The Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it.
- lastly, the Hold-To-Collect and Sell (HTCS) Sign-Off Group Committee is responsible for approving the assumption of market risks put forward by the business structures of the Corporate and Investment Banking Division on the HTCS shares required for Originate to Share transactions. These transactions consist of syndicated loans originated with the intention of being distributed to third-party operators on the primary or post primary market and which provide for a holding period less than or equal to 12 months at the time of their origination.

The Chief Risk Officer Governance Area – located directly reporting to the Managing Director and CEO – in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the “second line of defence” of the internal control system that is separate and independent from the business supporting functions.
This Area is responsible for 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, as well as assisting the Corporate Bodies in setting the Group’s risk management guidelines and policies, in accordance with the company’s strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, in addition to 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. It also implements the level II controls of credit and other risks and ensures the validation of internal risk measurement systems.
To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:
- Credit Risk Management Head Office Department;
- Financial and Market Risks Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance
- Coordination of Risk Management Initiatives.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank’s entire decision-making chain, down to individual operational units. The risk control functions of

[24] The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee; however, it does include the models used for stress testing and forward-looking income statement valuations.

subsidiaries with a decentralised management model and the representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.

The Parent Company performs a guidance and coordination role[25] with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

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

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- safeguard of asset value and protection from losses;
- effectiveness and efficiency of the Bank processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing for terrorism);
- compliance of business operations with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration.
The internal control system is made up of a documentation infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls present in the Company, which incorporate all the company policies and the instructions of the Supervisory Authorities, as well as the provisions of law, including the principles laid down in Legislative Decree 231/2001.
The regulatory framework consists of "Governance Documents", adopted from time to time, that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Internal Code of Conduct, Group Regulations, Group Committees Regulation, Regulation on Related Party Transactions, Integrated Internal Control System Regulation, Authorities and powers, Guidelines, Function charts of the Organisational Structures, etc.) and more strictly operational regulations that govern business processes, individual operations and the associated controls (Rules, Process Guidelines, Control Sheets, etc.).
More specifically, the corporate rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording of every operational event and, in particular, of each transaction, with an adequate level of detail, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the control functions;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units, the internal audit department and the other control functions;
- ensure adequate levels of business continuity.

The Company's organisational solutions also include controls at each operational level that enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
In terms of Corporate Governance, Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee
Based on this system:

- the Board of Directors is the body responsible for strategic supervision and performs all the tasks assigned to it by the Articles of Association, the applicable regulations and the Bank's governance documents;
- the Managing Director and CEO performs the tasks assigned by the supervisory regulations to the body responsible for management, as set out in the Bank's governance documents, approved by the Board of Directors, except for the responsibilities assigned to the Board;
- the Management Control Committee performs the control function.

The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors.
The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.
Such a model provides for the following types of control:

- Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
- Level II: risk and compliance controls for the purpose of ensuring, inter alia:

   - correct implementation of the risk management process;
   - compliance with the operating limits assigned to the various functions;
   - compliance of company operations with the rules, including self-governance rules.

The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:

   - Chief Compliance Officer Governance Area, which is assigned the duties and responsibilities of the "Compliance" Function, as defined in the reference regulations. The Chief Compliance Officer's Governance Area also includes the Anti Financial Crime Head Office Department, which is tasked, *inter alia,* with the duties and responsibilities of the "Anti-Money Laundering Function", as defined by the reference regulations;
   - Chief Risk Officer Governance Area, which is assigned the role of the risk management function, as defined by the applicable regulations. The Chief Risk Officer Governance Area also includes the Internal Validation and Controls Head Office Department, which is tasked, among other things, with the duties and responsibilities of the "validation function", as defined by the applicable regulations.

- Level III: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Chief Audit Officer of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.

Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out Level II controls on credit and other risks.
The purpose of the credit controls is to verify the proper classification and provisioning and the adequacy of the recovery process for individual exposures (so-called single names).
In general, the control activities development includes the credit processes assessment also to verify that suitable Level I controls are in place, including proper execution and traceability. The potential areas of investigation to be examined through Single Name controls therefore also consider the results of the monitoring carried out by the Level I Control Functions within the different credit clusters.
The control of risks other than credit risk is aimed at verifying that Level I controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

In accordance with recent regulatory developments, the Internal Validation and Controls Head Office Department is also responsible for the development and maintenance of the framework for the identification, assessment and management of the Model Risk for the risk models (Pillar 1 and 2) and for the management models that are also used for accounting purposes. In that regard, during 2019 the Model Risk Management (MRM) Function was set up in the Internal Validation and Controls Head Office Department, acquiring the duties regarding model governance, model risk assessment and quantification of the model risk buffer for ICAAP purposes. In coordination with the functions concerned, that Function has the following objectives:

- developing a methodological framework to guarantee a homogeneous, formalised approach at Group level to define and identify models and assess and mitigate model risk, setting up and implementing suitable instruments and processes;
- strengthening the functionality and enriching the information assets in the Group Model Inventory platform, for the purpose of ensuring a complete, updated survey of the models used in the Group as well as analytical assessment of the lifecycle of the models, with specific regard to issue management and model changes;
- identifying the areas with the greatest issues and monitoring the actions to mitigate model risk, also by upgrading the methodology for calculating the economic capital buffer;
- defining the general principles to apply in the lifecycle of a model, monitoring and supplementing the internal regulations concerning development and validation, also in order to efficiently steer activities and, thus, favour their optimisation;
- ensuring periodic reporting on the Model Risk Management Framework to the Head of the CRO Governance Area, the competent managerial committees and the Governance Bodies.

As part of the project to upgrade the Model Risk Management Framework, the activities carried out by the Model Risk Management Function in 2019 focused on the following areas:

- upgrading the methodology for identifying and surveying the models developed and used in the Group. Those topics were covered in the document "Rules on model identification and inventory";
- developing a methodology for determining the priorities to assign to the models as part of the main processes that involve them (development, validation and authorisation). Also in this case, a specific internal regulation was published, entitled "Rules on assigning priorities to models";
- defining and starting development of the Group Model Inventory platform, with a view to expanding its information assets and activate its role as information database to fulfil the functions of model risk assessment, monitoring and communication.

Moreover, the Internal Validation and Controls Head Office Department is assigned the validation function, which is in charge of the ongoing assessment, in accordance with the supervisory regulations for banks[26], of the compliance of internal risk measurement and management systems for the determination of the capital requirements with regulatory provisions, company needs and changes in the reference market. Moreover, internal validation assesses the business and accounting models in application of IFRS 9. The validation function is assigned to the Internal Validation and Controls Head Office Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations requesting a uniform management of the control process on internal risk measurement systems, in line with the independence requirements established by the applicable regulations.
A validation plan is to be drawn up, updated at least every six months, which is submitted to the Board of Directors for approval.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function assesses[27] the management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of internal systems, extension of the internal systems/request for model change, ex ante notification and ongoing validation).
Both during the initial application phase and on an ongoing basis (at least annually), the results of the activities are presented to the competent functions, transmitted to the Chief Audit Officer for its related internal auditing work, as well as to the competent Managerial Committees and Governance Bodies for approval of the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.
With respect to Pillar 2 risks, the validation function carries out analyses on methodologies, verifying in particular that the measurement metrics adopted in quantifying significant risks are economically and statistically consistent, assessing that the methodologies adopted and the estimates produced to measure significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both ex-ante, when adopting/modifying the internal systems used for Pillar 2 purposes, and ex-post as part of the prudential control process. The latter are summarised in the ICAAP/ILAAP report while, for substantial or significant modifications of internal systems, the validation function produces a report to be submitted to the competent Managerial Committees and the Governance Bodies[28].
The function also manages the internal validation process at Group level, interacting with the Supervisory Authorities, the relevant Corporate Bodies and the functions responsible for the Level III controls provided for in regulations. It adopts a decentralised approach for companies with local validation functions[29] (several international companies), coordinating and supervising the activities of those companies, and adopting a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory regulations for banks, EU directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

In 2019, the validation function carried out its activities, the results of which are presented in detail in the Annual report on the regulatory models and the Annual report on the management models. With regard to the transversal activities for the various risks, the main areas of investigation in which the function had a significant involvement were:
- revision of the Internal Validation framework in order to streamline the validation activities;
- implementation of solutions to handle the areas for improvement identified by the internal auditing function (remediation plan by Internal Auditing on Internal Validation);
- participation in the Model Risk Framework project.

With regard to Credit Risks, the main areas of investigation in which the function had a significant involvement in 2019 are listed below:
- classification of the changes to the internal risk measurement systems;
- assurance activities required by the regulator on the Corporate, Institutions and Retail remediation plans;
- calculation of the default rates for the update of the central calibration tendencies for the purpose of updating the models and for the Risks *Tableau de Bord*;
- ongoing participation in and support to the main methodological and process implementations as part of the new Definition of Default project;
- validation of the substantial changes made to the Retail SME segment (PD, LGD, EAD and processes);
- validation activities for *ex-ante* notification for the updating of the time series of all the validated models and the Banco Posta Mutui project;
- update to the manuals for backtesting risk parameters in the regulatory area at Group level, with the resulting *ex-ante* notification to the supervisor;
- update to the validation manual for management models used in accounting;
- validation of the significant changes to the credit management systems, specifically for IFRS 9 models;
- backtesting of the Static Pool portfolio.

[26] Regulation (EU) 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.
[27] The validation function is also responsible for calculating the default rates for the development/recalibration of the models and of the ECAF monitoring process.
[28] In the event of substantial/significant modifications, the approval process requires that the Risk Management Head Office Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation function, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.
[29] Note that the functional reporting of local validation units to the Internal Validation and Controls Head Office Department has been formalised.

With regard to operational risk, the validation activities in 2019 concerned, as usual, the assessment of the due maintenance of the ORM framework and monitoring of the performance of the model calculation (AMA scope). Moreover, the function participated in the annual exercise, requested by the ECB, relating to the additional validation report for the AMA model. Lastly, the validation activities included the analyses regarding the *ex-ante* notification for model changes made to the AMA model.
In the area of market and counterparty risks, the activity focused on the definition and execution of analyses in compliance with the requests made by the Regulator following the inspections (TRIM), which ended in June 2017 and November 2017, for market and counterparty risks respectively. In this regard, it should be noted that the set of continuous analyses on the pricing models used in the risk calculation architecture has been progressively extended. As regards market risks, the initial validation of the data quality framework and proxies was carried out. As regards counterparty risk, ongoing analyses were introduced on the framework for identifying derivatives that are difficult to replace and validation was conducted of the model used to simulate initial margins. Monitoring continued of the progress of the main projects with impacts on market and counterparty risks (e.g. Fundamental Review of Trading Book). The analyses conducted on an ongoing basis comprise, for market risks, the backtesting, the review of the period for the calculation of the Stressed VaR, the activities on performance of the Incremental Risk Charge model and the activities on the hypothetical portfolios. For the counterparty risk model, backtesting analyses, the monitoring of the model's calibration parameters, analyses of the convergence of risk metrics and adequacy checks of the simulation drivers were conducted.

With regard to Pillar 2 risks, the main areas subject to validation in 2019 concerned, as usual, the analysis of the changes made to the models used to calculate economic capital to support the preparation of the ICAAP/ILAAP report. In that regard, the involvement in the On-Site-Inspection of the ICAAP, currently under way, is noted. With regard to the management models used in the area of interest rate risk of the banking book, validation activities included the review of the re-estimates of behavioural models and the implementation of the new behavioural model to take account of renegotiations. Quantitative activities continued on an initial tranche of models used for dynamic simulation of the financial statements in the development phase (PPNR) relating to the NII component. The validation function also drew up the methodological manuals relating to the Pillar 2 models used to calculate economic capital and for stress testing and the management models used to monitor interest rate risk of the banking book and liquidity risk.

With regard to the Group's International Subsidiaries, the activities carried out mainly concerned the areas of credit risk, operational risks and Pillar 2 risk, also covering the following transversal activities:
- validation of the local methodological and process implementations for the adoption of IFRS 9 in all the international subsidiaries and updating of the parameters;
- analysis of the changes made to the models used to calculate economic capital to support the preparation of the local ICAAP/ILAAP report and the consolidation process at Group level;
- local implementation of the new Group handbooks for banks using the AIRB;
- ongoing participation in and support to the main local methodological and process implementations of the international subsidiary banks as part of the new Definition of Default project, in line with that defined at Group level;
- validation of the credit management models (in the EWS area) and updating of the interest rate risk behavioural models, for which the methodological updates of the Parent Company are being extended to the single international subsidiaries.

In particular, with regard to credit risk, the following activities were carried out in 2019:
- validation of the re-estimates of the internal models (management/regulatory) adopted by the international subsidiaries of the Group, in particular with regard to the LGD Corporate and Retail models of the subsidiary ISPSLO, of the PD Craftmen (Retail SME) and LGD Retail Revolving models of the subsidiary PBZ, of the PD Large Corporate, Corporate and Retail models of BIB and the PD Corporate e Project Finance model of the Hungarian subsidiary CIB;
- validation of the management adoption of the PD Corporate and Retail models for the subsidiary ISPRO;
- monitoring of the obligations notified by the competent Regulator to the individual international subsidiaries.

With regard to operational risks, the main activities carried out were:
- coordination of the Remote Verification process;
- revision of the annual reports prepared by the local validation functions for PBZ, VUB and CIB.

The activities carried out during the year in relation to the monitoring of Pillar 2 risks mainly concerned the coordination of the preparation of the validation reports for the ICAAP report for the two international subsidiaries PBZ and ISPSLO and the validation of the methods used for management purposes. In particular the framework for measuring the banking book interest rate risk has been aligned to the methodology adopted by the Parent Company (core deposits and prepayment behavioural models).

Compliance

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operating structures, reports directly to the Corporate Bodies and has access to all activities within the Bank, as well as any significant information for the performance of his/her duties.
The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:
- identifying and assessing compliance risk;
- proposing the functional and organisational measures for mitigation of this risk;
- conducting pre-assessments of the compliance of innovative projects, operations and new products and services;

- providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
- monitoring of ongoing compliance, both through control of compliance with regulations by company structures, and through the use of information provided by the other control functions;
- disseminating a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the aforementioned guidelines. The Chief Compliance Officer submits periodic reports to the Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Group which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to guidance, coordination and control of the Group. These models are organised in such a way as to account for the Group's structure in operational and territorial terms.
In particular:

- for specifically identified Italian Banks and Companies, whose operations are highly integrated with the Parent Company, the compliance supervision is centralised at the Parent Company;
- for the other Companies, that have a legal obligation or have been specifically identified based on the business conducted, as well as the International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

Anti-Money Laundering

The duties and responsibilities of the Anti-money laundering Function are assigned, as required by the regulations, to the Anti Financial Crime Head Office Department, which reports to the Chief Compliance Officer, and is therefore independent and autonomous in relation to the operating structures, reporting directly to the Corporate Bodies, and has access to all activities within the Bank, as well as to any significant information for the performance of its duties.
Specifically, the Anti Financial crime Head Office Department ensures monitoring of compliance risk in the area of money laundering, terrorist financing and breach of embargoes and weapons (Financial Crime), by:

- laying down the general principles to be adopted within the Group for the management of compliance risk;
- identifying and assessing compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the data storage Archive and the assessment and monthly submission to the Financial Intelligence Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating structures for the submission to the Financial Intelligence Unit of reports deemed accurate.

The Anti Financial Crime Head Office Department also oversees compliance risk on corruption and the administrative liability of entities (Legislative Decree 231/2001).
The Anti Financial Crime Head Office Department performs its role of guidance, coordination and control of the Group according to a model similar to the one described for the Compliance function.

Internal Auditing

Internal auditing activities are assigned to the Chief Audit Officer, who reports directly to the Board of Directors (and, on its behalf, to its Chairman), functionally reporting to the Management Control Committee, without prejudice to the appropriate sharing of information with the Managing Director and CEO. The Chief Audit Officer does not have any direct responsibilities for the operational areas.
This function has a structure and a control model which is organised according to the evolution of the organisational structure of Intesa Sanpaolo and of the Group.
The Internal Auditing structures of the Group's Italian and international companies report to the Chief Audit Officer in terms of functions.
The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.
In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance corporate functions, also through participation in projects, so as to generate added value and improve the effectiveness of the control and corporate governance processes.
The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF.
The Head of the Internal Auditing Department enjoys due autonomy and independence from the operating structures. The Department has access to all the activities conducted at both the head office departments and the local structures. If third parties are assigned significant activities for the functioning of the internal control system (e.g. data processing), the internal auditing department must also have access to the activities carried out by those parties.
The department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA).
As required by the international standards, the department is subject to an external Quality Assurance Review every five years. The most recent review was carried out at the end of 2018 on the request of the Management Control Committee and concluded in the first quarter of 2019, confirming the highest assessment envisaged (“Generally Compliant”).
In performing its duties, the function uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.
The Chief Audit Officer ensures the proper conduct of the internal process for managing whistleblowing reports.
The Chief Audit Officer coordinates the “Integrated Internal Control System” session of the Group Control Coordination, Reputational and Operational Risk Committee.

Auditing was performed directly for the Parent Company as well as for other subsidiaries under an outsourcing contract. For the other Group companies having their own internal audit departments, steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and guidance, coordination and operational profiles.
Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.
Any weaknesses detected during control activities have been systematically notified to the corporate functions involved for prompt improvement actions, which are monitored by follow-up activities to verify their effectiveness.
Summary internal control system assessments from the checks have been periodically submitted to the Management Control Committee and the Board of Directors. The findings of the audits completed with a negative opinion or with the identification of major shortcomings were sent in full to the Board of Directors, the Managing Director and CEO and the Management Control Committee, as well as the Boards of Directors and Boards of Statutory Auditors of the subsidiaries concerned.
The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB), with details of the mitigation actions underway, together with the related responsibilities and deadlines envisaged, so they can be systematically monitored. Lastly, the Chief Audit Officer ensured constant assessment of its own effectiveness and efficiency in line with the internal “quality assurance and improvement" plan drafted in accordance with the recommendations of International Standards for the Professional Practice of Internal Auditing. In this context, during 2019, the function evolution plan called Future Audit Solutions and Transformation (FAST) continued, also in line with the strategies of the 2018-2021 Business Plan.

Manager responsible for preparing the Company's financial reports

Supervision on the reliability of the Company financial reports and on the financial reporting process is carried out by Intesa Sanpaolo's Manager responsible for preparing the Company's financial reports, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions. This control is also ensured over the subsidiaries governed by the laws of non-EU countries, in accordance with the supervisory rules on management and accounting systems set by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

In order to comply with the aforesaid provisions, the Manager responsible for preparing the Company's financial reports:

- performs a steering and coordination role in Group companies with regard to administrative matters and in the monitoring of the internal control system functional to financial reporting;
- supervises the implementation of legal requirements according to a shared approach at Group level, set out in specific internal regulations.

In particular, the Manager responsible for preparing the Company's financial reports:

- issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Rules, which are subject to regular periodic updates;
- prepares appropriate administrative and accounting procedures for the preparation of the separate and the consolidated financial statements, and updates them to ensure compliance with the corporate disclosure requirements in force;
- verifies the adequacy of the administrative and accounting procedures and the effectiveness of the control system on the financial reporting process;
- oversees the correspondence between the corporate reporting to the market with the accounting records; to this end, it has the right to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors.

With specific regard to the financial reporting processes, the Manager responsible for preparing the Company's financial reports:

- maintains a system of contact and information flows with the function of the Parent Company and of the Group Companies, in order to ensure the adequacy of balance sheet, income statement and financial positions and the descriptions of the main types of risks and uncertainties to which the Group may be exposed, monitoring the reliability of the of acquisition of relevant data and information;
- oversees the internal control system on the financial reporting process, drawing up audit plans to ensure the adequacy and effective application of administrative and accounting procedures over the period, also by subsidiaries subject to the laws of countries that are not part of the European Union, pursuant to art. 15 of Consob Market Regulation; periodically reports to the Board of Directors and the Management Control Committee on the scope and results of the audits;
- acquires, in relation to the effects on the financial reporting process and the reliability of the company information, the results of the activities carried out by the Corporate control functions and, in particular, by the Internal Audit Department, which is responsible for the overall assurance for the internal control system in accordance with the "Integrated Internal Control System Regulation";
- acquires any recommendations formulated by the independent auditors at the end of the process of auditing the separate financial statements of the Parent Company and the consolidated financial statements, as well as the related feedback in terms of measures to improve the procedures that have an impact on accounting data, monitoring their implementation and effectiveness;
- shares with the Surveillance Body established pursuant to Legislative Decree 231/01 the findings of the audit plan carried out in implementation of the monitoring of the financial reporting process, focusing on preventing the criminal and administrative offences described in the "Organisational, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001".

The Manager responsible for preparing the Company's financial reports contributes to supervising the independence of the independent auditors, in accordance with the procedures governed by specific Company Regulations, in line with the provisions of law (Legislative Decree 39/2010 amended by Legislative Decree 135/2016, which transposed Directive 2014/56/EU into the Italian legal framework, and EU Regulation 537/2014). The above-mentioned Company Regulations assign to the Manager responsible for preparing the Company's financial reports the role of supervising, overseeing and monitoring the accounting audit engagements and other services entrusted by the Parent Company departments and the Group companies to independent auditors, their networks and their affiliates, in addition to the task of regularly informing the Management Control Committee in this regard.

The Manager responsible for preparing the Company's financial reports also ensures periodic reporting to the Board of Directors regarding the legal and regulatory obligations assigned to the Board for the monitoring of the adequacy of powers and means granted to the Manager responsible for preparing the Company's financial reports and of the effective observance of administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

Attestations as required by Art. 154-bis of the Consolidated Law on Finance

In relation to the supervisory and monitoring functions assigned, the Manager responsible for preparing the Company's financial reports:

- signs, jointly with the Managing Director and CEO, the attestations of the separate and consolidated financial statements required by the Article 154-bis, paragraph 5, of the Consolidated Law on Finance on the adequacy and actual application of administrative and accounting procedures, the compliance with the international accounting standards, the agreement of the financial statements with the supporting documentation, accounting books and records and their suitability to give a true and fair view of the financial and economic position of the Group, as well as a reliable analysis of the performance,

operating result and the main risks to which the Group is exposed;
- certifies the correspondence of the documents and announcements disclosed to the market with the records, books and accounting entries, pursuant to Article 154-bis, paragraph 2, of the Consolidated Law on Finance.

The monitoring of the accounting and financial reporting process is based on the review of:
- completeness and consistency of the information provided to the market through a structured reporting system originated from the functions of the Parent Company and the Companies concerning the events deemed significant for accounting/financial disclosure purposes, especially with regard to the main risks and uncertainties to which they are exposed;
- suitability of the processes and procedures used for the preparation of accounting documents and other communication of a financial nature deemed relevant pursuant to Article 154-bis of the Consolidated Law on Finance. Special attention is paid to monitoring the adequacy of the auditing approach and the proper conduct of the activities required for the financial reporting process; the focus of the controls is represented by the work stages which, within business processes, entail the recording, processing, evaluation and presentation of data and information. In addition to the adequacy of the structure of procedures and the effective application of related controls, the IT architecture and applications, operating processes and development interventions on the summary systems instrumental to financial reporting are taken into consideration.

The organisational model for the supervision of the adequacy of the administration, accounting and financial reporting procedures and the related internal control system is governed by the Company “Guidelines for Administrative and Financial Governance”. In particular, the model prescribes assessment methodologies differentiated according to, on one hand, the risk of the processes deemed significant for accounting and financial reporting purposes and, on the other, the need to realise synergies with the control activities carried out by the Internal Audit Department and the other Corporate Control Functions.
To this end, the procedures may be verified by means of in-depth analyses, conducted according to specific methodologies used to verify the correctness of the accounting and financial information, carried out by the structures that support the Manager responsible for preparing the Company’s financial reports (analytical approach) and, if present, of the information collected by the Corporate control functions or by external entities such as Independent Auditors, Supervisory Authorities, etc. (synthetic approach).

Accordingly, the model provides for the following activities:
- definition and regular update of the plan of controls and the scope of application;
- ongoing monitoring of the processes deemed significant for accounting and financial reporting purposes and the related internal control system;
- regular summary assessment of the adequacy of the procedures and internal control system for accounting and financial reporting;
- management of the system of information flows from the corporate functions of the Parent Company and the Group Companies to the Manager responsible for preparing the Company’s financial reports;
- management of the system of attestation on the validity of the administrative processes and completeness of the information flows, within the respective areas of competence issued to the Manager responsible for preparing the Company’s financial reports by the Managers of the Business Units, the Governance Areas and the Group Central functions, and by the Delegated Bodies of Group Companies;
- preparation of the Report concerning the financial information process;
- management of the system of reporting by the Manager responsible for preparing the Company’s financial reports to the Corporate Bodies;
- procedures for the guidance and coordination of subsidiaries.

For the assessment of the adequacy of the relevant processes for the financial reporting, the Manager responsible for preparing the Company’s financial reports uses the results of the controls carried out by the structures reporting directly to him, by the Internal Audit Department and the other Corporate control functions. To this end, within the scope of the Controls Coordination Committee and Operational Risk Committee provided for by the Integrated Internal Control System, the Corporate Control Functions and the Manager responsible for preparing the Company’s financial reports share annual check plans and the related outcomes. The critical issues arising from inspections conducted by external bodies (Independent Auditors, Supervisory Authorities) are also collected and assessed from the perspective of financial reporting risk.

To conclude the preparation of the Company’s financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting processes, according to the guidelines described herein, the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports sign the attestations required by Art. 154 bis, paragraph 5, of the Consolidated Law on Finance.
These attestations are included in the reporting packages for the separate financial statements of the Parent Company and the consolidated financial statements, and are provided to the public according to the model established by the Consob Regulation.

Report pursuant to article 15 of Consob Market Regulation 20249/2017, as subsequently amended and supplemented

With regard to the protection of savings and the regulation of financial markets, the Italian Securities and Exchange Commission (Consob) has set certain conditions for the listing of parent companies incorporated and subject to the laws of non-EU member states (Article 15 of the Market Regulation cited). As a result, Intesa Sanpaolo has set up an action plan to ensure the existence of the conditions required for subsidiaries that are of material significance, identified in compliance with the criteria established in the rules of the cited Article 15:

- ensuring the public disclosure of the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements;
- obtaining details from its subsidiaries of their articles of association, membership and powers of the corporate bodies;
- determining that the subsidiaries: i) provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) enjoy access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance is confirmed with the conditions required by Article 15 of Consob Market Regulation 20249/2017 (as subsequently amended and supplemented).

The Management Control Committee and Board of Directors have been informed of compliance with those regulatory provisions governing companies incorporated in and subject to the laws of non-EU Member States, in the aforementioned "Report on the internal control system for the financial reporting process" drafted in order to illustrate the overall governance and control activities performed in accordance with the various provisions of laws and Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company's financial reports.

The scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

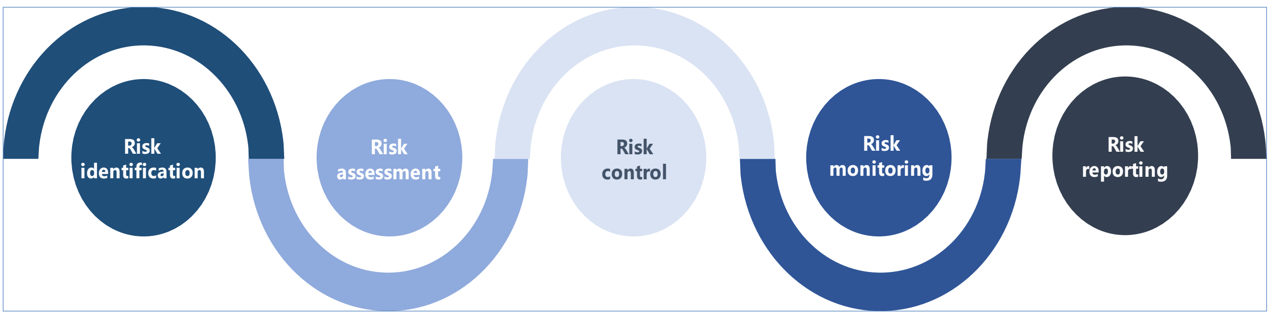
- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, compliance risk, ICT risk, model risk and financial reporting risk;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line-by-line consolidation;
- risks relating to defined-benefit pension funds.

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, including stress tests.

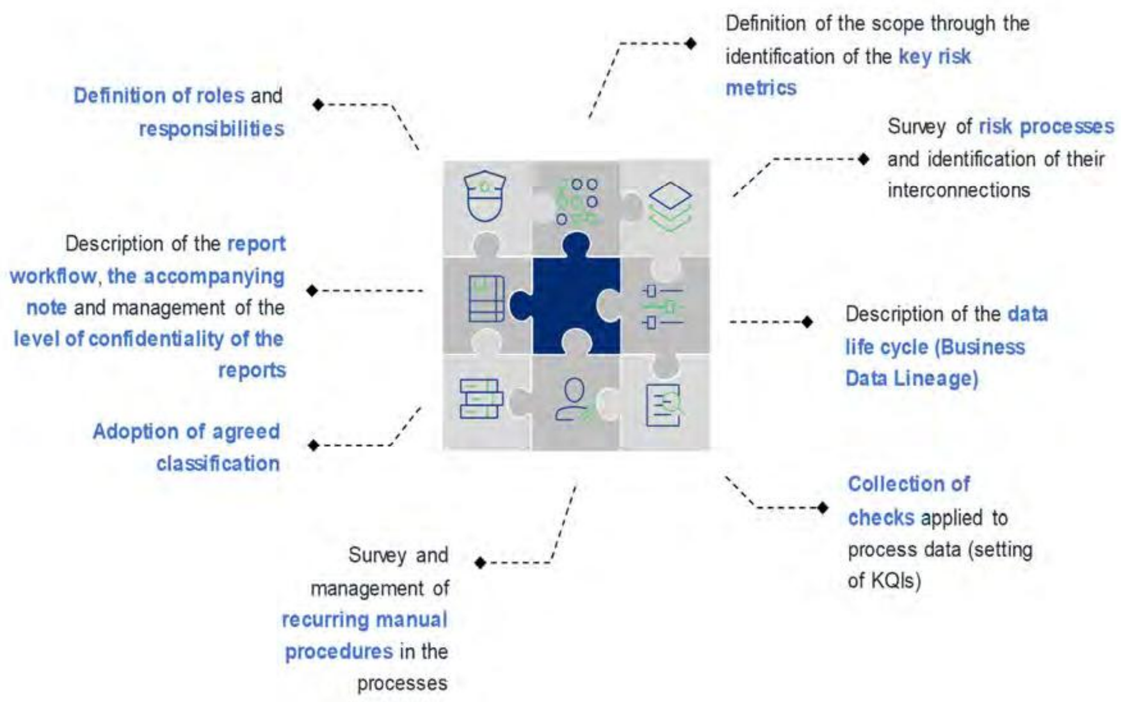
Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.

Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The Group has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. More generally, actions have been taken regarding the aspects shown in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.
The scope of Data & Reporting Governance includes: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and the risk integration process.

Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. 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 Risks Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.
In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements, with regard to the types of risk indicated below and in accordance with the procedures established for the qualitative disclosure in Bank of Italy Circular 262:

	FINANCIAL STATEMENTS Section/Chapter	Paragraph	PILLAR 3 Section
RISKS OF THE BANKING GROUP	PART E - SECTION 2		
- Credit risk	Chapter 1.1	*Paragraph A*	Sections 6-7-8-9-10
- Securitisations	Chapter 1.1	*Paragraph C*	Section 12
- Market risk	Chapter 1.2		Section 13
- Regulatory trading book		*Paragraph 1.2.1*	
- Banking book		*Paragraph 1.2.2*	
- Counterparty risk	Chapter 1.3		Section 11
- Financial derivatives		*Paragraph 1.3.1*	
- Credit derivatives		*Paragraph 1.3.2*	
- Accounting hedges		*Paragraph 1.3.3*	
- Liquidity risk	Chapter 1.4		
- Operational risks	Chapter 1.5		
RISKS OF INSURANCE COMPANIES	PART E - SECTION 3		
- Insurance Risks	Chapter 3.1		
- Financial Risks	Chapter 3.2		
RISKS OF OTHER COMPANIES	PART E - SECTION 4		

The information provided in this part of the document is based on internal management data and may not necessarily coincide with that contained in Parts B and C of the Notes to the consolidated financial statements.

In addition to credit, market trading book, banking book financial, liquidity, operational and insurance risks, discussed in detail in the following paragraphs, the Group has identified and monitors the following other risks.

Strategic risk
The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:
– a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
– the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions, changes in the operating context and changes in the cost of funding. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to a margin volatility simulation approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analyses to assess the impacts on both interest income and margins from the performance of net fees and commissions.

Reputational risk
The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.
The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risks is pursued:
– through compliance with standards of ethics and conduct by all employees. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation. The Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights;
– systematically and independently by the structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
– across the various corporate functions, through the Reputational Risk Management processes coordinated by the Chief

Risk Officer Governance Area;
- through an integrated monitoring system for primary risks, to limit exposure to those risks, and to comply with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.

In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the subjective and objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More specifically, the sale of financial products is also governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

The above-mentioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:
- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and it is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on the volatility observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, with a degree of granularity of geographical location and intended use appropriate to the real estate portfolio at the reporting date.

Risk on equity investments not subject to line-by-line consolidation

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.

The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.

The model used to estimate the Economic Capital is based on a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, as well as to prospective baseline and stress scenarios.

Model risk

Model risk is defined as the risk arising from the improper use of the results of the internal models or from errors in the development and/or implementation of the internal models. In continuity with previous years, in order to set an economic capital buffer for model risk within the framework of the 2019 ICAAP, the Internal Validation and Controls Head Office Department updated the assessment of model risk (expressed synthetically through a score) of the Pillar 1 and Pillar 2 methodologies that contribute to the aforementioned calculation of economic capital.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.

The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.

In this context, Intesa Sanpaolo attributes particular importance to risks associated with third parties, climate change and geopolitical and geo-economic tensions.

- In the current connected, digital and highly competitive global scenario, partnerships with third parties offer opportunities to achieve higher levels of efficiency, while optimising operating costs and permitting a greater focus on core activities, by investing in the bank's growth and improvement. At the same time, the increasing recourse to third parties also gives rise to relationships of dependency that may expose the bank to significant risks, relating in particular to control over the level of service offered, the management and protection of data, the continuity of systems, and concentration, compliance and reputational risks.
  The Intesa Sanpaolo Group seeks to contain risks arising from third parties, such as suppliers and outsourcers, with which it establishes collaborative relationships, in particular in the context of outsourcing. In view of this goal, it assesses the potential risks through an adequate selection of the supplier/outsourcer, a defined onboarding process and constant monitoring throughout the life cycle of each partnership.

- The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk, i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have significant financial implications on certain sectors (e.g. reduction/abandonment of fossil fuels) and therefore on companies operating in these sectors, with which the Group has business relations.
  The Group is therefore interested in monitoring the effects of climate change, and in 2018 it decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. In 2019, Intesa Sanpaolo added a qualitative statement to the RAF, undertaking to develop its integration into the existing risk management framework. In 2019, Intesa Sanpaolo also began to participate in the international working group "TCFD Pilot Banking Group Phase II" coordinated by UNEP FI, tasked with developing and testing shared methods for assessing climate change risk for bank portfolios. In particular, the exercise takes account of both transition risk, i.e. the financial risk that might arise from the process of transitioning to the low-carbon economy, and the physical risk associated with the environmental impacts of climate change (e.g., higher sea levels due to an increased average temperature or extreme climate events such as floods and droughts). The programme involves approximately 40 banks on five continents, which are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). With regard in particular to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of structures is to be activated. In order to ensure business continuity in the areas most affected by the inclement weather, the crisis delegates of local and central structures are activated for timely reporting of critical situations, with particular regard to delays in the transport of valuables and correspondence, difficulties for personnel in reaching their workplaces, operational issues and problems with branch physical plant. In parallel, the Critical Events Management structure is activated from the first weather alert, along with, in very serious disaster situations, the Emergency Management Operations Centre of the Business Continuity Management Department, which monitors the situation and assesses whether to close facilities temporarily and to take any additional action.
  Finally, an interfunctional working group is committed to developing the integration of climate change risk into ordinary risk assessment and monitoring processes, including the credit risks associated with the exposure of the Bank's customers to physical and transitional climate risks, in order to integrate these risks into the management of its business decisions.

- The outlook for global economic growth shows significant vulnerabilities and downside risks, primarily relating to the uncertainty of the recovery of trade and global manufacturing and geopolitical tensions, which remain high. In addition, the spread of COVID-19, with its implications for public health, the economy and trade, may have a significant dampening effect on global growth.

Absorption of Economic Capital by type of risk and Business Unit

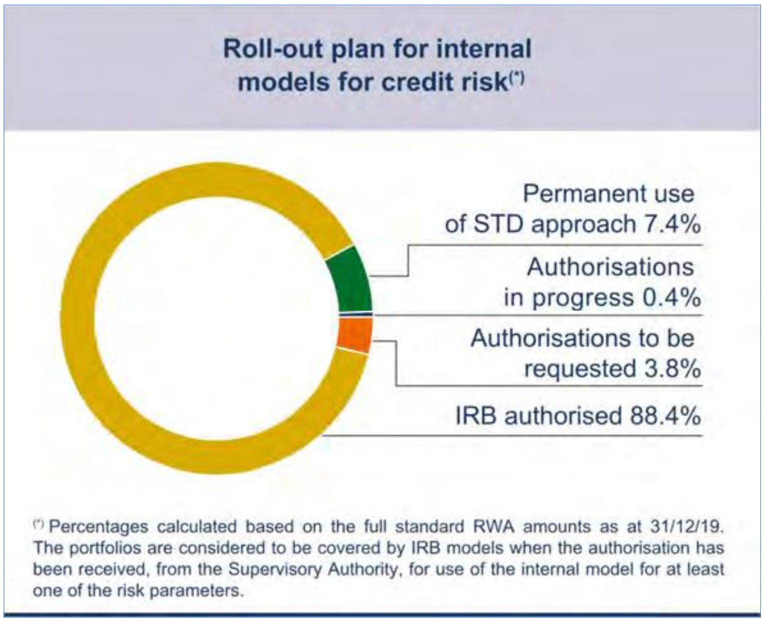
The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.

The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate and Investment Banking" Business Unit (33.1% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.
The "Banca dei Territori" Business Unit (15.6% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk.
Most of the insurance risk is assigned to the "Insurance" Business Unit (14.5% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 10.7% of the total risk, predominantly credit risk.
In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the defaulted exposures, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's FVTOCI portfolio, and the residual portion of insurance risk (23.3% of the total Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.2% and 0.6%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

The Basel 3 regulations

In view of compliance with the gradual reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group undertakes adequate initiatives in order to continuously improve the measurement systems and the related risk management systems.
With regard to credit risk, there have been no changes with respect to the situation as at 31 December 2018, except for the extension in May 2019 of the Group's Institutions, Corporate and Retail internal models to the portfolio acquired from the former Banca Apulia, subsequently merged into Intesa Sanpaolo.
In reference to this risk, following the authorization requests submitted to the supervisory authority in late 2019, coverage of the portfolios of the banks within the Italian scope with internal models is now complete. Within the international subsidiaries scope, efforts continue according to the Group roll-out plan agreed with the supervisory authorities.

With regard to the progress of the internal models roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 88.4% of the credit portfolio. The pending authorisations, concerning the extension of the internal models to the SME Retail portfolio of the former Banca Apulia and the validation of the internal models for the leasing and factoring transactions of the SME Retail portfolio, represent 0.4% of the portfolio, while requests to be made for the remaining portfolios of the Group's domestic and international banks represent 3.8% of the portfolio. For the remainder, equal to 7.4%, the permanent use of the Standardised approach has been reported to the supervisory authorities.



With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.
For reporting purposes, the Parent Company and Banca IMI 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 derivatives from the first quarter of 2014, and for SFTs 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 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 2019.
As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.
The document is published on the website (www.group.intesasanpaolo.com) each quarter.

Other risk factors

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

Brexit

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

The negotiations will continue in March and are expected to conclude by November or, at the latest, by mid-December 2020, in order to allow ratification by the parties.
In parallel, the European Commission will also need to take its own decisions on equivalence, with regard to financial services in particular, to consider UK legislation as equivalent to that of the EU. The two parties have undertaken to conclude their assessments regarding the equivalence of their respective regimes by 30 June 2020; as stated by the European Commission, approximately 40 equivalence areas will be examined.
Considering that the United Kingdom and the European Union will have to confront very complex, delicate issues and reach an agreement of unprecedented scope, the period available to negotiate an agreement on all aspects of European-British relations and equivalence decisions might not be sufficient. In addition, an extension of the transition period (by one or two years, to be determined by 30 June 2020) is to be regarded as not very likely at present, considering that under British law (W.A. Bill) any extension of the transition period has been deemed unlawful.
At 31 December 2020, unless the transition period is extended, the following scenarios are currently believed to be possible:
- agreement reached on future relations: the two parties succeed in agreeing the terms of their future relations, including with regard to financial services, providing for, in this area, mutual cooperation, yet in a manner respectful of the decision-making and regulatory autonomy and right of each side to take equivalence decisions in its own interest;
- agreement not reached on future relations: the UK and EU are unable to agree the terms of their future relations, including with regard to financial services; this would be a “disruptive no-deal” scenario with the resulting “cliff-edge” effects that could only be mitigated after the fact by individual equivalence decisions by the United Kingdom and EU. In this case, the effects of a deferred hard Brexit (departure without an agreement) would most likely result.

The Intesa Sanpaolo (ISP) Group, which is present in the UK through its Corporate and Investment Banking, Asset Management and Private Banking Divisions, had prepared some time ago, through a dedicated interfunctional project, for the departure of the United Kingdom from the EU without a withdrawal agreement, and therefore for the worst-case scenario of a hard Brexit without an agreement between the parties, in accordance with the expectations of the European supervisory authority.
The project was dedicated to implementing a “Brexit Strategy” to ensure coverage of risks relating to Brexit and operating and business continuity through the formulation of contingency plans. In particular, the following main risks were managed by planning and overseeing the appropriate mitigation measures:

a) *Loss of the European financial services passporting regime*

   The Group applied for authorisation for the following from the European Central Bank, which was granted on 29 March 2019:
   - to operate as a third-country branch in the United Kingdom, for the branches of Intesa Sanpaolo, Banca IMI and Intesa Sanpaolo Private Banking (ISPB);
   - to conduct cross-border factoring activities from Italy with customers in the UK, under the provision of services without an establishment, for Mediocredito Italiano.

   The authorisation ensures operating and business continuity following the departure of the United Kingdom from the European Union.
   The Group has also submitted the applications to the British authorities for the authorisation required at the end of the transition period. Interactions with the UK supervisory authority are in progress to complete the authorisation procedure by that date. In the event of a hard Brexit, enrolment in the Temporary Permission Regime (TPR) granted by the British authorities would have permitted Group entities present in the UK to continue to operate in the United Kingdom for a maximum of three years, pending formal approval of their applications.
   In 2019, continuity was also assured for private banking activities through:
   i. authorisation from the Prudential Regulation Authority (PRA), obtained by Intesa Sanpaolo Private Bank (Suisse) Morval, to operate as a third-country Branch in the UK;
   ii. transfer of the UK branch of ISPB Italia to the Swiss entity, identified as a hub for the development of private-banking business at the international level.

   The Group has also prepared a contingency plan to ensure business continuity for assets that, in the absence of passporting, could no longer be managed by branches in the UK.
   With regard to the short-term debt origination activity carried out by the ISP branch in London, the activities required to implement the target solution, involving the management of these activities in the EU, have been completed.

b) *Limitations on the access to central counterparties (CCPs) located in UK by EU branches*

   The Group has taken measures to extend its membership in European CCPs for IRDs, CDSs, ETDs, bonds and repos in order to ensure business continuity.
   In addition, with regard to positions held with UK CCPs, a risk neutralisation strategy has been implemented, resulting in a significant reduction in regulatory capital.

c) *Contract discontinuity risk*
The Group has initiated a repapering process with counterparties to OTC derivatives contracts not cleared through a CCP and entered into with counterparties based in the United Kingdom, as well as to other types of contracts (supply, outsourcing, etc.). It has also prepared IT and organisational solutions to block operations for any contracts not renegotiated by the end of the transition period.
d) *Risk of non-compliance with Directive 2014/59/EU (BRRD)*
New issues of funding programmes subject to UK law have been modified to include a bail-in recognition clause (pursuant to Art. 55 BRRD). For existing issues, the Single Resolution Board has confirmed that it will conduct a case-by-case analysis of each European bank's situation.
e) *Risk of non-compliance with Regulation (EU) 2016/679 (GDPR)*
The Group has planned adequate safeguards for the transfer of personal data to third countries pursuant to Articles 46-49 GDPR, where the European Commission fails to take an adequacy decision (pursuant to Art. 45 GDPR) by the end of the transition period.
f) *Risk of adoption of a booking model not consistent with the EU supervisory authority's requirements*
The Intesa Sanpaolo Group has formulated and implemented new "*Rules regarding the booking of Treasury and Capital Markets transactions*" that take account of the requirements set by the European Central Bank (ECB) in its document "*Supervisory expectations on booking models*" (August 2018) and, as referenced in the communications between the Group and ECB / Joint Supervisory Team (JST) on *"Brexit Preparedness*", that establish clear, shared criteria guiding the booking of individual transactions and the related controls in place for each business area/product class.
g) *Risk of disruption of operations with market counterparties based in the UK*
With regard to the risk of disruption of operations with market counterparties based in the UK, Intesa Sanpaolo and Banca IMI have begun the onboarding process for EU-based counterparties / brokers (OTFs included) to which UK-based entities have decided to migrate all or part of their operations in the event of a hard Brexit.

At present, although a departure with a withdrawal agreement with effect from 31 January 2020 has emerged, there continues to be uncertainty regarding the regulatory framework that will enter into effect, in particular with regard to financial services, at the end of the transition period. Accordingly, in the coming months the Intesa Sanpaolo Group will continue, through a dedicated project:
- to monitor the status and outcomes of the negotiations, with particular regard to the regulatory framework of reference for financial services;
- to revise contingency plans and update them promptly, adapting them dynamically to regulatory changes, on the basis of the details that emerge in the course of the negotiations;
- to oversee interactions with European and local supervisory authorities, completing the ongoing process of obtaining authorisation to operate in the UK as a third-country branch and a concurrent update to the governance structure of our presence in the UK in order to ensure not only compliance with the new rules but also, and above all, the continuity and development of the business;
- to work on fine-tuning and implementation of the strategies already prepared, confirming the strategic nature of the presence in London and the prospects for the growth of the business and the importance of relations with financial and non-financial counterparties based in the UK.

Interest Rate Benchmark Reform

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

Beyond European borders, the British authorities have already announced that the publication of the Libor will be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the Libor.
In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities. In 2019, internal updates were planned for the Risks Committee and Board of Directors, in addition to the external updates for Consob and Bank of Italy. The subject was also addressed with the relevant Joint Supervisory Team during periodic meetings with the Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Intesa Sanpaolo also participated in various initiatives, including working groups at the European level organised by EMMI and the European Central Bank. In particular, in this latter venue, the Bank participated as a voting member in the Working Group on Risk-Free Rates, whose main activities included the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR.
Internal project activities extended to various areas, the foremost among which were:
- assessment of the impacts of the transition from Eonia to €STR on the assessments and measurements of the risk of trading and banking book instruments and the assessment of the impacts of the new method of determining the Euribor on net interest income (NII) and economic value (EVE). Counterparty, operational and liquidity risks were also analysed;

- mapping of current contracts with the Euribor, Eonia and Libor rates, with an analysis of contractual clauses and update/inclusion of fallback clauses and analyses of the changes introduced by the International Swaps and Derivatives Association (ISDA), with requests for external legal opinions, where necessary;
- contribution to benchmarks with updates of the method, processes and procedures for contributing to Euribor and discontinuation of contribution to Eonia;
- training for employees with dedicated online and classroom courses for the most specialised areas;
- internal (intranet site) and external (website and communication attached to the account statement at 31 December 2019) communication;
- analysis of accounting impacts, in particular on the subject of hedge accounting, and monitoring of the activities of the IASB and indications from regulators on the development of accounting issues;
- mapping of all IT procedures involving the use of benchmark rates, with adjustments relating to Eonia/€STR/Euribor starting in 2019 and additional measures planned for Libor for 2020-2021;
- involvement in the project of international branches and subsidiaries at the domestic and international level.

As stated in Part A of these Notes to the financial statements, in the chapter on Accounting policies, the Intesa Sanpaolo Group elected to apply Regulation 34/2020 of 15 January 2020 in advance. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

SECTION 1 – RISKS OF THE CONSOLIDATED BOOK

In this Section, information is provided regarding the companies included in the consolidated book.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values) - Excluding insurance companies

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost		6,740	6,807	744	2,827	450,697	467,815
2. Financial assets measured at fair value through other comprehensive income		-	-	-	-	69,351	69,351
3. Financial assets designated at fair value		-	-	-	-	195	195
4. Other financial assets mandatorily measured at fair value		-	27	-	1	1,455	1,483
5. Non-current financial assets held for sale		16	259	-	-	107	382
Total	**31.12.2019**	**6,756**	**7,093**	**744**	**2,828**	**521,805**	**539,226**
Total	**31.12.2018**	**7,161**	**10,002**	**352**	**5,835**	**512,832**	**536,182**

A.1.1. Bis. Breakdown of financial assets by portfolio classification and credit quality (book values) - Insurance companies

(millions of euro)

Portfolios/quality		Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	TOTAL
1. Financial assets available for sale		-	-	-	-	70,080	70,080
2. Investments held to maturity		-	-	-	-	-	-
3. Due from banks		-	-	-	-	581	581
4. Loans to customers		-	-	-	-	31	31
5. Financial assets designated at fair value		-	-	-	-	5,330	5,330
6. Non-current financial assets held for sale		-	-	-	-	-	-
TOTAL	**31.12.2019**	**-**	**-**	**-**	**-**	**76,022**	**76,022**
TOTAL	**31.12.2018**	**-**	**-**	**-**	**-**	**68,144**	**68,144**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values) - Excluding insurance companies

(millions of euro)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	31,444	-17,153	14,291	8,134	455,352	-1,828	453,524	467,815
2. Financial assets measured at fair value through other comprehensive income	35	-35	-	-	69,418	-67	69,351	69,351
3. Financial assets designated at fair value	-	-	-	-	X	X	195	195
4. Other financial assets mandatorily measured at fair value	42	-15	27	-	X	X	1,456	1,483
5. Non-current financial assets held for sale	369	-94	275	1	107	-	107	382
Total 31.12.2019	**31,890**	**-17,297**	**14,593**	**8,135**	**524,877**	**-1,895**	**524,633**	**539,226**
Total 31.12.2018	**37,735**	**-20,220**	**17,515**	**5,314**	**519,636**	**-2,326**	**518,667**	**536,182**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-36	48	43,703
2. Hedging derivatives	-	-	3,029
Total 31.12.2019	**-36**	**48**	**46,732**
Total 31.12.2018	**-38**	**46**	**40,110**

A.1.2. Bis Breakdown of financial assets by portfolio classification and credit quality (gross and net values) - Insurance companies

(millions of euro)

Portfolios / Quality (Figures must be filled in absolute values)	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale	-	-	-	70,080	-	70,080	70,080
2. Investments held to maturity	-	-	-	-	-	-	-
3. Due from banks	-	-	-	581	-	581	581
4. Loans to customers	-	-	-	31	-	31	31
5. Financial assets designated at fair value	-	-	-	X	X	5,330	5,330
6. Non-current financial assets held for sale	-	-	-	-	-	-	-
Total 31.12.2019	**-**	**-**	**-**	**70,692**	**-**	**76,022**	**76,022**
Total 31.12.2018	**-**	**-**	**-**	**63,256**	**-**	**68,144**	**68,144**

(millions of euro)

Portfolios / Quality	Assets of evidently low credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	187
2. Hedging derivatives	-	-	206
Total 31.12.2019	**-**	**-**	**393**
Total 31.12.2018	**-**	**-**	**181**

B. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify. The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

B.1. Consolidated structured entities

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2. Structured entities not consolidated in the accounts

B.2.1. Prudential consolidation of structured entities

There are no structured entities consolidated for prudential purposes other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2.2. Other structured entities

Qualitative information

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For those types of vehicle companies, reference should be made to section "C. Securitisations" and section "D. Sales" of Part E of the Notes to the consolidated financial statements.

In some cases the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the “entrepreneurial” idea. The financing of the initiative is based on the project’s capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

Asset Backed SPEs
These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally the assets are also the collateral for the financing disbursed to the vehicle.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

Leveraged & Acquisition Finance SPEs
This category includes 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. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.

The main cases include the Group's investments in several closed-end and reserved private equity as well as venture and seed capital funds.

The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group's real estate portfolio.

They also consist of investments in UCIs deriving from credit recovery operations or contributions of non-performing loans, together with other banking entities, to funds managed by specialist entities.

The investments in UCIs also include the units held in the Atlante Fund and the Italian Recovery Fund, alternative investment funds managed by the asset management company Quaestio Capital Management, involved in value enhancement of Non-Performing Loans of Italian banks.

Lastly, the Intesa Sanpaolo Group invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR and the companies controlled by it, in line with the financial portfolio management policies issued by the asset management company and its subsidiaries, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company and its subsidiaries have both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of liquidity management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and its subsidiaries and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by subsidiaries do not prejudice the operational autonomy and capacity of the asset management companies to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

Quantitative information

(millions of euro)

Captions / Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilites	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1. Special purpose vehicle		**3,065**		**517**	**2,548**	**3,660**	**1,112**
	Financial assets held for trading	332	Due to customers	517			
	Other financial assets mandatorily measured at fair value	3		-			
	Assets measured at amortised cost Loans to customers	2,730		-			
2. UCI		**3,244**		**152**	**3,092**	**3,450**	**358**
	Financial assets held for trading	699	Due to customers	139			
	other financial assets mandatorily measured at fair value	2,308	Financial liabilities held for trading	13			
	Assets measured at amortised cost Loans to customers	237		-			

The maximum exposure to risk, representing the maximum exposure of the Group to losses deriving from its interests in structured entities, is generally equal to the net book value, to which, where applicable, several types of off-balance sheet exposures are added (e.g. committed credit lines or guarantees given). The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years.
For UCIs, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.
The table below shows the amount and type of revenues earned over the year by structured entities. The main component of the revenues recognised consists of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service.

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	34	1,972	28	-14	2,020
Special-purpose vehicles	90	9	-	70	169

SECTION 2 – RISKS OF THE PRUDENTIAL CONSOLIDATION

In this section the figures are shown gross of the transactions with the other companies included in the scope of the accounting consolidation. These figures usually also include the assets and liabilities, in proportion to the interest held, of the jointly-controlled banking, financial and operational companies consolidated proportionally for reporting purposes. Where the contribution of transactions between the companies included in the prudential consolidation and the other companies in the scope of the accounting consolidation is material, the details of those transactions are provided at the foot of the disclosure concerned.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

(millions of euro)

Assets		31.12.2019 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2019 Regulatory-scope balance sheet
10.	Cash and cash equivalents	9,745	-2	9,743
20.	Financial assets measured at fair value through profit or loss	49,414	482	49,896
	a) financial assets held for trading	*45,152*	*82*	*45,234*
	b) financial assets designated at fair value	*195*	*-*	*195*
	c) other financial assets mandatorily measured at fair value	*4,067*	*400*	*4,467*
30.	Financial assets measured at fair value through other comprehensive income	72,410	28	72,438
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	-168,202	-
40.	Financial assets measured at amortised cost	467,815	944	468,759
	a) due from banks	*49,027*	*-134*	*48,893*
	b) loans to customers	*418,788*	*1,078*	*419,866*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	-612	-
50.	Hedging derivatives	3,029	-1	3,028
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	-	1,569
70.	Investments in associates and companies subject to joint control	1,240	6,366	7,606
80.	Technical insurance reserves reassured with third parties	28	-28	-
90.	Property and equipment	8,878	-761	8,117
100.	Intangible assets	9,211	-1,755	7,456
	of which:			
	- goodwill	*4,055*	*-665*	*3,390*
110.	Tax assets	15,467	-743	14,724
	a) current	*1,716*	*-24*	*1,692*
	b) deferred	*13,751*	*-719*	*13,032*
120.	Non-current assets held for sale and discontinued operations	494	-	494
130.	Other assets	7,988	-3,568	4,420
Total Assets		**816,102**	**-167,852**	**648,250**

Liabilities and Shareholders' Equity		31.12.2019 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2019 Regulatory-scope balance sheet
10.	Financial liabilities measured at amortised cost	519,382	1,233	520,615
	a) due to banks	*103,324*	*-463*	*102,861*
	b) due to customers	*331,181*	*1,037*	*332,218*
	c) securities issued	*84,877*	*659*	*85,536*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	-826	-
20.	Financial liabilities held for trading	45,226	94	45,320
30.	Financial liabilities designated at fair value	4	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	-75,935	-
40.	Hedging derivatives	9,288	-149	9,139
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	-	527
60.	Tax liabilities	2,321	-773	1,548
	a) current	*455*	*-75*	*380*
	b) deferred	*1,866*	*-698*	*1,168*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	-	41
80.	Other liabilities	12,070	-2,225	9,845
90.	Employee termination indemnities	1,134	-10	1,124
100.	Allowances for risks and charges	3,997	-137	3,860
	a) commitments and guarantees given	*482*	*-32*	*450*
	b) post-employment benefits	*232*	*-1*	*231*
	c) other allowances for risks and charges	*3,283*	*-104*	*3,179*
110.	Technical reserves	89,136	-89,136	-
120.	Valuation reserves	-157	-	-157
125.	Valuation reserves pertaining to insurance companies	504	-	504
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,279	-	13,279
160.	Share premium reserve	25,075	-	25,075
170.	Share capital	9,086	-	9,086
180.	Treasury shares (-)	-104	-	-104
190.	Minority interests (+/-)	247	12	259
200.	Net income (loss) (+/-)	4,182	-	4,182
Total Liabilities and Shareholders' Equity		**816,102**	**-167,852**	**648,250**

(*) The effects are attributable to :
- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

1.1. CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:

- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single 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;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

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

The 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The transactions completed during the year included the disposal and securitisation of a portfolio of unlikely-to-pay Corporate and SME loans of the Intesa Sanpaolo Group amounting to around 2.7 billion euro of gross book value, in line with the carrying value. The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

2. CREDIT RISK MANAGEMENT POLICIES

2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Lending Head Office Department, CIB Lending Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Control Head Office Department and NPE Head Office Department):

- makes material lending decisions, directly or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- ensures the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- conceives and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinates the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocates and validates the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;

- defines the reference regulations on credit matters, the requirements for the development of credit instruments and contributing to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;
- promotes initiatives aimed at disseminating and developing a credit culture;
- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:
- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group’s Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

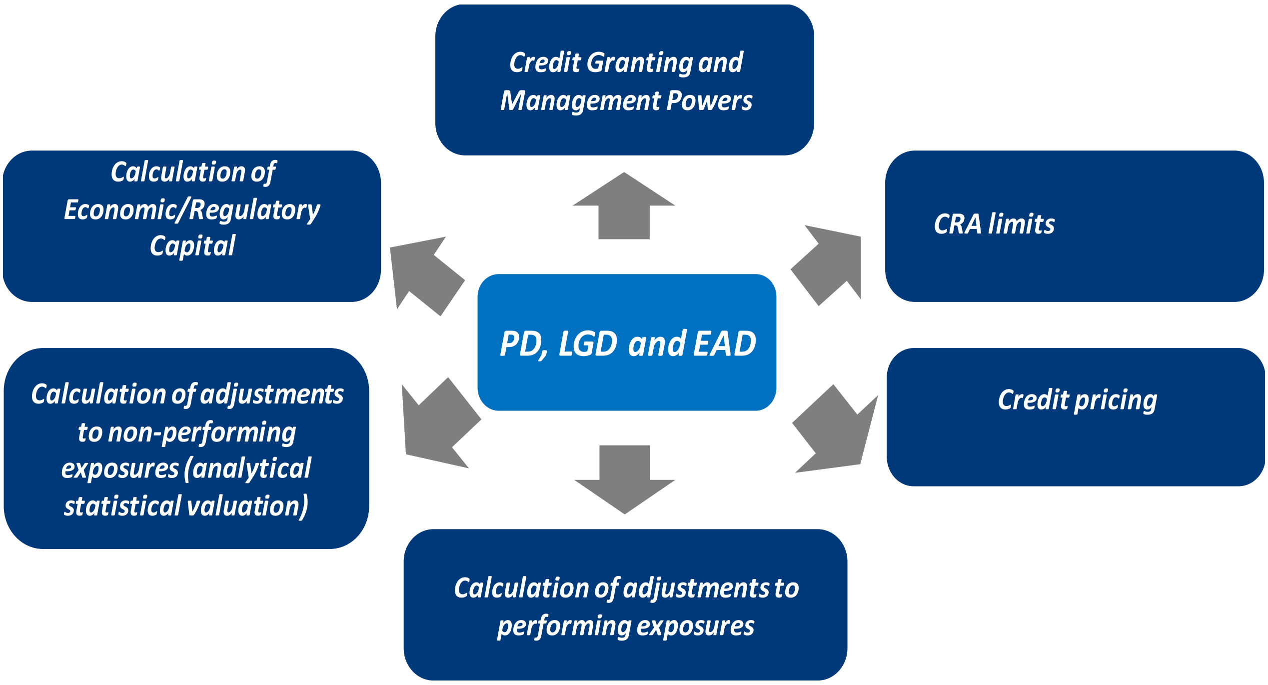
Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

2.2. Management, measurement and control systems

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.

Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in paragraph 2.3.

The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group.

The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[30] is based on methods consistent with IFRS 9 and are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets*".*

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of

[30] The analytical-statistical valuation of the non-performing exposures applies to past-due, unlikely-to-pay and bad loans positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with OTC and SFT (Securities Financing Transactions namely repurchase agreements and securities lending transactions) derivative contracts, that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk at regulatory level (which only excludes the banks of the International Subsidiary Banks Division) and at operational level.
Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives and SFTs. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for OTC derivatives and SFTs for the Parent Company, Banca IMI and Fideuram. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
- aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.

The Group's lending activity is focused on Italian customers (80% of the total) and is primarily aimed at households and small and medium enterprises.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.
In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.
A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers:
- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.
The models applied to the Retail portfolio are as follows:
- for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative objective elements are supplemented by qualitative subjective elements;
- for the Retail segment, a counterparty rating model consisting of the Retail Mortgages segment and the Other Retail segment has been in use since September 2018.

With regard to the Institutions portfolio:
- the models for banks (banks in mature economies and banks in emerging countries) are composed of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, and a component relating to specific country risk, for banks most closely correlated with country risk;
- the models used for Municipalities and Provinces are default models, whereas shadow rating models based on agency ratings are used for the 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 the assessment financial statement data (notching).

For the Sovereign portfolio, the structure of the rating model includes a quantitative module that takes into account the structural rating assigned by the main international agencies, the implicit risk in the market prices of sovereign debt, the macroeconomic assessment estimated with an econometric model of regression, and a qualitative opinion component, which supplements the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of the individual sovereign countries. The Sovereign rating model is used solely for management purposes.
PD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company with adaptations to the local situation and partly developed entirely by the subsidiaries concerned in order to capture the specific features of the risk of the local counterparties. Some of these models are used for reporting purposes and others only for management purposes, as set out in the table below.

The LGD models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks are partly derived from the Parent Company, with adaptations to the local situation.
For the banks, 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.
The Sovereign LGD is estimated by analysing the historical recovery rates on sovereign defaults, differentiated into five categories according to the risk factors of each country. The country risk component associated with exposures to non-sovereign counterparties allocates different LGDs to the countries based on their geographical area. These LGDs are estimated based on an analysis of changes in the exchange rate of the local currency against the US dollar and any support received from the International Monetary Fund's Rainy Day Fund.
The LGD Sovereign and transfer models are used solely for management purposes.

The calculation of the Exposure at Default (EAD) uses differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). Specifically, the methodology is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date. In any case, corrective factors are applied in compliance with the regulatory requirements and in order to introduce a margin of conservatism on the estimates.

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

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

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the requirements of the standard. A detailed description of the methods adopted by the Group is provided in Part A - Section “A. 2 - Main financial statement captions” and in particular in the paragraph “*Impairment of assets*”, to which reference is made.

More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Research Department using forecast models, also taking into account the forecasts of the main national and international bodies and institutions. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

The macroeconomic scenario is described in Part B of the Notes to the financial statements with regard to the impairment testing of intangible assets with an indefinite useful life. In the period 2019-22, the most significant macroeconomic variables for the determination of the ECL and used for the most likely scenario indicate compound annual growth rates (CAGR) of +0.46% for Italy's Real GDP and +1.03% for Italy's Real Estate Prices. Italy's unemployment rate is expected to be 10.0% on average over the period. The forecasts for the financial markets indicate compound annual growth rates for the period of +2.62% for the DJ Eurostoxx and +1.12% for the S&P500, while the BTP-Bund Spread is expected to be 178 bps on average for the period.
The table[31] below shows these variables together with the estimates according to the best- and worst-case scenarios described above.

Macroeconomic variable	Most likely scenario	Upside scenario	Downside scenario
Italian real GDP growth rate *(CAGR 2019-2022)*	0.46%	0.67%	-0.48%
Italian real estate property prices growth rate *(CAGR 2019-2022)*	1.03%	1.66%	-1.39%
DJ Eurostoxx 50 growth rate *(CAGR 2019-2022)*	2.62%	4.72%	-7.45%
S&P 500 growth rate *(CAGR 2019-2022)*	1.12%	5.64%	-5.67%
Average unemployment rate in Italy *(Average 2019-2022)*	10.0%	9.8%	10.2%
Average Spread vs. Bund *(Average 2019-2022)*	178	160	268

The estimates of the future best- and worst-case scenarios compared to the most-likely scenario indicate the following differences: Italy's Real GDP +21 bps for the best-case scenario and -94 bps for the worst-case scenario, Italy's Real Estate Prices +63 bps for the best-case scenario and -242 bps for the worst-case scenario, Italy's Unemployment Rate -20 bps for the best-case scenario and +20 bps for the worst-case scenario, DJ Eurostoxx 50 stock index +210 bps for the best-case scenario and -1007 bps for the worst-case scenario, S&P 500 stock index +452 bps for the best-case scenario and -679 bps for the worst-case scenario, and BTP-Bund Spread -18 bps for the best-case scenario and +90 bps for the worst-case scenario.

The Group's Expected Credit Loss (ECL) for the year 2019, calculated in accordance with IFRS 9, was subject to sensitivity analysis aimed at analysing the variability with respect to the individual alternative scenarios. This analysis was carried out on the performing loan portfolio (Stage 1 & Stage 2) in relation to the Group's representative scope (Parent Company and banks of the CIB Division, which account for around 90% of the Group's total exposure), with a reference scenario consisting of the worst-case scenario, which, together with the best-case scenario, contributes to the calculation of the add-on. The sensitivity of the portfolio to the worst-case scenario shows an increase in 2019 ECL of approximately 7% with an increase in average coverage of 3 bps.

For the Group companies included in the roll out plan, the internal rating models and the EAD and LGD components are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante forecast estimates and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

The effectiveness of the IFRS 9 models is also monitored by the Validation function at least once a year on the risk parameters (staging criteria and PD, LGD and haircut models), both through model performance tests and in terms of model design, data treatment and code review. The results are presented, in the same way as described above, in the annual report on internal models used for management purposes. The analyses carried out in 2019 did not identify any particular critical issues and provided an opinion of general adequacy with respect to the areas analysed.

2.4. Credit risk mitigation techniques
The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the LGD described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

[31] The table mainly shows the indicators for Italy, as that country comprises over 80% of Group loans to customers.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation rules for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate guarantees, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In addition, in recent years, the Bank has been heavily involved in the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market

Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2019 the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to companies.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund".
For details of the transactions carried out in 2019 under the GARC Project, see the description provided in this chapter, paragraph C. Securitisations.
In order to optimise capital absorption, transactions were also entered into to hedge credit risk through financial guarantees on positions held in the Group's Banking Book, together with new transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Serbia and Moldova.

A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. With regard to the Covenant project in particular, the management through a dedicated application is now fully operational.

3. NON-PERFORMING CREDIT EXPOSURES

3.1 Management strategies and policies

On 19 March 2019, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidance to banks on non-performing loans, which was sent to the Supervisor at the end of March 2019. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.
The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the "Operational Plans" (drawn up at Business Owner level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to Shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018, as well as a 50% reduction in the cost of credit with a target of 41 basis points in 2021 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). Following the signing, at the end of November 2019, of the agreement with Prelios concerning the loans classified as unlikely-to-pay (UTP), which adds to the strategic partnership concerning the bad loans entered into with Intrum in 2018, 83%[32] of the target of reducing the non-performing loans set in the Business Plan for the entire four-year period 2018-21 has been achieved. Non-performing loans before adjustments decreased by 14% year-on-year, bringing the ratio of non-performing loans (before adjustments) to total loans to 7.6%, and the cost of credit fell to 53 basis points at the end of 2019.

Non-performing financial assets include loans classified as bad loans, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and the EU Supervisory Regulations.
The definition of non-performing loans as established by the Bank of Italy in Circular 272 of 2008 (and subsequent amendments) also coincides with the definition of "impaired" financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.

Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are classified into three categories, based on their level of severity: "bad loans", "unlikely to pay" and "past due":

[32] Excluding the non-recurring impact of a gross amount of 623 million euro for the adoption of the new Definition of Default (DoD) from November 2019

- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;
- unlikely-to-pay loans: exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  The Intesa Sanpaolo Group’s policy - in addition to what is expressly and specifically indicated by Circular 272 - envisages that exposures classified as unlikely-to-pay also include past due or overdrawn loans subject to restructuring and which, following restructuring, no longer have past due days[33]. As envisaged by the reference regulations, classification in the non-performing category is maintained for twelve months following completion of restructuring;
- past-due: on- and off-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. This is irrespective of whether any collateral or guarantees have been established to cover the exposures.

The Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

The type “exposures subject to concessions - forbearance” has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.

In addition, from November 2019, the Group has early adopted the New Definition of Default. The new regulations – while still confirming the concepts of late payment and unlikely-to-pay status of the debtor – have also made several significant changes mainly relating to:
- “relative” and “absolute” materiality thresholds for the identification of past due for the verification of default, which is automatically calculated if two thresholds (relative and absolute) are exceeded jointly for 90 continuous days; specifically: the relative threshold is equal to 1% of the exposure (previously 5%), to be compared against the ratio of the total amount past due to the total amount of all the exposures recorded in the financial statements with the same debtor; and the absolute threshold is set at 100 euro for Retail exposures and 500 euro for Non-Retail exposures, to be compared against the total amount past due of the debtor;
- the inability of the Bank to offset past-due exposures existing on some of the debtor’s credit lines against available margins existing on other credit lines granted by the same debtor;
- the introduction of a 3-month probation period (starting from the time when the positions no longer meet the conditions to be classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable) before returning the loan to non-default status;
- specific thresholds as triggers for classification as non-performing loans relating to:
  - either distressed restructuring (default is assumed if the loss from renegotiation is more than 1%);
  - or sale with loss (default is assumed if the loss associated with the deterioration of the counterparty’s credit risk is greater than 5%).

Compared to the rules previously established by the Bank of Italy, the transition to stricter materiality thresholds and the elimination of the offsetting effect of past-due credit lines with margins available on other credit lines of the same debtor are more rigorous features that have led to increases in positions classified as non-performing loans, particularly during the initial phase of the new definition of default. Based on the observation of the rates of return to performing status of new past-due exposures under the new rules, the LGD applicable to this portfolio has been recalibrated for analytical/statistical purposes.
Specifically, following the early adoption of the New Definition of Default, the Group recorded an increase of 623 million euro (gross amounts) in non-performing exposures, compared to the time of transition to the new definition, of which 566 million euro relating to past-due exposures and 57 million euro to other non-performing loans. The past-due loans aggregate as at 31 December 2019 also includes 100 million euro of loans that are subject to the new 3-month probation period. With regard to the income statement effects associated with first-time application of the New Definition of Default, there has been an overall impact of around 60 million euro in higher adjustments.

[33] Maintenance of the restructured exposures in the categories of non-performing loans follows the provisions of the EBA's ITS, according to which a loan that is granted “forbearance measures” must be included under “non-performing” exposures for at least twelve months from the restructuring. This provision is valid solely for restructuring with borrowers having “non-performing” status upon restructuring or that become non-performing directly following restructuring.

Non-performing assets are subject to a measurement process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the exposure represented) and the allocation of the value adjustment for each position.
Non-performing loans are measured using two methods:
- analytical-statistical measurement: for exposures equal to or lower than given thresholds, and for all past due exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future macroeconomic scenarios, and the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.

The measurement methods for non-performing loans are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets*", to which reference is made.

The measurements are carried out upon classification of the exposures as non-performing loans and are reviewed periodically.
The measurement of the loans is reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of assets on which collateral has been acquired, developments in ongoing litigation, etc.).
In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.

With reference to non-performing past-due loans and unlikely to pay loans, the local organisational units (at regional level) that perform specialist activities, or the Head Office Department structures which are responsible for the overall management and coordination of these matters, are identified as the structures responsible for their management, based on pre-determined thresholds of increasing materiality.

With regard to loans classified as unlikely-to-pay (UTP), since December 2019 the Group has adopted a new organisational arrangement, under which the recovery of a portfolio of UTP loans in the Corporate and SME segment of the Intesa Sanpaolo Group has been assigned to a specialist external servicer (Prelios), a market leader in UTP loans, with which a partnership has been established aimed at maximising the return of loans to performing status.
This partnership adds to the strategic partnership concerning bad loans entered into with Intrum in 2018 and will enable the Intesa Sanpaolo Group to focus on the proactive management of loans in the initial stages of impairment, through the use of the best external platforms for the management of subsequent stages, and to further speed up the achievement of the target set in the 2018-2021 Business Plan for the reduction of non-performing loans.
Within the CLO area, the NPE Head Office Department has the task of liaising with the Servicer in the operational management.
The activity performed by the external servicers is monitored by the designated internal units of the Group.

The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the reallocation of those exposures to non-performing loans through the verification of objective parameters.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.

Exposures classified amongst "past-due loans" automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

In any event, all the non-performing exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning.

3.2 Write-offs

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of loans.
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. In order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value. Therefore, on a periodic basis, the Bank identifies the bad loan portfolios to be subject to total or partial write-offs:
   - when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
   - with similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of non-performing loans made by the Group.

In 2019, the Group carried out write-offs on gross non-performing loans for around 3.5 billion euro. Of this amount, around 3.3 billion euro regarded bad loans, for the most part using the allowance already set aside. More than 85% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI). If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.

4. RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term "forbearance measures" indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). "Forbearance measures" include contractual modifications, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender believes that there are circumstances indicating that the borrower is in financial difficulty (the so-called "embedded forbearance clauses"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.

In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash and at normal market conditions.

The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated individual contract, rather than all the exposures to the same borrower.

More generally, the Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted, if at least one of the following conditions applies:
- a significant deterioration in the debtor's rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at "red", associated with a rating in the highest risk band.

The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets can therefore be included in both the stage 3 exposures (non-performing forborne loans or non-performing transactions subject to forbearance measures) and the stage 2 exposures.
When a forbearance measure is extended to a performing counterparty, for the purposes of allocation to stage 2 (classification by line) or stage 3 (classification by counterparty), reference is made to the quantitative (lower financial requirement indicator set at 1%) and/or qualitative assessments envisaged in the EBA Guidelines on the application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013.

According to the Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).

Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan

The amount of the gross on-balance-sheet credit exposures to customers (non-performing and performing) subject to forbearance measures is shown in Table A.1.7bis below, in the section Quantitative information - A. Credit quality.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets).

The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.

Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.

Starting from the 2018 Financial Statements, the tables below also include the revocable commitments in the off-balance sheet exposures.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

A.1.1. Prudential consolidation - Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	1,277	170	848	474	402	299	365	302	10,633
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	-	-	-	-	-	-	29	11	159
Total 31.12.2019	**1,277**	**170**	**848**	**474**	**402**	**299**	**394**	**313**	**10,792**
Total 31.12.2018	**1,226**	**342**	**702**	**864**	**506**	**742**	**455**	**260**	**11,987**

A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Initial total adjustments	**885**	**41**	**-**	***663***	***263***	**1,402**	**6**	**-**	***1,094***	***314***
Increases in purchased or originated financial assets	376	8	-	*241*	*143*	114	1	-	*8*	*107*
Derecognition other than write-offs	-283	-18	-	*-147*	*-154*	-181	-	-	*-99*	*-82*
Net losses/recoveries for credit risk (+/-)	-300	13	-	*-253*	*-34*	-145	13	-	*-118*	*-14*
Changes in contracts without derecognition	-62	-	-	*-*	*-62*	50	-	-	*-2*	*52*
Changes in the estimation methodology	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Write-offs not recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Other changes	65	3	-	*2*	*66*	-86	-	-	*87*	*-173*
Final total adjustments	**681**	**47**	**-**	***506***	***222***	**1,154**	**20**	**-**	***970***	***204***
Recoveries on collection of financial assets previously written off	-	-	-	*-*	*-*	-	-	-	*-*	*-*
Write-offs recognised directly through profit or loss	-	-	-	*-*	*-*	-	-	-	*-*	*-*

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS						TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*		Stage 1	Stage 2	Stage 3	
Initial total adjustments	**19,897**	**35**	**275**	**19,698**	**509**	**207**	**86**	**78**	**285**	**22,990**
Increases in purchased or originated financial assets	-	-	-	-	-	3	28	20	19	566
Derecognition other than write-offs	-1,493	-	-269	-1,626	-136	-2	-24	-12	-29	-2,309
Net losses/recoveries for credit risk (+/-)	2,038	-	-	2,018	20	25	-26	-8	16	1,601
Changes in contracts without derecognition	-5	-	-	-	-5	-	-	-	-	-17
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-3,435	-	-	-3,370	-65	-41	-	-	-	-3,435
Other changes	159	-	88	95	152	1	10	-2	8	245
Final total adjustments	**17,161**	**35**	**94**	**16,815**	**475**	**193**	**74**	**76**	**299**	**19,641**
Recoveries on collection of financial assets previously written off	75	-	-	73	2	-	-	-	-	75
Write-offs recognised directly through profit or loss	-148	-	-	-131	-17	-	-	-	-	-148

The Intesa Sanpaolo Group does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.3. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	39,201	25,775	3,241	790	891	272
2. Financial assets measured at fair value through other comprehensive income	521	4	-	-	-	-
3. Non-current financial assets held for sale	-	-	6	-	1	-
4. Commitments to disburse funds and financial guarantees given	16,358	10,506	247	170	175	66
Total 31.12.2019	**56,080**	**36,285**	**3,494**	**960**	**1,067**	**338**
Total 31.12.2018	**49,773**	**45,471**	**3,485**	**1,876**	**1,493**	**596**

A.1.4. Prudential Consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	-	*X*	-	-	-
b) Unlikely to pay	96	X	-14	82	-
- of which: forborne exposures	*96*	*X*	*-14*	*82*	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	*X*	-	-	-	-
e) Other performing exposures	X	57,119	-35	57,084	-
- of which: forborne exposures	*X*	-	-	-	-
Total (A)	**100**	**57,119**	**-53**	**57,166**	**4**
B. Off-balance sheet exposures					-
a) Non-performing	10	X	-	10	-
b) Performing	X	59,748	-8	59,740	-
Total (B)	**10**	**59,748**	**-8**	**59,750**	**-**
Total (A+B)	**110**	**116,867**	**-61**	**116,916**	**4**

A.1.5. Prudential Consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/amounts	**Gross exposure**		**Total adjustments and total provisions for credit risk**	**Net exposure**	**Total partial write-offs**
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	19,525	X	-12,769	6,756	7,642
- of which: forborne exposures	*2,692*	*X*	*-1,635*	*1,057*	*359*
b) Unlikely to pay	11,610	X	-4,379	7,231	484
- of which: forborne exposures	*4,754*	*X*	*-1,540*	*3,214*	*332*
c) Non-performing past due exposures	886	X	-142	744	5
- of which: forborne exposures	*95*	*X*	*-14*	*81*	-
d) Performing past due exposures	X	3,560	-89	3,471	-
- of which: forborne exposures	*X*	*145*	*-10*	*135*	-
e) Other performing exposures	X	484,347	-1,778	482,569	-
- of which: forborne exposures	*X*	*5,782*	*-245*	*5,537*	-
Total (A)	**32,021**	**487,907**	**-19,157**	**500,771**	**8,131**
B. Off-balance sheet exposures					
a) Non-performing	2,344	X	-297	2,047	-
b) Performing	X	274,370	-146	274,224	-
Total (B)	**2,344**	**274,370**	**-443**	**276,271**	**-**
Total (A+B)	**34,365**	**762,277**	**-19,600**	**777,042**	**8,131**

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:

– 261 million euro, adjusted by 28 million euro, included among gross non-performing on-balance sheet exposures to customers;
– 7,923 million euro, adjusted by 20 million euro, included among gross performing on-balance sheet exposures to customers;
– 104 million euro, adjusted by 4 million euro, included among gross non-performing off-balance sheet exposures to customers;
– 7,548 million euro, adjusted by 14 million euro, included among gross performing off-balance sheet exposures to customers;

A.1.6. Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**99**	**-**
B.1 inflows from performing exposures	-	99	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
- of which: business combinations			
C. Decreases	**-**	**-3**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-3	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**96**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.6. Bis Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**-**	**100**
- of which: exposures sold not derecognised	-	-
B. Increases	**99**	**-**
B.1 inflows from non-forborne performing exposures	-	-
B.2 inflows from forborne performing exposures	99	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 inflows from forborne non-performing exposures	-	-
B.5 other increases	-	-
C. Decreases	**-3**	**-100**
C.1 outflows to non-forborne performing exposures	X	-
C.2 outflows to forborne performing exposures	-	X
C.3 outflows to non-performing forborne exposures	X	-99
C.4 write-offs	-	-
C.5 collections	-3	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**96**	**-**
- of which: exposures sold not derecognised	-	-

A.1.7. Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**21,827**	**15,687**	**473**
- of which: exposures sold not derecognised	*84*	*171*	*7*
B. Increases	**2,375**	**5,008**	**2,227**
B.1 inflows from performing exposures	120	2,503	2,117
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	1,960	1,369	20
B.4 changes in contracts without derecognition	4	-	-
B.5 other increases	291	1,136	90
C. Decreases	**-4,677**	**-9,085**	**-1,814**
C.1 outflows to performing exposures	-37	-832	-310
C.2 write-offs	-3,294	-287	-2
C.3 collections	-871	-2,413	-163
C.4 profits on disposal	-115	-1,670	-
C.5 losses on disposal	-32	-38	-
C.6 transfers to other non-performing exposure categories	-99	-1,936	-1,314
C.7 changes in contracts without derecognition	-16	-	-
C.8 other decreases	-213	-1,909	-25
D. Final gross exposure	**19,525**	**11,610**	**886**
- of which: exposures sold not derecognised	*26*	*78*	*9*

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios.

A.1.7. Bis Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**9,745**	**8,531**
- of which: exposures sold not derecognised	*80*	*282*
B. Increases	**2,012**	**3,130**
B.1 inflows from non-forborne performing exposures	54	1,979
B.2 inflows from forborne performing exposures	1,033	X
B.3 inflows from non-performing forborne exposures	X	506
B.4 inflows from forborne non-performing exposures	273	27
B.5 other increases	652	618
C. Decreases	**-4,216**	**-5,734**
C.1 outflows towards non-forborne performing exposures	X	-2,959
C.2 outflows towards forborne performing exposures	-506	X
C.3 outflows towards non-performing forborne exposures	X	-1,033
C.4 write-offs	-510	-
C.5 collections	-1,351	-1,424
C.6 profits on disposal	-804	-3
C.7 losses on disposal	-10	-
C.8 other decreases	-1,035	-315
D. Final gross exposure	**7,541**	**5,927**
- of which: exposures sold not derecognised	*89*	*214*

The “other increases” mainly include the increases in the amounts for charges.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios.

A.1.8 Prudential Consolidation – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**1**	**-**	**14**	***14***	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	14	*14*	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	1	-	-	-	-	-
C. Decreases	**-1**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-1	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**14**	**14**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.9 Prudential Consolidation – On-balance sheet non-performing credit exposures to customers: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**14,666**	**1,616**	**5,462**	**2,238**	**121**	**8**
- of which: exposures sold not derecognised	*25*	*2*	*49*	*39*	*-*	*-*
B. Increases	**2,470**	*546*	**2,256**	**739**	**405**	**42**
B.1 adjustments to purchased or originated credit-impaired assets	6	*X*	1	*X*	-	*X*
C.2 other adjustments	1,333	*260*	1,774	*611*	359	*42*
B.3 losses on disposal	32	1	38	19	-	-
B.4 transfers from other non-performing exposures categories	855	263	372	54	6	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	244	22	71	55	40	-
C. Decreases	**-4,367**	**-527**	**-3,339**	**-1,437**	**-384**	**-36**
C.1 recoveries on impairment losses	-380	-84	-398	-206	-16	-1
C.2 recoveries on repayments	-167	-16	-142	-89	-6	-
C.3 profits on disposal	-31	-4	-53	-28	-	-
C.4 write-offs	-3,294	-360	-287	-150	-2	-
C.5 transfers to other non-performing exposure categories	-46	-11	-849	-254	-338	-33
C.6 changes in contracts without derecognition	-	-	-10	*-10*	-	-
C.7 other decreases	-449	-52	-1,600	-700	-22	-2
D. Final total adjustments	**12,769**	**1,635**	**4,379**	**1,540**	**142**	**14**
- of which: exposures sold not derecognised	*9*	*3*	*34*	*30*	*1*	*-*

The “other increases” mainly include the collections of loans derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings e DBRS Morningstar Ratings.
These agencies are valid for all Group banks. In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortized cost	**21,624**	**24,425**	**58,198**	**12,305**	**8,282**	**4,330**	**358,587**	**487,751**
- Stage 1	21,307	21,785	50,279	8,476	7,786	3,736	291,467	404,836
- Stage 2	317	2,640	7,919	3,829	496	158	35,885	51,244
- Stage 3	-	-	-	-	-	436	31,235	31,671
B: Financial assets measured at fair value through other comprehensive income	**6,434**	**17,655**	**27,350**	**11,877**	**1,139**	**111**	**4,914**	**69,480**
- Stage 1	6,314	17,198	27,007	10,327	1,096	97	4,781	66,820
- Stage 2	120	457	343	1,550	43	-	111	2,624
- Stage 3	-	-	-	-	-	14	22	36
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**7**	**468**	**475**
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	1	1
- Stage 3	-	-	-	-	-	7	360	367
Total (A+B+C)	**28,058**	**42,080**	**85,548**	**24,182**	**9,421**	**4,448**	**363,969**	**557,706**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*684*	*684*
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	10,246	23,029	39,433	10,510	2,874	1,926	124,195	212,213
- Stage 2	134	772	4,975	1,916	767	202	15,432	24,198
- Stage 3	-	-	-	-	-	376	1,958	2,334
Total (D)	**10,380**	**23,801**	**44,408**	**12,426**	**3,641**	**2,504**	**141,585**	**238,745**
Total (A+B+C+D)	**38,438**	**65,881**	**129,956**	**36,608**	**13,062**	**6,952**	**505,554**	**796,451**

The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

	ECAI	
	Moody's	**Fitch Standard & Poor's DBRS Morningstar**
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-
5	from B1 to B3	from B+ to B-
6	Caa1 and lower	CCC+ and lower

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	Fitch	Standard & Poor's	DBRS Morningstar
Credit quality step				
1	P -1	F1 +, F1	A -1 + , A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch DBRS Morningstar	Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	Fitch Standard & Poor's
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Baa1 to Ba3	from BB+ to BB-
5	B1 and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	Fitch	Standard & Poor's
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
from 4 to 6	NP	lower than F3	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	**Fitch Standard & Poor's**
Credit quality step		
1	Aaa	AAA
2	Aa	AA
3	A1	A+
4	A2	A
5	A3	A-
6	Baa1	BBB+
7	Baa2	BBB
8	Baa3	BBB-
9	Ba1	BB+
10	Ba2	BB
11	Ba3	BB-
12	lower than Ba3	lower than BB-

IRB approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
All other credit quality steps	lower than P-3	lower than F3	lower than A -3

A.2.2. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

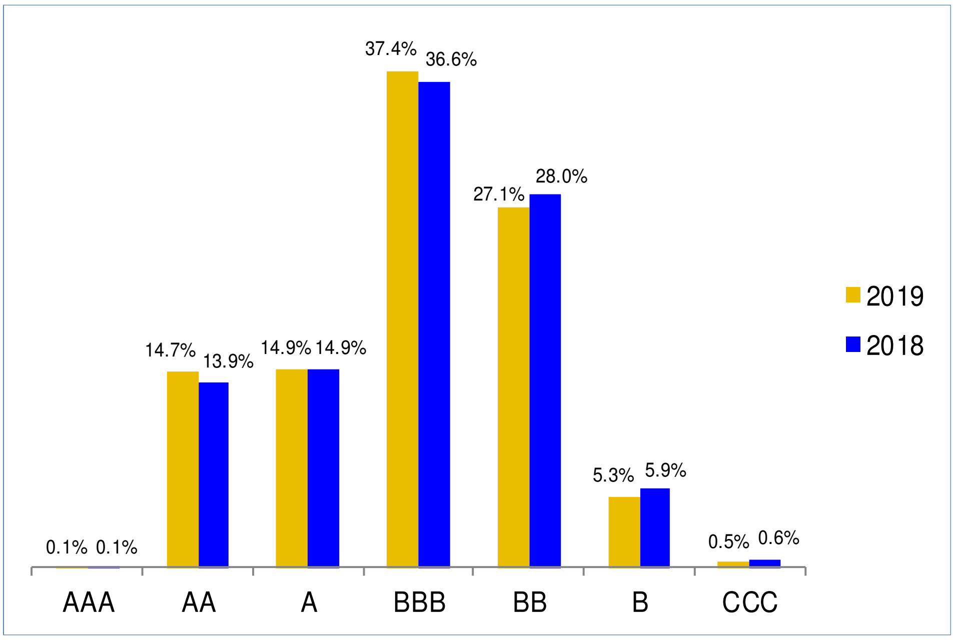
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.
Unrated exposures account for 7% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not available, to counterparties for which the roll-out of internal models is still underway (mainly international subsidiaries), as well as to Group companies whose mission is not related to credit and loans, which have been integrated into the credit risk management system, or to marginal exposures.

When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 75.4% of the total, whilst 19.5% fall within the BB+/BB- range (class 4) and 5.1% fall under higher risk classes (of which 0.9% are below B-).

(millions of euro)

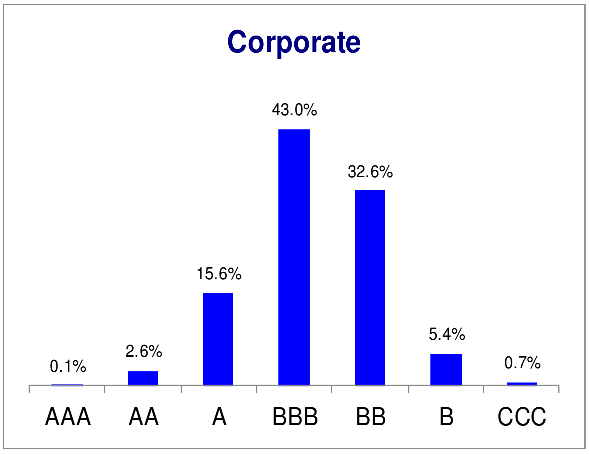
Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortized cost	**61,082**	**71,052**	**167,506**	**93,677**	**23,010**	**6,187**	**65,237**	**487,751**
- Stage 1	60,960	70,257	153,782	75,206	12,673	2,943	29,015	404,836
- Stage 2	122	795	13,724	18,471	10,337	1,144	6,651	51,244
- Stage 3	-	-	-	-	-	2,100	29,571	31,671
B. Financial assets measured at fair value through other comprehensive income	**13,137**	**18,464**	**28,002**	**2,959**	**50**	**173**	**6,695**	**69,480**
- Stage 1	13,063	18,198	26,358	2,622	50	144	6,385	66,820
- Stage 2	74	266	1,644	337	-	26	277	2,624
- Stage 3	-	-	-	-	-	3	33	36
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**11**	**464**	**475**
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	1	1
- Stage 3	-	-	-	-	-	11	356	367
Total (A+B+C)	**74,219**	**89,516**	**195,508**	**96,636**	**23,060**	**6,371**	**72,396**	**557,706**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*684*	*684*
D. Commitments and financial guarantees given								
- Stage 1	27,261	44,411	94,836	32,389	3,763	1,919	7,634	212,213
- Stage 2	494	679	7,466	9,410	2,628	448	3,073	24,198
- Stage 3	-	-	-	-	-	1,120	1,214	2,334
Total (D)	**27,755**	**45,090**	**102,302**	**41,799**	**6,391**	**3,487**	**11,921**	**238,745**
Total (A+B+C+D)	**101,974**	**134,606**	**297,810**	**138,435**	**29,451**	**9,858**	**84,317**	**796,451**

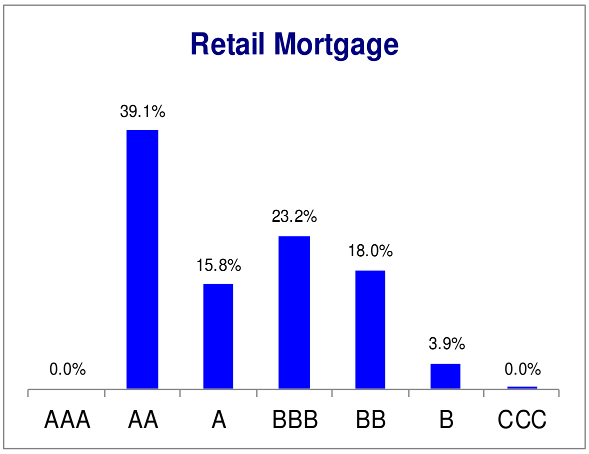
In addition to the tables required by the regulations, the rating allocation for performing loans to customers attributable to the main Group banks is shown below.
As at 31 December 2019, performing loans to customers assigned an individual rating internally or by an external agency accounted for 96% of the loans of the main Group banks.

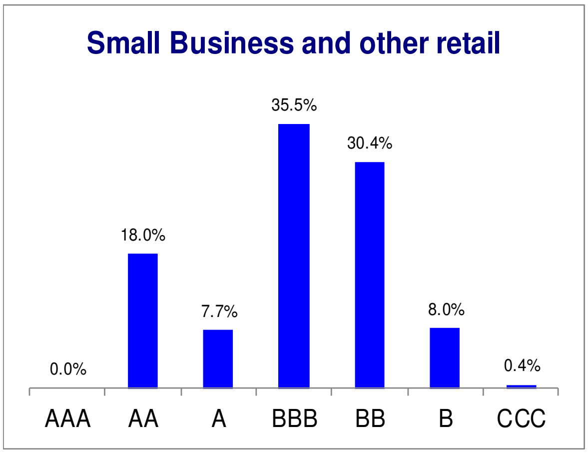


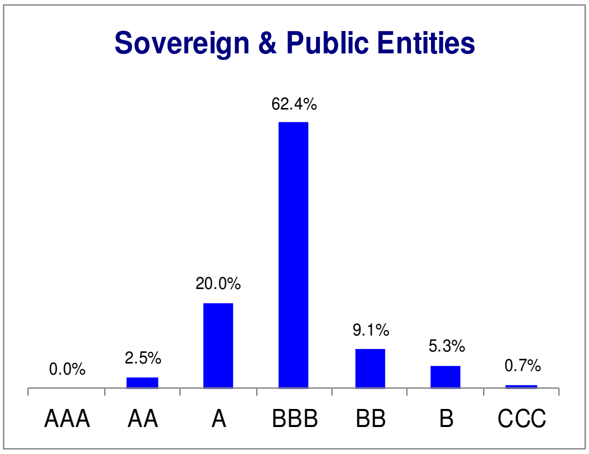
The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 67.1%, an improvement compared to the previous year (65.5%).
Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models and an improvement in the credit quality.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail, Sovereign & Public Sector Entities.









Investment grade positions account for 61.3%, 78.1%, 61.2% and 84.9% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Prudential Consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**7,383**	**7,380**	**-**	**6**	**6,894**	**13**	**-**	**-**
1.1 totally guaranteed	7,297	7,294	-	6	6,893	13	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	86	86	-	-	1	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**5,098**	**5,098**	**-**	**-**	**1,507**	**2,922**	**-**	**-**
2.1 totally guaranteed	4,038	4,038	-	-	1,507	2,018	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,060	1,060	-	-	-	904	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives							(1)+(2)
	Banks	Other financial companies	Other counterparties	Public Administration	Banks	Other financial companies	Other counterparties	
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**9**	**221**	**84**	**48**	**7,275**
1.1 totally guaranteed	-	-	-	3	207	82	46	7,250
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	6	14	2	2	25
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**62**	**344**	**-**	**28**	**4,863**
2.1 totally guaranteed	-	-	-	58	306	-	23	3,912
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	4	38	-	5	951
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Prudential Consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**274,892**	**263,105**	**135,638**	**8,165**	**37,656**	**11,151**	**-**	**20**
1.1 totally guaranteed	238,014	228,874	133,021	8,126	36,421	8,961	-	20
- of which non-performing	*18,276*	*10,043*	*5,868*	*1,808*	*49*	*384*	-	-
1.2 partly guaranteed	36,878	34,231	2,617	39	1,235	2,190	-	-
- of which non-performing	*3,804*	*1,408*	*656*	*11*	*9*	*78*	-	-
2. Guaranteed off-balance sheet credit exposures:	**36,949**	**36,852**	**2,353**	**38**	**4,148**	**2,227**	**-**	**-**
2.1 totally guaranteed	30,808	30,739	1,780	20	4,066	1,712	-	-
- of which non-performing	*409*	*365*	*111*	-	*5*	*9*	-	-
2.2. partly guaranteed	6,141	6,113	573	18	82	515	-	-
- of which non-performing	*243*	*228*	*32*	-	-	*17*	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1. Guaranteed on-balance sheet credit exposures	**45**	**25**	**-**	**14,403**	**786**	**2,515**	**29,812**	**240,216**
1.1 totally guaranteed	-	5	-	11,648	474	2,159	24,074	224,909
- of which non-performing	-	-	-	*145*	*9*	*309*	*1,405*	*9,977*
1.2 partly guaranteed	45	20	-	2,755	312	356	5,738	15,307
- of which non-performing	-	-	-	*53*	-	*60*	*227*	*1,094*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**4,994**	**171**	**1,562**	**18,785**	**34,278**
2.1 totally guaranteed	-	-	-	4,749	158	1,508	16,647	30,640
- of which non-performing	-	-	-	*1*	-	*21*	*214*	*361*
2.2. partly guaranteed	-	-	-	245	13	54	2,138	3,638
- of which non-performing	-	-	-	-	-	*4*	*45*	*98*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Prudential consolidation – Financial assets and non-financial assets resulting from the enforcement of guarantees

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	
					of which obtained during the year
A. Property and equipment	**285**	**309**	**-41**	**268**	**54**
A.1 Used in operations	2	2	-	2	2
A.2. Investment	78	68	-	68	7
A.3 Inventories	205	239	-41	198	45
B. Equities and debt securities	**355**	**355**	**-69**	**286**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and discontinued operations	**14**	**17**	**-5**	**12**	**-**
D.1 Property and equipment	14	17	-5	12	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2019	**654**	**681**	**-115**	**566**	**54**
Total 31.12.2018	**297**	**315**	**-56**	**259**	**53**

For the Group, the assets seized (book value) are mainly represented by:

- Property and equipment used in operations: buildings (2 million euro);
- Investment property: buildings (52 million euro); land (16 million euro);
- Property and equipment – Inventories: buildings (193 million euro), land (4 million euro); other (1 million euro);
- Equities and debt securities:
  - equity investments of 76 million euro (72 million euro relating to the equity investment in Risanamento);
  - financial assets mandatorily measured at fair value of 149 million euro;
  - financial assets measured at fair value through other comprehensive income of 61 million euro.
    These are financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure. The inclusion – starting from 31 December 2019 - of this case in the table is also referred to in the recent clarifications in the ECB instructions on the NPE Stocktake and in the update of the FINREP rules that will come into force in 2020;
- Non-current assets held for sale and discontinued operations: buildings (11 million euro); land (1 million euro).

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Prudential Consolidation - Breakdown by sector of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposures/Counterparts		Public administration		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		177	-46	100	-287	-	-
- of which: forborne exposures		*-*	*-*	*17*	*-101*	*-*	*-*
A.2 Unlikely to pay		79	-54	231	-152	-	-
- of wich: forborne exposures		*29*	*-39*	*44*	*-72*	*-*	*-*
A.3 Non-performing past due exposures		9	-	2	-1	-	-
- of which: forborne exposures		*-*	*-*	*-*	*-*	*-*	*-*
A.4 Performing exposures		102,690	-185	76,507	-124	1,645	-
- of which: forborne exposures		*327*	*-6*	*184*	*-4*	*-*	*-*
Total (A)		**102,955**	**-285**	**76,840**	**-564**	**1,645**	**-**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		1	-5	73	-21	-	-
B.2 Performing exposures		34,292	-8	51,866	-25	11,627	-4
Total (B)		**34,293**	**-13**	**51,939**	**-46**	**11,627**	**-4**
Total (A+B)	**31.12.2019**	**137,248**	**-298**	**128,779**	**-610**	**13,272**	**-4**
Total (A+B)	**31.12.2018**	**113,337**	**-287**	**110,830**	**-648**	**10,425**	**-**

(millions of euro)

Exposures/Counterparts		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		4,945	-9,762	1,534	-2,674
- of which: forborne exposures		*847*	*-1,354*	*193*	*-180*
A.2 Unlikely to pay		5,413	-3,556	1,508	-617
- of which: forborne exposures		*2,606*	*-1,279*	*535*	*-150*
A.3 Non-performing past due exposures		248	-46	485	-95
- of which: forborne exposures		*39*	*-8*	*42*	*-6*
A.4 Performing exposures		168,208	-1,015	138,635	-543
- of which: forborne exposures		*4,025*	*-204*	*1,136*	*-41*
Total (A)		**178,814**	**-14,379**	**142,162**	**-3,929**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		1,927	-262	46	-9
B.2 Performing exposures		176,292	-94	11,677	-19
Total (B)		**178,219**	**-356**	**11,723**	**-28**
Total (A+B)	**31.12.2019**	**357,033**	**-14,735**	**153,885**	**-3,957**
Total (A+B)	**31.12.2018**	**355,159**	**-17,780**	**150,850**	**-4,256**

B.2. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	6,500	-12,039	245	-589
A.2 Unlikely to pay	6,707	-3,984	396	-262
A.3 Non-performing past due exposures	679	-109	58	-31
A.4 Performing exposures	336,077	-1,288	106,125	-456
Total (A)	**349,963**	**-17,420**	**106,824**	**-1,338**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,956	-258	51	-32
B.2 Performing exposures	137,927	-78	94,622	-55
Total (B)	**139,883**	**-336**	**94,673**	**-87**
Total (A+B) 31.12.2019	**489,846**	**-17,756**	**201,497**	**-1,425**
Total (A+B) 31.12.2018	**492,683**	**-20,882**	**167,775**	**-1,663**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	1	-53	1	-6	9	-82
A.2 Unlikely to pay	63	-90	5	-1	60	-42
A.3 Non-performing past due exposures	-	-	2	-	5	-2
A.4 Performing exposures	24,789	-45	11,539	-18	7,510	-60
Total (A)	**24,853**	**-188**	**11,547**	**-25**	**7,584**	**-186**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	29	-	-	-	11	-7
B.2 Performing exposures	29,558	-6	9,127	-6	2,893	-1
Total (B)	**29,587**	**-6**	**9,127**	**-6**	**2,904**	**-8**
Total (A+B) 31.12.2019	**54,440**	**-194**	**20,674**	**-31**	**10,488**	**-194**
Total (A+B) 31.12.2018	**46,822**	**-152**	**13,715**	**-25**	**9,181**	**-249**

B.2.Bis Prudential consolidation – Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas		North West		North East		Centre		South and islands	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		1,996	-3,590	1,259	-2,668	1,622	-2,966	1,623	-2,815
A.2 Unlikely to pay		2,538	-1,565	1,278	-706	1,709	-1,127	1,182	-586
A.3 Non-performing past due exposures		212	-34	120	-18	136	-22	211	-35
A.4 Performing exposures		104,065	-502	61,378	-215	125,675	-322	44,959	-249
Total A		**108,811**	**-5,691**	**64,035**	**-3,607**	**129,142**	**-4,437**	**47,975**	**-3,685**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		539	-65	544	-80	752	-103	121	-10
B.2 Performing exposures		54,295	-30	29,726	-15	43,977	-24	9,929	-9
Total B		**54,834**	**-95**	**30,270**	**-95**	**44,729**	**-127**	**10,050**	**-19**
Total (A+B)	**31.12.2019**	**163,645**	**-5,786**	**94,305**	**-3,702**	**173,871**	**-4,564**	**58,025**	**-3,704**
Total (A+B)	**31.12.2018**	**165,680**	**-6,946**	**95,392**	**-4,206**	**172,220**	**-5,411**	**59,391**	**-4,319**

B.3. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

(millions of euro)

Exposure/Geographical areas		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		-	-	-	-1
A.2 Unlikely to pay		-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-
A.4 Performing exposures		18,962	-7	30,181	-14
Total (A)		**18,962**	**-7**	**30,181**	**-15**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		8,022	-2	31,811	-4
Total (B)		**8,022**	**-2**	**31,811**	**-4**
Total (A+B)	**31.12.2019**	**26,984**	**-9**	**61,992**	**-19**
Total (A+B)	**31.12.2018**	**47,604**	**-67**	**56,942**	**-20**

(millions of euro)

Exposure/Geographical areas		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		-	-	-	-3	-	-
A.2 Unlikely to pay		82	-14	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		2,959	-4	2,638	-2	2,344	-8
Total (A)		**3,041**	**-18**	**2,638**	**-5**	**2,344**	**-8**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		10	-	-	-	-	-
B.2 Performing exposures		5,668	-	9,850	-1	2,786	-1
Total (B)		**5,678**	**-**	**9,850**	**-1**	**2,786**	**-1**
Total (A+B)	**31.12.2019**	**8,719**	**-18**	**12,488**	**-6**	**5,130**	**-9**
Total (A+B)	**31.12.2018**	**8,525**	**-3**	**12,346**	**-4**	**4,875**	**-5**

B.3.Bis Prudential consolidation – Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas		NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		-	-	-	-	-	-	-	-
A.2 Unlikely to pay		-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-	-	-
A.4 Performing exposures		4,157	-2	669	-	14,105	-5	31	-
Total A		**4,157**	**-2**	**669**	**-**	**14,105**	**-5**	**31**	**-**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		-	-	-	-	-	-	-	-
B.2 Performing exposures		5,605	-2	487	-	1,917	-	13	-
Total B		**5,605**	**-2**	**487**	**-**	**1,917**	**-**	**13**	**-**
Total (A+B)	**31.12.2019**	**9,762**	**-4**	**1,156**	**-**	**16,022**	**-5**	**44**	**-**
Total (A+B)	**31.12.2018**	**10,052**	**-16**	**831**	**-48**	**36,664**	**-3**	**57**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	137,898
b) Weighted value (millions of euro)	21,705
b) Number	8

Based on the regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors. Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.
In accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a central government or connected to it by economic dependence.
However, the amounts shown in points a) and b) and the number shown in point c) above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

Qualitative information

The securitisations carried out in 2019 are summarised below:

GARC Securitisations

In 2019, the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to Italian companies, in particular SMEs.
As part of these operations, during the year three synthetic securitisations, GARC SME-8, GARC Corp-2 and GARC Residential Mortgages-1, were completed through which the junior risk was sold to specialist investors relating respectively to (i) a total portfolio of 4.3 billion euro in loans to around 9,600 businesses in the Corporate and SME Corporate regulatory segments, valued by applying internal models (Advanced IRB); (ii) a portfolio of around 4 billion euro in loans to around 190 companies in the Corporate regulatory segment; and (iii) a portfolio of around 900 million euro of mortgage loans issued by Barclays to around 10,800 retail customers and purchased by Intesa Sanpaolo during 2019, valued using the standardised approach. The portfolios of the three transactions mainly consist of customers operating in Northern Italy.

"Tranched Cover Piemonte 2017 – Linea B" Securitisation

During the year – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. and on the mezzanine tranche by Ascomfidi Nord-Ovest Società Cooperativa, to cover the credit risk relating to a portfolio of around 7.5 million euro of loans to around 150 companies in Piedmont, for which the disbursements were completed in 2019.

Kerma Securitisation

As part of the strategy to reduce the risk profile envisaged in the 2018-2021 Business Plan, on 31 July 2019 Intesa Sanpaolo and Prelios signed a binding agreement to form a strategic partnership for loans classified as unlikely-to-pay (UTP), which provides – among other things (see the "UTP Partnership Project" section of the Executive summary for more details) – for the sale to a securitisation vehicle (below KERMA SPV s.r.l. or the SPV) of a portfolio of loans classified as UTP of the Corporate and SME segment of the Intesa Sanpaolo Group, with a Gross Book Value (GBV) of around 3 billion euro as at 31 March 2019 (cut-off date), at a price of around 2 billion euro, substantially in line with the Net Book Value (NBV) of the portfolio.

The sale was completed through a transaction that involved:

i) the transfer to KERMA SPV s.r.l. of a portfolio of medium/long-term and short-term loans and a portfolio of lease receivables;
ii) the transfer to a financial intermediary, belonging to the Prelios Group, of all the asset and liability legal relationships;
iii) the transfer of the asset and liability legal relationships arising from the lease contracts to a LeaseCo; and
iv) the transfer of the risks and rewards relating to all the existing and future exposures arising from short-term/revolving loan agreements, through a limited-recourse loan granted by KERMA SPV s.r.l. to Intesa Sanpaolo and secured by the assignment of the revolving exposures to the SPV as collateral.

With regard to the short-term/revolving portfolio, the risks and rewards have been transferred to the SPV by means of a limited recourse loan in accordance with Article 7(1)(a) of Law 130/99.

The securitised assets were broken down as follows by geographical area: 32.1% North-West; 27.9% Centre; 22.6% North-East; 15.2% South and Islands; and 2.2% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:

- "Real estate business" at 26.8%;
- "Construction companies" at 21%;
- "Services" at 15.5%;
- and a residual amount in other business sectors (Distribution, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

The SPV financed the acquisition of the portfolio by issuing 4 classes of securities:

- senior notes of 1,258 million euro subscribed by Intesa Sanpaolo;
- mezzanine notes, divided into class B1 notes (15% of the nominal value) subscribed by Intesa Sanpaolo for 13 million euro and the remainder by a third party investor and class B2 notes (7.5% of the nominal value) subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor;
- junior notes, subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor.

Taking into account the retention of 100% of the Senior notes and 5% of the Junior and Mezzanine notes, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:

- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

The sale of the lease portfolio will be completed in 2020 and, accordingly, the related receivables were recognised under Discontinued operations as at 31 December 2019.

Quantitative information

C.1. Prudential consolidation - Breakdown of exposures deriving from the main “originated” securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**1,551**	**-5**	**256**	**2**	**319**	**11**
– Loans to businesses (including SMEs) (*)	1,546	-5	252	2	311	11
– Consumer credit	5	-	4	-	8	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**15,812**	**-27**	**402**	**-40**	**462**	**-14**
– Loans to businesses (including SMEs) (**) (***)	14,970	-27	197	-38	168	-7
– Residential mortgage loans (***)	842	-	205	-2	294	-7
TOTAL	**17,363**	**-32**	**658**	**-38**	**781**	**-3**

(*) The entire amount refers to non-performing financial assets associated with the Savoy (see the 2018 Annual Report for details about the transaction) and Kerma (described in the paragraph on “Qualitative information” of this Section) securitisations.

(**) The amounts include non-performing financial assets amounting to 29 million euro in Senior exposures, 196 million euro in Mezzanine exposures and 75 million euro in Junior exposures.

(***) The captions also include performing amounts associated with the synthetic securitisations originated within the Intesa Sanpaolo Group.

Off-balance sheet

This case was not present as at 31 December 2019.

C.2. Prudential consolidation - Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Leases	6	-	23	-	-	-
Commercial mortgage loans	128	-	21	-	-	-
Securitisations	165	-4	-	-	-	-
Trade receivables	430	-4	-	-	-	-
Consumer credit	595	1	29	5	-	-
Residential mortgage loans	1,024	3	117	1	-	-
Loans to businesses (including SMEs) (*)	1,131	-	321	-12	78	-9
Other assets (**)	6,154	-	94	-	1	-
TOTAL	**9,633**	**-4**	**605**	**-6**	**79**	**-9**

(*) The exposures include non-performing financial assets amounting to 5 million euro in Senior exposures, 116 million euro in Mezzanine exposures and 73 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

(**) The amount also includes the Romulus securities for 5,886 million euro, held by the Banking Group, generally represented among third-party securitisation. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	*6,211*	*-21*	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**6,211**	**-21**	**-**	**-**	**-**	**-**

C.3. Prudential consolidation - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,789	-	184	1,550	-	1,351
Apulia Finance n. 4 S.r.l. (h)	Conegliano Veneto (TV)	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Augusto S.r.l. (d)	Milano	(e)	1	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 5 S.r.l. (c) (h)	Vicenza	Not consolidated	441	-	35	325	60	52
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(e)	16,079	-	1,100	13,312	-	3,457
Claris Finance 2005 S.r.l (h)	Roma	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Claris RMBS 2014 S.r.l (c) (h)	Conegliano Veneto (TV)	Not consolidated	333	-	16	135	-	176
Claris RMBS 2016 S.r.l. (c) (h)	Conegliano Veneto (TV)	Not consolidated	770	-	48	522	116	144
Colombo S.r.l. (d)	Milano	(e)	1	-	6	-	-	15
Diocleziano S.r.l. (d)	Milano	(e)	7	-	1	51	-	-
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	18,873	-	4,824		22,298	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,708	1,726	1,745		5,961	
ISP OBG S.r.l. (g)	Milano	Consolidated	39,476	-	6,191		45,463	
Trade Receivables Investment Vehicle S.a.r.l.	Lussemburgo	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)

(a) Consolidation method referring to the so-called "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2018).

(e) Vehicle consolidated at equity.

(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of these Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy and Kerma, in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

C.4 Prudential consolidation – Unconsolidated securitisation vehicles

The unconsolidated securitisation vehicles include the vehicles in which the Intesa Sanpaolo Group does not hold any stake in the capital and those in which it holds a residual stake. The table below shows the assets, liabilities, costs and revenues of each vehicle used for transactions in which the Group acts as originator.

(millions of euro)

	Trade Receivables Investment Vehicle Sarl (*)	Berica ABS 4 S.r.l. (*) (**)	CLARIS FINANCE 2005 S.r.l. (*)	BERICA ABS 3 S.r.l. (*)	Apulia Finance n. 4 S.r.l. emissione I and II (*)
A. Assets	**3**	**434**	**44**	**369**	**130**
A.1 Loans	3	434	43	369	130
A.2 Securities	-	-	-	-	-
A.3 Other assets	-	-	1	-	-
B. Use of cash and cash equivalents	**-**	**18**	**17**	**17**	**18**
B.1 Deposits with banks	-	-	-	-	18
B.2 Prepayments and accrued income	-	-	-	-	-
B.3 Other	-	18	17	17	-
B Liabilities	**3**	**386**	**49**	**343**	**117**
B.1 Class A Securities issued	-	168	1	106	14
B.2 Class B Securities issued	-	76	24	94	11
B.3 Class C Securities issued	-	47	10	-	19
B.4 Class J Securities issued	3	95	-	115	73
B.5 Other liabilities	-	-	14	28	-
C. Interest expense and other expenses	**8**	**7**	**-**	**8**	**9**
D. Interest income and other revenues	**8**	**15**	**-**	**13**	**9**

(*) The vehicles are used for securitisations involving residential mortgage loans except for TRIV, which deals with commercial mortgage loans. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards.

(**) Vehicle company which the Intesa Sanpaolo Group has not invested in.

With regard to the unconsolidated structured entities used for securitisations, the Group holds residual stakes in the vehicles Augusto, Colombo and Diocleziano, consolidated at equity. These vehicles are entities used in securitisations of assets, primarily land and public works financing, of a company subject to joint control sold in previous years.
The Group holds a residual stake in these vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.
The Intesa Sanpaolo Group controls the companies Romulus Funding Corporation and Duomo Funding Plc (included solely in the scope of consolidation pursuant to IFRS 10), which are used for transactions in which the Intesa Sanpaolo Group acts as sponsor and whose operations are described in Section 4 - Risks of other companies, of this Part E.

C.5. Prudential consolidation - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	90	15,989	11	2,945	0%	19%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	12	31	1	8	0%	100%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l. (*)	20	313	4	111	0%	81%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	9	761	3	139	0%	44%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	11	358	4	58	0%	87%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	5	429	3	65	0%	77%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	0	441	1	60	0%	36%	0%	0%	0%	0%
Intesa Sanpaolo	APULIA Finance n. 4 S.r.l. emissione I e II	28	102	-	24	0%	98%	0%	0%	0%	0%
Total		**176**	**18,424**	**26**	**3,411**						

(*) Vehicle used for self-securitisations

C.6. Prudential consolidation – Consolidated securitisation vehicles

There were no transactions that used consolidated securitisation vehicles during 2019.

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables below, reference is made to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**2,395**	**-**	***2,395***	***X***	**2,397**	**-**	***2,397***
1. Debt securities	2,395	-	*2,395*	*X*	2,397	-	*2,397*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**24,457**	**-**	***24,457***	**-**	**24,404**	**-**	***24,404***
1. Debt securities	24,457	-	*24,457*	-	24,404	-	*24,404*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**5,501**	***686***	***4,758***	***69***	**5,334**	***411***	***4,879***
1. Debt securities	4,815	-	*4,758*	-	4,923	-	*4,879*
2. Loans	686	*686*	-	*69*	411	*411*	-
TOTAL 31.12.2019	**32,353**	***686***	***31,610***	***69***	**32,135**	***411***	***31,680***
TOTAL 31.12.2018	**34,968**	***1,577***	***33,391***	***188***	**34,010**	***1,032***	***32,978***

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

The operations shown in the table mainly relate to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the K-Equity securitisations resulting from the acquisition of the former Venetian banks.

Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value

These are not present in the Intesa Sanpaolo Group.

Prudential consolidation - Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2019	31.12.2018
A. Financial assets held for trading	**2,395**	**-**	**2,395**	**2,478**
1. Debt securities	2,395	-	2,395	2,478
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**24,457**	**-**	**24,457**	**28,064**
1. Debt securities	24,457	-	24,457	28,064
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**5,605**	**-**	**5,605**	**4,376**
1. Debt securities	4,885	-	4,885	2,794
2. Loans	720	-	720	1,582
Total financial assets	**32,457**	**-**	**32,457**	**34,918**
Total related financial liabilities	**32,279**	**-**	**32,279**	**34,014**
Net value 31.12.2019	**178**	**-**	**178**	**X**
Net value 31.12.2018	**904**	**-**	**X**	**904**

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2018.

C. Financial assets sold and fully derecognised

Qualitative information

Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries

At 31 December 2019, the Intesa Sanpaolo Group held units of mutual funds acquired in multioriginator sales of loan portfolios.
In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, disclosures regarding "*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries*" are provided below.

FI.NAV. Fund
In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector. The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the ISP Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans, in which the loans contributed by the ISP Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the "repossessed" ships.
The transaction, formulated in 2018, was closed in 2019 through a sale without recourse for total gross consideration of 155 million euro and a net exposure equal to the price of 102 million euro, with the price of sale set off against the price of subscription of the Fund units, without any effects on the income statement for the year.
Pursuant to IFRS 9, for the ISP Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the ISP Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.
The Group companies involved in the transaction were ISP (including the units of the former subsidiaries CR Bologna and Mediocredito acquired within the framework of the merger transactions) and Banca IMI.
At 31 December 2019, the ISP Group held a 42% stake in the FI.NAV. Fund, classified among investments subject to significant influence, for a book value of 104.5 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund
In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: CR Veneto, CR Firenze, CR Friuli Venezia Giulia, CR Bologna and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund.
At 31 December 2019, the ISP Group held a 11.3% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 31.4 million euro.

Prudential consolidation - Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section.
Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, the Intesa Sanpaolo Group has carried out three Covered Bond issue programmes.

The first programme, launched in in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013.
As at 31 December 2019, loans and securities sold to the vehicle had a book value of 4.4 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (16.6 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).
In 2019, the tenth and thirteenth series of covered bonds were partially redeemed in advance in the amounts of 0.1 and 0.6 billion euro, respectively.

Therefore, as at 31 December 2019, a total nominal amount of 4.9 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4.8 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans and, initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo, were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 32.5 billion euro (net of retrocessions). During 2019, Intesa Sanpaolo also transferred residential mortgage loans with an original total nominal value of 1.67 billion euro to the vehicle in March, and retrocessions of non-performing loans with a nominal value of 0.4 billion euro were closed in October. As at 31 December 2019, the loans sold to the vehicle had a book value of 19 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of covered bonds for a total nominal value of approximately 31.7 billion euro (of which 8.2 billion euro subject to early redemption in 2012, 1 billion euro matured in the fourth quarter of 2015, 2.5 billion euro matured in the third quarter of 2016, 1.86 billion euro matured in the second quarter of 2017 and 0.75 billion euro matured in the third quarter of 2018).
During 2019:
- the twelfth series of CB, with a nominal value of 1 billion euro, reached maturity in September;
- in March, series 25 of CB was placed on the market, in the form of a fixed-rate bond (0.50%), for a nominal value of 1 billion euro, with a 5-year maturity, listed on the Luxembourg Stock Exchange with Moody’s Aa3 rating;
- in April, series 26 of CB was issued in the form of a variable-rate bond, with a 9-year maturity, for a nominal value of 0.5 billion euro, listed on the Luxembourg Stock Exchange with a Moody’s Aa3 rating. The bond was entirely subscribed by the Parent Company.

As at 31 December 2019, a total nominal amount of 17.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.9 billion placed with third party investors and 6 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro). The programme aims to achieve retained issues.
The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli (merged into Intesa Sanpaolo in November 2018), Cassa di Risparmio del Veneto (merged into Intesa Sanpaolo in July 2018), Cassa di Risparmio in Bologna and Banca CR Firenze (merged into Intesa Sanpaolo in February 2019). Over time, the Intesa Sanpaolo Group sold mortgages to the vehicle for an original total nominal value of 51.1 billion euro (net of exclusions).
The following sales were carried out in 2019: in May for a total of 7 billion euro, in June for a total of 2.8 billion euro and in November for a total of 2.4 billion euro. In October 2019, Intesa Sanpaolo closed retrocessions of non-performing loans with a nominal value of 0.9 billion euro.
As at 31 December 2019, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 39.5 billion euro.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 61.2 billion euro (of which 31.2 billion euro subject to early redemption and reimbursed).
During 2019:
- in February, the securities of series 13 and 14 were redeemed in advance for a total of 2.75 billion euro;
- in February, series 32 of CB was issued with a nominal value of 1.65 billion euro. This is a 5-year, floating-rate bond;
- in February, series 33 of CB was issued with a nominal value of 1.65 billion euro. This is a 13-year, floating-rate bond.
- in June, series 34 of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;
- in June, series 35 of CB was issued with a nominal value of 1.6 billion euro. This is a 10-year, floating-rate bond.
- in June, series 36 of CB was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond.
- in December, series 37 of CB was issued with a nominal value of 1.25 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations. As at 31 December 2019, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 36.8 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 250 million euro.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2019 are shown in the table below.

(millions of euro)

COVERED BONDS		**VEHICLE DATA**		**SUBORDINATED LOAN** [1]	**COVERED BONDS ISSUED**	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2) (3)
ISP CB PUBBLICO	Performing public sector loans and securities	6,179	9	5,962	147	154
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	23,696	37	22,298	11,963	12,676
ISP OBG	Mortgages	45,668	112	45,463	250	250

(1) This caption includes the subordinated loan granted by Intesa Sanpaolo S.p.A. to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with institutional investors for almost the entire amount issued.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity, deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2019, the subsidiary VUB had issued 3.1 billion euro in this type of securities, booked in the financial statements at a value of approximately 3.1 billion euro.

E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2019, the expected loss on performing loans to customers (which takes account of cash and unsecured loan types) was 0.41%, down by around 3 basis points on the figure at the end of 2018. The reduction was mainly attributable to the general improvement in credit quality, particularly in the Corporate and Retail SME segments.

Overall economic capital amounted to 2.36% of the disbursed loans, an increase on the figure for 2018 (+0.09%), mainly due to concentration risk, as a result of higher transaction levels in the Corporate segment and of investments in HTC/HTCS securities.

The figures for the indicators as at 31 December 2018 were reassessed according to the ICAAP 2019 approach.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function, as described in paragraph 2.3 of this Section, and a third level of control by the Internal Auditing function. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

1.2. MARKET RISKS

As already mentioned in the Introduction, the Intesa Sanpaolo Group policies on financial risk taking are defined by the Parent Company's Management Bodies, with the support of specific Committees, including the Steering Committee, chaired by the Managing Director and CEO and composed of the heads of the main corporate departments, and the Group Financial Risk Committee.

The Steering Committee, a Group body with a decision-making, reporting and consulting role, is also assigned the functions of assisting the Managing Director and CEO in the performance of his duties, strengthening the coordination and cooperation mechanisms between the various business, governance and control areas of the Bank and the Group, with a view to sharing the main business choices, and helping ensure coordinated and integrated risk management and the safeguarding of business value at Group level, including the correct functioning of the internal control system.

The Group Financial Risk Committee, chaired by the Chief Risk Officer and the Chief Financial Officer, is responsible for setting out the methodological and measurement guidelines for financial risks, establishing the operational limits and assessing the risk profile of the Group and its main operational units. The Committee also sets out the strategies for the management of the banking book to be submitted to the competent Bodies and establishes the guidelines on liquidity, interest rate and foreign exchange risk. The Committee operates on the basis of the operating and functional powers delegated by the Corporate Bodies and coordination of the Steering Committee.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risk Committee.

The Parent Company's Financial and Market Risks Department is responsible for the development of corporate risk measurement and monitoring methodologies as well as for the proposals on the Bank's and the Group's system of operational limits. It is also responsible in outsourcing for the risk measurement for certain operating units on the basis of specific service contracts.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which managerial VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**601,727**	**116,108**	**485,619**	
Financial assets held for trading	45,234	44,668	566	Interest rate risk, credit spread, equity
Financial assets designated at fair value	195	195	-	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	4,467	2,290	2,177	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	72,438	68,847	3,591	Interest rate risk, equity
Due from banks	48,893	-	48,893	Interest rate risk
Loans to customers	419,866	-	419,866	Interest rate risk
Hedging derivatives	3,028	108	2,920	Interest rate risk
Investments in associates and companies subject to joint control	7,606	-	7,606	Equity risk
Liabilities subject to market risk	**575,078**	**46,112**	**528,966**	
Due to banks	102,861	-	102,861	Interest rate risk
Due to customers	332,218	-	332,218	Interest rate risk
Securities issued	85,536	-	85,536	Interest rate risk
Financial liabilities held for trading	45,320	45,280	40	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	4	4	-	-
Hedging derivatives	9,139	828	8,311	Interest rate risk

REGULATORY TRADING BOOK

1.2.1. INTEREST RATE RISK AND PRICE RISK

Consistent with the use of internal models and management models for risk management, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

Qualitative information

The quantification of trading risks (managerial calculation scope) is based on daily and periodic analysis of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities stocks and indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

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

Managerial VaR

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

Sensitivity and greeks

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

Level measures

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

Stress tests

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

Internal model validation

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

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

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

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

Quantitative information

Daily managerial VaR evolution
During the fourth quarter of 2019, the managerial market risks generated by the Group decreased compared to the average values of the third quarter, mainly due to the reduction of Banca IMI.
The average managerial VaR of the Group for the period was 120.2 million euro compared to 145.3 million euro in the third average quarter.

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

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	13.1	10.7	16.3	16.8	15.0	16.9
Banca IMI	107.2	84.1	125.9	128.5	149.0	160.1
Total	**120.2**	**95.1**	**142.1**	**145.3**	**164.0**	**177.0**

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

For all of 2019, the Group's average managerial VaR was 151.5 million euro, up compared to 74.1 million euro in the same period of 2018. The performance of this indicator – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to financial risk operations, consistently with the 2019 Risk Appetite Framework.

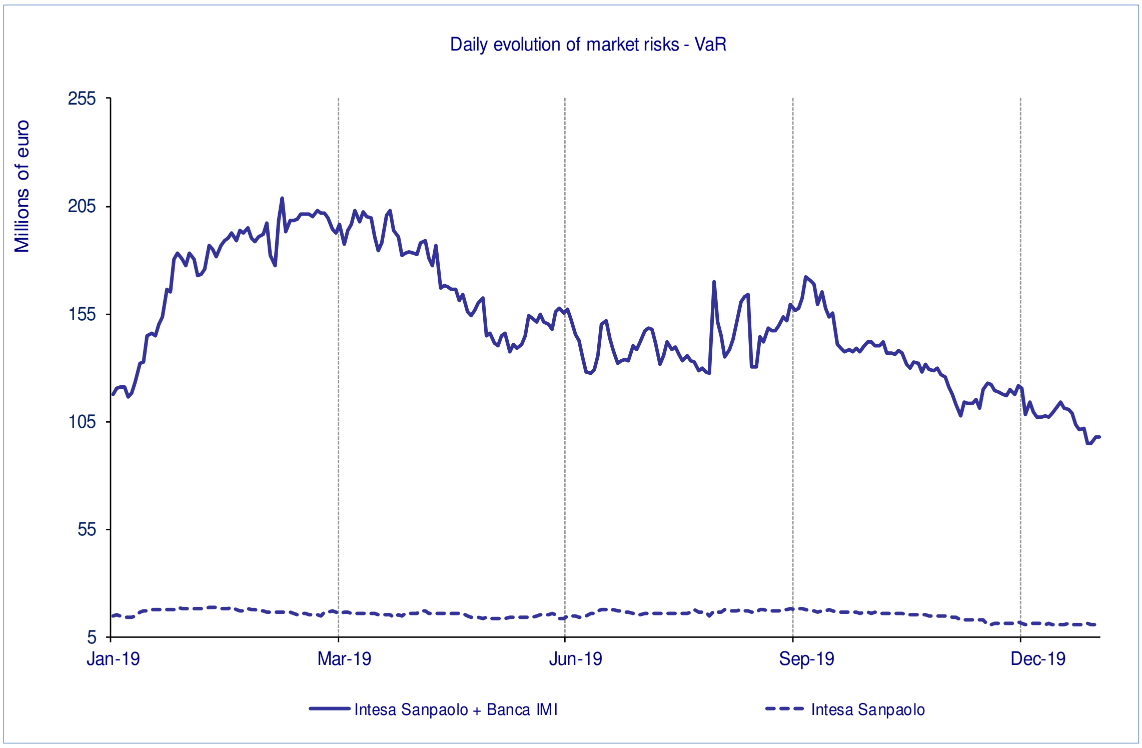
Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2019 and 2018 [(a)]

(millions of euro)

	2019				2018		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	15.4	10.7	19.0	10.7	12.0	6.7	20.9
Banca IMI	136.0	84.1	192.3	87.4	62.0	24.7	106.3
Total	**151.5**	**95.1**	**208.8**	**98.1**	**74.1**	**33.7**	**124.9**

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

The trend in the Group's managerial VaR, shown in the following chart, was mainly determined by Banca IMI.
In detail, in the first half of 2019 risk measures increased in accordance with the 2019 RAF, primarily due to dealings in government bonds, followed by a concurrent reduction attributable to the removal of volatile scenarios from the calculation of the historical simulation in the second quarter. In the second half of 2019, risks increased in August, substantially due to the volatility of the credit spread risk factor. The subsequent VaR performance, which declined on average, is due to both transactions and the scenario "rolling effect".



The breakdown of risk profile in the fourth quarter of 2019 with regard to the different risk factors shows the prevalence of the risk generated by the credit spread, which accounted for 58% of the total managerial VaR for Intesa Sanpaolo and 65% for Banca IMI.

Contribution of risk factors to total managerial VaR (a)

4th quarter 2019	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	1%	3%	26%	58%	11%	1%	0%
Banca IMI	2%	0%	30%	65%	0%	3%	0%
Total	**2%**	**0%**	**29%**	**65%**	**1%**	**2%**	**1%**

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

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

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	14	64	-268	148	670	-646	5	-11	2	2

In particular:
- for stock market positions, there would be no losses in both crash and bullish stock market scenarios, given the portfolio non-linearity;
- for positions in interest rates, there would be a loss of 268 million euro in the event of an increase in rate curves of 40 bps;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 646 million euro;

- for positions in exchange rates, there would be a loss of around 11 million euro in the event of a 5% appreciation in the Euro;
- finally, for positions on commodities, there would be no losses in both scenarios given the portfolio non-linearity.

Backtesting

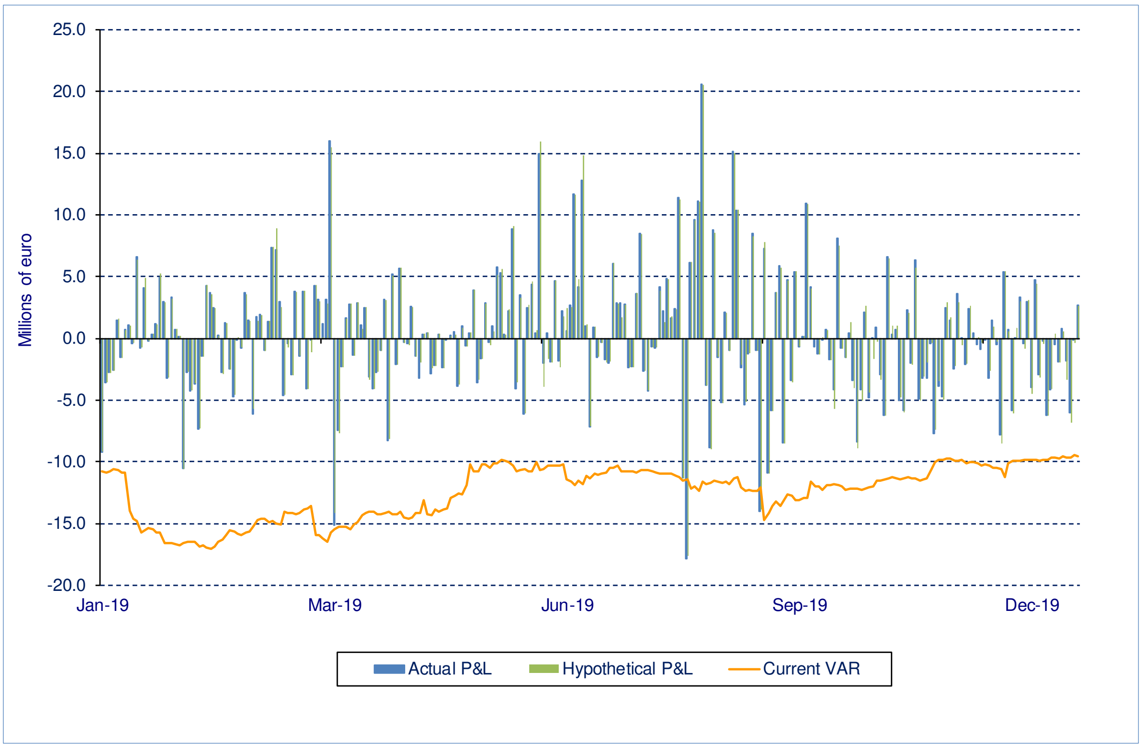
The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:

- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include fees, financial costs of managing the positions and P&L reserves that are regularly reported within the managerial area.

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

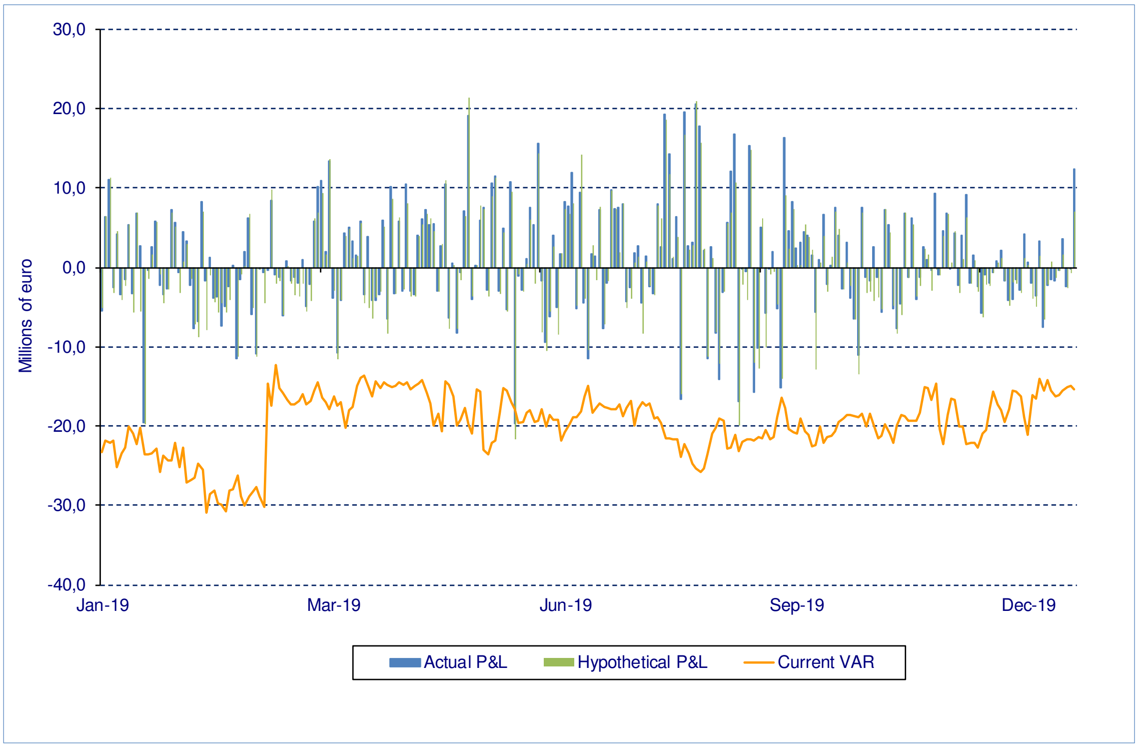
Backtesting in Intesa Sanpaolo

Two backtesting exceptions have been recorded during the last year. The breaches were caused by the volatility of the interest rate component in the trading book.



Backtesting in Banca IMI

Over the last twelve months, there was a single backtesting exception due to the interest rate volatility recorded in the second quarter of 2019.



Issuer risk
Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class and sector, and is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI [(a)]

	TOTAL	OF WHICH					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Intesa Sanpaolo	39%	4%	1%	0%	7%	79%	9%
Banca IMI	61%	1%	36%	3%	6%	8%	46%
Total	**100%**	**2%**	**22%**	**2%**	**7%**	**36%**	**31%**

(a) In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities) , including cds (absolute value).

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the securitisation and financial segment for Banca IMI.

Operating limits
The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:
- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.

With regard to VaR limits, for the 2019 RAF, an overall limit was set for the trading component of 220 million euro, up 65 million euro compared to last year. This increase should be viewed against the backdrop of the reduction of 40 million euro in the Group’s HTCS VaR limit (from 260 to 220 million euro) and is primarily aimed at concentrating market risks (financial portfolios) within Banca IMI.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the managerial VaR limit (held for trading component) for Intesa Sanpaolo averaged 63% in 2019, with a maximum use of 84%. For Banca IMI, the average VaR operating limit came to 74%, with a maximum use of 112% (this excess was managed in line with RAF Guidelines and the rules from the Market Risk Charter); it should be specified that, for Banca IMI, the managerial VaR limit also includes the HTCS component. By contrast, the use of VaR operating limits on the HTCS component (excluding Banca IMI) at year-end was 28%.

With regard to the use of the IRC limits, these amounted to 57.6% at year-end for Intesa Sanpaolo (limit of 230 million euro) and 30.7% for Banca IMI (limit of 430 million euro).

BANKING BOOK

1.2.2 INTEREST RATE RISK AND PRICE RISK

Qualitative information

General aspects, interest rate risk and price risk management processes and measurement methods

Market risk originated by the banking book arises primarily in the Parent Company and the 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, held by the Parent Company.

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

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

The following metrics are used to measure the interest rate risk generated by the banking book:

1. shift sensitivity of economic value (ΔEVE);
2. net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);
3. Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows;
- the cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP;

The models adopted for core deposits and for prepayment are subject to periodic backtesting. This backtesting is duly indicated in the Model Change documents and has been duly approved by the Group Financial Risk Committee.

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

The shift sensitivity of net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.
This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.

To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

The changes in net interest income and economic value are subject, at consolidated level and at individual Group company level, to monthly monitoring of compliance with the limits and sub-limits approved by the Group Financial Risk Committee (GFRC).
To this end, the measurements are presented taking into account the structuring for the verification, in terms of ceilings and sub-ceilings, time buckets (short, medium and long term), company and currency.
The scenarios used for the verification of the limits are:
– for the control of the exposure in terms of ΔEVE: instantaneous and parallel shock of +100 bps;
– for the control of the exposure in terms of ΔNII: instantaneous and parallel shock of ±50 bps.

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.

Quantitative information

Banking book: internal models and other sensitivity analysis methodologies

In 2019, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 594 million euro, with a minimum value of 233 million euro and a maximum value of 1,226 million euro, reaching a figure of 394 million euro at the end of 2019 (1,143 million euro at the end of 2018), almost entirely concentrated on the euro currency.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 939 million euro, -1,037 million euro and 1,837 million euro, respectively, at the end of 2019. The last of these figures was up on the 1,759 million euro recorded at the end of 2018.

Interest rate risk, measured in terms of VaR, averaged 172 million euro in 2019, with a maximum value of 282 million euro and a minimum value of 74 million euro, reaching a figure of 227 million euro at the end of 2019 (91 million euro at the end of 2018).

Foreign exchange risk expressed by equity investments in foreign currency (banking book) and measured in terms of VaR averaged 43 million euro in 2019, with a maximum value of 54 million euro and a minimum value of 35 million euro, with the latter coinciding with the value at the end of 2019 (42 million euro at the end of 2018).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2019 of 60 million euro (52 million euro at the end of 2018), with maximum and minimum values of 75 million euro and 43 million euro respectively, with the latter coinciding with the value at the end of 2019.

The table below shows the changes in the main risk measures

(millions of euro)

	2019			31.12.2019	31.12.2018
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	594	233	1,226	394	1,143
Shift Sensitivity of Net Interest Income -50bp	-1,017	-952	-1,072	-1,037	-928
Shift Sensitivity of Net Interest Income +50bp	967	914	1,009	939	886
Shift Sensitivity of Net Interest Income +100bp	1,887	1,786	1,964	1,837	1,759
Value at Risk - Interest Rate	172	74	282	227	91
Value at Risk Exchange	43	35	54	35	42
Value at Risk - Equity investments in listed companies	60	43	75	43	52

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the abovementioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		1st quarter 2019 impact on shareholders' equity at 31.03.2019	2nd quarter 2019 impact on shareholders' equity at 30.06.2019	3rd quarter 2019 impact on shareholders' equity at 30.09.2019	4th quarter 2019 impact on shareholders' equity at 31.12.2019	Impact on shareholders' equity at 31.12.2018
Price shock	10%	59	56	52	50	39
Price shock	-10%	-59	-56	-52	-50	-39

1.2.3. FOREIGN EXCHANGE RISK

Qualitative information

A. General aspects, foreign exchange risk management processes and measurement methods

“Foreign exchange risk” is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the valuation of the assets and liabilities in the financial statements and on earnings and capital ratios.

Two types of Foreign Exchange Risk are identified: *Structural* and *Transaction risk.*

Structural Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the foreign exchange reserves that are part of the Group’s consolidated shareholders’ equity, and also includes the foreign exchange risk associated with hybrid capital instruments. The key sources of structural foreign exchange risk are therefore the investments in associates and companies subject to joint control. The Intesa Sanpaolo Group’s management of the Structural Foreign Exchange Risk assigns the Parent Company the related management and coordination powers in order to achieve a consistent Group strategy.
This choice, which is consistent with the Parent Company’s role as the liaison with the Supervisory Authority, allows the activities to be performed based on the specific responsibilities set out in the prudential supervision regulations, in addition to suitably mitigating and/or managing this type of risk.

Transaction Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that may have a negative impact both on the valuation of the assets and liabilities in the financial statements and on the earnings from funding and lending transactions in currencies other than the euro. The main sources of this foreign exchange risk consist of: non-euro loans and deposits held by corporate and/or retail customers; conversion into domestic currency of assets, liabilities and income of the international branches; trading of foreign currencies; collection and/or payment of interest, commissions, dividends and administrative expenses in foreign currencies; purchase and sale of securities and financial instruments for the purpose of resale in the short term; etc. Transaction foreign exchange risk also includes the risk related to transactions connected to operations that generate the type of structural foreign exchange risk represented, for example, by dividends, earnings in the process of being generated, and corporate events.

B. Foreign exchange risk hedging activities

The monitoring and hedging of the Transaction Foreign Exchange Risk are carried out at central level by the Group Treasury and Finance Head Office Department of the Parent Company and at local level by the individual treasury functions of the Group Companies and Banks.
According to the general principle underlying the management of the Structural Foreign Exchange Rate Risk, the related exposures are not normally subject to microhedging. This is because the foreign exchange risk arising from the investments in countries where the Group has investments in associates and companies subject to joint control reflects the long-term strategic view of investing in the macroeconomic growth of those countries and any hedging would mean giving up the additional profit arising from the rate spread against the euro rates. In addition, over the long term, the diversification of the Group’s portfolio among different currencies optimises its risk/return and mitigates the Group’s exposure to Italy country risk, albeit to a limited extent. These investments, due to their nature, also enable the stability of the capital ratios, within certain limits.
The exposures to foreign exchange risk are measured by the Financial and Market Risks Department and, for Transaction Foreign Exchange Risk, are subject to daily VaR limits and stress tests with the rest of the trading book.

As at the date of preparation of the financial statements, there were no transactions hedging shareholders’ equity, whereas there were operational hedges of the foreign exchange risk of the assets and liabilities in the financial statements related to the Banking Book.

Quantitative information

1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

	CURRENCIES							
	US dollar	**GB pound**	**Swiss franc**	**Hungarian forint**	**Egyptian pound**	**Croatian kuna**	**Yen**	**Other currencies**
A. FINANCIAL ASSETS	**36,841**	**3,156**	**973**	**4,057**	**4,908**	**6,606**	**3,400**	**9,415**
A.1 Debt securities	12,113	587	16	1,145	1,225	895	2,166	2,139
A.2 Equities	424	17	8	-	36	2	-	455
A.3 Loans to banks	5,766	206	346	715	1,751	2,177	113	2,032
A.4 Loans to customers	18,522	2,346	603	2,036	1,896	3,529	1,121	4,738
A.5 Other financial assets	16	-	-	161	-	3	-	51
B. OTHER ASSETS	**3,289**	**191**	**38**	**147**	**147**	**243**	**277**	**218**
C. FINANCIAL LIABILITIES	**33,870**	**1,227**	**745**	**3,925**	**4,288**	**4,582**	**772**	**5,625**
C.1 Due to banks	10,627	244	59	396	16	187	8	727
C.2 Due to customers	8,499	631	373	3,414	1,973	4,394	187	4,344
C.3 Debt securities	14,739	352	313	-	2,299	-	577	535
C.4 Other financial liabilities	5	-	-	115	-	1	-	19
D. OTHER LIABILITIES	**479**	**14**	**11**	**16**	**94**	**264**	**3**	**110**
E. FINANCIAL DERIVATIVES								
- Options								
long positions	*4,042*	*80*	*9*	*12*	*-*	*-*	*108*	*359*
short positions	*4,103*	*142*	*9*	*10*	*-*	*-*	*209*	*387*
- Other derivatives								
long positions	*80,641*	*10,766*	*4,423*	*1,550*	*-*	*23*	*4,498*	*10,665*
short positions	*86,098*	*12,473*	*4,572*	*1,072*	*-*	*224*	*7,298*	*12,457*
TOTAL ASSETS	**124,813**	**14,193**	**5,443**	**5,766**	**5,055**	**6,872**	**8,283**	**20,657**
TOTAL LIABILITIES	**124,550**	**13,856**	**5,337**	**5,023**	**4,382**	**5,070**	**8,282**	**18,579**
DIFFERENCE (+/-)	**263**	**337**	**106**	**743**	**673**	**1,802**	**1**	**2,078**

2. Internal models and other sensitivity analysis methodologies

As already noted, the management of Transaction Foreign Exchange Risk relating to trading activities is included in the operating procedures and in the estimation methodologies of the internal model based on VaR calculations, as already illustrated.
The (structural) foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 35 million euro as at 31 December 2019. This potential impact would only be reflected in the Shareholders' Equity.

1.3. DERIVATIVES AND HEDGING POLICIES

Starting from 2014, the Parent Company and Banca IMI have been authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk. This approach is applicable to almost the entire derivative portfolio (as shown in the table below, as at 31 December 2019 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models). Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2019 accounting for approximately 2% of overall EAD) and refer to:

- residual contracts of Banca IMI and Intesa Sanpaolo to which EPE is not applied (in compliance with the immateriality of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

As envisaged by Basel 3, also CCPs generate a capital requirement and are thus included in the EPE scope and in the evidence stated below.

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

(millions of euro)

Transaction categories	31.12.2019		31.12.2018	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	402	17,138	404	16,950

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to approximately 4 billion euro for the Parent Company and Banca IMI, while the collateral paid equals 18 billion euro (including the collateral connected with transactions with central counterparties).

1.3.1. Trading derivatives

A. FINANCIAL DERIVATIVES

A.1. Financial trading derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivatives	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	**1,638,170**	**171,607**	**56,717**	**211,811**	**1,768,173**	**181,588**	**58,260**	**210,792**
a) Options	-	83,974	7,429	63,006	-	91,854	6,833	51,158
b) Swaps	1,638,170	87,633	47,391	-	1,768,173	89,734	48,737	-
c) Forwards	-	-	1,897	-	-	-	2,690	-
d) Futures	-	-	-	148,805	-	-	-	159,634
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**9,152**	**16,504**	**23,392**	**-**	**10,284**	**16,162**	**19,542**
a) Options	-	9,152	16,491	21,046	-	10,244	16,151	18,000
b) Swaps	-	-	13	-	-	40	9	-
c) Forwards	-	-	-	-	-	-	2	-
d) Futures	-	-	-	2,346	-	-	-	1,542
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**189,826**	**19,479**	**339**	**-**	**166,544**	**20,336**	**534**
a) Options	-	26,439	888	80	-	22,682	1,094	71
b) Swaps	-	55,590	6,355	-	-	56,215	6,118	-
c) Forwards	-	107,501	11,815	8	-	87,437	12,612	-
d) Futures	-	-	-	250	-	-	-	222
e) Other	-	296	421	1	-	210	512	241
4. Commodities	**-**	**7,342**	**912**	**1,637**	**-**	**11,405**	**1,904**	**1,838**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,638,170**	**377,927**	**93,612**	**237,179**	**1,768,173**	**369,821**	**96,662**	**232,706**

A.2. Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2019				31.12.2018			
	Over the counter			Mercati organizzati	Over the counter			Mercati organizzati
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	2,466	95	581	-	2,583	92	563
b) Interest rate swaps	36,322	12,697	6,724	-	-	10,536	6,010	-
c) Cross currency swaps	-	1,379	262	-	-	1,282	269	-
d) Equity swaps	-	-	4	-	-	3	2	-
e) Forwards	-	917	82	-	-	976	91	1
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	257	68	1	-	2,773	141	-
Total	**36,322**	**17,716**	**7,235**	**582**	**-**	**18,153**	**6,605**	**564**
2. Negative fair value								
a) Options	-	2,499	4,772	1,155	-	2,607	3,711	1,425
b) Interest rate swaps	41,748	12,633	789	-	4,298	11,418	656	-
c) Cross currency swaps	-	1,421	840	-	-	1,340	676	-
d) Equity swaps	-	-	1	-	-	-	-	-
e) Forwards	-	847	93	-	-	1,042	160	1
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	262	70	-	-	2,762	126	-
Total	**41,748**	**17,662**	**6,565**	**1,155**	**4,298**	**19,169**	**5,329**	**1,426**

A.3. Over the counter financial trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	8,082	7,387	41,248
- positive fair value	X	1,117	164	5,527
- negative fair value	X	-590	-12	-221
2) Equities and stock indices				
- notional amount	X	310	15,556	638
- positive fair value	X	1	3	11
- negative fair value	X	-56	-4,610	-65
3) Foreign exchange rates and gold				
- notional amount	X	1,728	7,737	10,014
- positive fair value	X	5	17	325
- negative fair value	X	-652	-83	-209
4) Commodities				
- notional amount	X	-	80	832
- positive fair value	X	-	1	64
- negative fair value	X	-	-1	-66
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	1,638,170	98,872	57,224	15,511
- positive fair value	36,322	11,217	2,181	1,340
- negative fair value	-41,748	-11,236	-3,000	-361
2) Equities and stock indices				
- notional amount	-	4,256	4,849	47
- positive fair value	-	102	38	1
- negative fair value	-	-115	-100	-
3) Foreign exchange rates and gold				
- notional amount	-	138,608	38,260	12,958
- positive fair value	-	1,201	1,042	331
- negative fair value	-	-1,600	-460	-505
4) Commodities				
- notional amount	-	2,869	3,073	1,400
- positive fair value	-	103	79	81
- negative fair value	-	-53	-135	-97
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4. Residual maturity of over the counter financial derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	496,896	712,985	656,613	1,866,494
A.2 Financial derivatives on equities and stock indices	4,115	20,017	1,524	25,656
A.3 Financial derivatives on foreign exchange rates and gold	147,600	40,853	20,852	209,305
A.4 Financial derivatives on commodities	5,834	2,420	-	8,254
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**654,445**	**776,275**	**678,989**	**2,109,709**
Total 31.12.2018	**569,186**	**898,637**	**766,833**	**2,234,656**

B. CREDIT DERIVATIVES

B.1. Credit trading derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	Trading derivatives	
	single counterparty	more counterparties (basket)
1. Protection purchases		
a) Credit default products	9,019	50,385
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**9,019**	**50,385**
Total 31.12.2018	**7,627**	**45,131**
2. Protection sales		
a) Credit default products	10,559	46,581
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**10,559**	**46,581**
Total 31.12.2018	**8,152**	**43,937**

As at 31 December 2019, none of the contracts shown in the table above have been included within the structured credit products.

B.2. Credit trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Total 31.12.2019	Total 31.12.2018
1. Positive fair value		
a) Credit default products	1,770	703
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,770**	**703**
2. Negative fair value		**-**
a) Credit default products	1,942	784
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**1,942**	**784**

As at 31 December 2019, none of the contracts shown in the table above have been included within the structured credit products.

B.3. Over the counter credit trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Protection purchases				
– notional amount	X	-	-	192
– positive fair value	X	-	-	45
– negative fair value	X	-	-	-
2) Protection sales				
– notional amount	X	-	54	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-21	-
Contracts included under netting agreements				
1) Protection purchases				
– notional amount	31,101	17,879	10,232	-
– positive fair value	-	127	101	-
– negative fair value	-959	-345	-251	-
2) Protection sales				
– notional amount	29,000	17,068	11,018	-
– positive fair value	856	329	312	-
– negative fair value	-	-152	-214	-

As at 31 December 2019, none of the contracts shown in the table above have been included within the structured credit products.

B.4. Residual maturity of over the counter credit trading derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
1. Protection sales	8,576	47,504	1,060	57,140
2. Protection purchases	8,920	49,569	915	59,404
Total 31.12.2019	**17,496**	**97,073**	**1,975**	**116,544**
Total 31.12.2018	**6,191**	**96,621**	**2,035**	**104,847**

B.5. Credit derivatives associated with the fair value option: annual changes

The Intesa Sanpaolo Group does not hold credit derivatives associated with the fair value option.

1.3.2. Accounting hedges

Qualitative information

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Group uses both micro fair value hedges and macro fair value hedges.
The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.
The macro fair value hedges are used for:
- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans. For this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

B. Cash flow hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the Group from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.
The Group uses both micro cash flow hedges and macro cash flow hedges.
The micro cash flow hedges mainly hedge bonds issued.
The macro cash flow hedges are used for:
- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties or with other Group companies, which, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

C. Hedging of foreign investments

In 2019, foreign exchange hedges were implemented against transaction foreign exchange risk.

D. Hedging instruments

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of the hedges are attributable to the following:
- misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
- application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised, are discounted on the Eonia curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:
- the determination of the effect on the income statement;
- the assessment of the possibility of continuing to apply the hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. Hedged items

The main types of hedged items are:

- debt securities under assets;
- debt securities issued and non-securities funding;
- fixed-rate loans;
- floating-rate loans;
- optional embedded component of floating-rate mortgages;
- already fixed coupon of floating rate-loans;
- modelled on demand deposits.

E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

E.2 Debt securities issued and non-securities funding

The Group currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.
For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

E.3 Fixed-rate loans

The Group has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.
The interest rate risk is hedged throughout the life of the underlying.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.
For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.

E.4 Floating-rate loans

The Group currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments.
The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

E.5 Optional embedded component of floating-rate mortgages

The optional embedded components (interest rate options) of floating-rate mortgages are hedged by micro fair value hedges, using options (cap, floor, collar) as hedging instruments.
The underlying assets may be partially or totally hedged, over time and in terms of amount.

The Dollar Offset Method is used to verify the hedge effectiveness.

E.6 Already fixed coupon of floating-rate loans
This is hedged by macro fair value hedges, using OIS as hedging instruments.
The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.
The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

E.7 Modelled on demand deposits.
Modelled on demand deposits are hedged by macro fair value hedges, as required by the "carve out" of IAS 39, using IRS and OIS as hedging instruments.
The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by core deposits.
The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary. The Dollar Offset Method is used to verify the hedge effectiveness.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivative	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**21,477**	**184,377**	**6,235**	**-**	**13,941**	**175,467**	**4,284**	**-**
a) Options	-	2,689	-	-	-	3,194	-	-
b) Swaps	21,477	181,668	4,645	-	13,941	172,253	4,284	-
c) Forwards	-	-	1,590	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	20	-	-	-	20	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**6,682**	**36**	**136**	**-**	**3,192**	**52**	**26**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	6,682	36	136	-	3,192	52	26
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**21,477**	**191,059**	**6,271**	**136**	**13,941**	**178,659**	**4,336**	**26**

The average notional amount in the year of the financial hedging derivatives was 192,881 million euro

A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2019				Total 31.12.2018				Total 31.12.2019	Total 31.12.2018
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	19	-	-	-	53	-	-	-183	-176
b) Interest rate swap	392	2,583	11	-	-	2,643	7	-	2,127	2,066
c) Cross currency swap	-	385	-	-	-	290	-	-	116	59
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	28	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	1	-	-	-	-	-	-	-	-
Total	**392**	**2,988**	**39**	**-**	**-**	**2,986**	**7**	**-**	**2,060**	**1,949**
Negative fair value										
a) Options	-	4	-	-	-	4	-	-	1	4
b) Interest rate swap	907	8,039	141	-	300	6,132	109	-	6,242	4,388
c) Cross currency swap	-	397	1	-	-	344	1	-	356	272
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	3	-	-	-	-	-	-
Total	**907**	**8,440**	**142**	**3**	**300**	**6,480**	**110**	**-**	**6,599**	**4,664**

A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

(millions of euro)

Underlying asset	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	5,048	1,187	-
- positive fair value	X	19	20	-
- negative fair value	X	-141	-	-
2) Equities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold				
- notional amount	X	36	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-1	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	21,477	182,518	1,859	-
- positive fair value	392	2,547	56	-
- negative fair value	-907	-7,390	-653	-
2) Equities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold				
- notional amount	-	6,211	471	-
- positive fair value	-	380	5	-
- negative fair value	-	-231	-166	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of over the counter financial hedging derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	70,305	59,328	82,456	212,089
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	171	4,179	2,368	6,718
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**70,476**	**63,507**	**84,824**	**218,807**
Total 31.12.2018	**38,329**	**83,518**	**75,089**	**196,936**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: period-end notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product

B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty

B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts

The Intesa Sanpaolo Group does not hold credit derivatives classified as hedges in its portfolio.

C. Non-derivative hedging instruments

C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

For this reason, the Intesa Sanpaolo Group does not hold financial instruments to be shown in table “C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge”.

INFORMATION ON THE UNCERTAINTY DERIVING FROM HEDGING DERIVATIVE BENCHMARK INDICES

As illustrated in Part A – Accounting policies, the Intesa Sanpaolo Group has exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)". This regulation introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships. Therefore, the analysis of hedge effectiveness was carried out considering the flows and timing of outstanding hedging derivatives, assuming that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the Interest Rate Benchmark Reform (IBOR Reform).

The disclosure required by IFRS 7, paragraph 24H, on the uncertainty arising from interest rate benchmark reform on hedging relationships and the nominal amount of hedging instruments potentially impacted by the benchmark rate reform is provided below. Reference should also be made to that set out in these Notes to the financial statements, in the Introduction of Part E – Information on risks and relative hedging policies, for an illustration of how the Group is managing the process to transition to alternative benchmark rates.

Fair value hedge derivatives

Fair value hedge derivatives of the Intesa Sanpaolo Banking Group are mainly index-linked to the Euribor, whose calculation method was revised during 2019 to be able to continuing using that parameter also after 1 January 2022, both for outstanding contracts and new contracts. To make the Euribor compliant with the EU Benchmarks Regulation (BMR - Regulation 2016/1011/EU) the EMMI - European Money Markets Institute - completed the change to a new "hybrid" calculation method. The new calculation system – which was completed at the end of November 2019 - does not change the economic variable that the benchmark measures: the Euribor expresses the actual cost of funding for contributing European banks, and is always available and consultable.

Therefore, the Group does not deem that there is uncertainty on the timing or cash flows of the Euribor, and does not consider the fair value hedges linked to the Euribor to be impacted by the reform as at 31 December 2019.

The fair value hedges also include derivatives index-linked to benchmarks impacted by the reform, specifically to the EONIA and the LIBOR, for the various currencies, which will be replaced in the future with new risk-free interest rates. Specifically, in Europe, the EONIA fixing, calculated starting from October 2019 based on the new risk-free rate €STR, will be published until the end of 2021 and then permanently replaced by €STR. The publication of the LIBOR is also expected to be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the LIBOR.

Specifically, as at 31 December 2019, there were fair value hedges index-linked to the EONIA for a notional amount of 67,651 million euro, of which 18,529 million euro maturing after 31 December 2021, to the LIBOR USD for a notional amount of 15,535 million euro, of which 14,857 million euro maturing after 31 December 2021, and to other interest rates impacted by the reform, such as the LIBOR of other currencies, for a notional amount of 622 million euro, of which 469 million euro maturing after 31 December 2021. These amounts represent 39% of the total of fair value hedge derivatives of the Group and 16% considering only derivatives maturing after 31 December 2021.

Cash flow hedge derivatives

Cash flow hedge derivatives of the Intesa Sanpaolo Banking Group are index-linked to the Euribor. As illustrated for fair value hedges, the Group does not deem that there is uncertainty on the timing or cash flows of the Euribor, and, therefore does not consider the cash flow hedges linked to the Euribor to be impacted by the reform as at 31 December 2019.

D. Hedged items

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

D.1 Fair value hedges

(millions of euro)

		Micro-hedges: book value	**Micro-hedges – net positions: book value of assets and liabilities (prior to netting)**	**Micro-hedges**			**Macro-hedges: book value**
				Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	
A. Assets							
Financial assets designated at fair value through other comprehensive income – hedging of:		**44,424**	**-**	**596**	**103**	**284**	**-**
1.1 Debt securities and interest rates		42,902	-	603	103	250	X
1.2 Equities and stock indices		-	-	-	-	-	X
1.3 Foreign exchange rates and gold		-	-	-	-	-	X
1.4 Loans		-	-	-	-	-	X
1.5 Other		1,522	-	-7	-	34	X
2. Financial assets measured at amortised cost - hedging of:		**25,544**	**-**	**3,866**	**4**	**2,923**	**68,055**
1.1 Debt securities and interest rates		24,919	-	3,571	4	2,628	X
1.2 Equities and stock indices		-	-	-	-	-	X
1.3 Foreign exchange rates and gold		94	-	-	-	-	X
1.4 Loans		-	-	-	-	-	X
1.5 Other		531	-	295	-	295	X
Total	**31.12.2019**	**69,968**	**-**	**4,462**	**107**	**3,207**	**68,055**
Total	**31.12.2018**	**55,720**	**-**	**3,672**	**104**	**2,724**	**46,720**
B. Liabilities							
1. Financial liabilities measured at amortised cost - hedging of:		**40,312**	**-**	**1,391**	**264**	**1,641**	**20,016**
1.1 Debt securities and interest rates		35,868	-	1,308	264	1,548	X
1.2 Foreign exchange rates and gold		-	-	-	-	-	X
1.3 Other		4,444	-	83	-	93	X
Total	**31.12.2019**	**40,312**	**-**	**1,391**	**264**	**1,641**	**20,016**
Total	**31.12.2018**	**88,772**	**-**	**1,014**	**102**	**1,487**	**7,225**

D.2 Cash flow hedges and hedges of foreign investments

(millions of euro)

		Change in value used to assess hedge ineffectiveness	Hedging reserves	Termination of hedging: residual cumulative value of the hedging reserves
A. Cash flow hedge				
1. Assets		**-**	**3**	**-**
1.1 Debt securities and interest rates		-	3	-
1.2 Equities and stock indices		-	-	-
1.3 Foreign exchange rates and gold		-	-	-
1.4 Loans		-	-	-
1.5 Other		-	-	-
2. Liabilities		**-1,216**	**-1,262**	**-**
1.1 Debt securities and interest rates		-1,216	-1,262	-
1.2 Foreign exchange rates and gold		-	-	-
1.3 Other		-	-	-
Total (A)	**31.12.2019**	**-1,216**	**-1,259**	**-**
Total (A)	**31.12.2018**	**-1,036**	**-1,194**	**-**
B. Hedges of foreign investments		X	-	-
Total (A+B)	**31.12.2019**	**-1,216**	**-1,259**	**-**
Total (A+B)	**31.12.2018**	**-1,036**	**-1,194**	**-**

E. **Effects of hedging on shareholders' equity**

E.1 Reconciliation of components of shareholders' equity

(millions of euro)

	Cash flow hedging reserve					Reserve for hedging of foreign investments				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
Initial amount	**-1,194**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	-65	-	-	-	-	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	*X*	*X*	*X*	*X*	*X*
Other changes	-	-	-	-	-	-	-	-	-	-
of which: transfer to the initial book value of the hedged instruments	-	-	-	-	-	*X*	*X*	*X*	*X*	*X*
Final amount	**-1,259**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

It is noted that "Hedging instruments (non-designated items)" is not present, as the Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

1.3.3. Other information on derivative instruments (trading and hedging)

A. Credit and financial derivatives

A.1 Over the counter credit and financial derivatives: net fair values by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	1,659,647	294,520	67,657	56,759
- positive net fair value	2	2,749	440	6,266
- negative net fair value	-5,944	-1,065	-73	-221
2) Equities and stock indices				
- notional amount	-	4,566	20,405	685
- positive net fair value	-	5	20	11
- negative net fair value	-	-56	-4,610	-65
3) Foreign exchange rates and gold				
- notional amount	-	146,583	46,468	22,972
- positive net fair value	-	94	48	456
- negative net fair value	-	-699	-127	-228
4) Commodities				
- notional amount	-	2,869	3,153	2,232
- positive net fair value	-	-	2	64
- negative net fair value	-	-	-1	-66
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	1,559	255	174
- negative net fair value	-	-8,001	-1,620	-235
B. Credit derivatives				
1) Protection purchases				
- notional amount	31,101	17,879	10,232	192
- positive net fair value	-	-	-	45
- negative net fair value	-	-	-	-
2) Protection sales				
- notional amount	29,000	17,068	11,072	-
- positive net fair value	1	-	-	-
- negative net fair value	-103	-	-21	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, liquidity risk management processes and measurement methods

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

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

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

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Delegated Regulation 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (level of 100% from 1 January 2018). The entry into force of the net stable funding ratio (100%%) is, instead, planned for June 2021, following final approval and subsequent publication in the Official Journal in May 2019 of the package of banking reforms containing the new EU Directive 2019/878 (CRD V) and the new Regulation 219/876 (CRR2).

Since March 2015, the Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the latest regulations step-by-step, adjusting the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted, in view of the upcoming entry into force of said new European regulations.

The Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:
- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.
- liquidity management in crisis situations that takes into account the guidelines on the governance of crisis management processes within the Recovery Plan and the Resolution Plan.

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios composing of early warning thresholds used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.
The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Group Treasury and Finance Head Office Department, the Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping to improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

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

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

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

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

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

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

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

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained largely within the risk limits set out in the current Group Liquidity Policy for 2019: both regulatory indicators, LCR and NSFR, were well above 100%. In 2019, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 160.6%.

At the end of December 2019, the value of unencumbered HQLA reserves was more than 23% comprised of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 118 billion euro.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2019	31.12.2018
HQLA Liquidity Reserves	**95,762**	**84,346**
Cash and Deposits held with Central Banks (HQLA)	22,326	40,156
Highly liquid securities (HQLA)	73,436	44,190
Other eligible and/or marketable reserves	22,594	4,251
Total Group's Liquidity Buffer	**118,356**	**88,597**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO II and III). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**58,035**	**18,442**	**7,821**	**17,502**	**22,504**	**23,648**	**30,553**	**150,427**	**152,922**	**12,916**
A.1 Government bonds	34	9	110	1,593	1,356	5,059	6,460	19,599	31,857	-
A.2 Other debt securities	105	572	647	4,608	106	232	384	7,626	14,242	-
A.3 Quotas of UCI	2,785	-	-	-	-	-	-	-	-	7
A.4 Loans	55,111	17,861	7,064	11,301	21,042	18,357	23,709	123,202	106,823	12,909
- Banks	12,881	2,467	541	217	3,302	965	976	1,983	195	12,849
- Customers	42,230	15,394	6,523	11,084	17,740	17,392	22,733	121,219	106,628	60
B. Cash liabilities	**299,895**	**23,496**	**4,934**	**5,393**	**11,810**	**27,766**	**10,983**	**70,198**	**23,876**	**-**
B.1 Deposits and current accounts	284,219	596	829	1,289	2,393	2,261	3,581	5,060	1,060	-
- Banks	2,583	195	31	107	43	870	119	451	436	-
- Customers	281,636	401	798	1,182	2,350	1,391	3,462	4,609	624	-
B.2 Debt securities	3	425	1,908	1,000	6,007	6,840	5,363	32,086	18,686	-
B.3 Other liabilities	15,673	22,475	2,197	3,104	3,410	18,665	2,039	33,052	4,130	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	3,519	12,667	6,393	13,837	22,201	9,632	10,028	23,527	9,363	-
- Short positions	2,957	14,252	4,097	9,788	19,087	8,667	8,603	21,259	10,414	-
C.2 Financial derivatives without exchange of capital										
- Long positions	22,798	1	1	13	53	57	171	421	143	-
- Short positions	31,584	2	1	11	59	62	154	421	143	-
C.3 Deposits and loans to be settled										
- Long positions	46,645	-	-	-	-	-	-	-	-	-
- Short positions	214	46,327	-	-	-	104	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	361	9,458	7	59	437	358	1,461	14,720	3,183	-
- Short positions	29,429	47	6	37	24	44	67	58	-	-
C.5 Financial guarantees given	398	1	10	29	128	89	121	255	88	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	50	17	-	234	1,556	-
- Short positions	-	-	-	-	50	17	-	234	1,556	-
C.8 Credit derivatives without exchange of capital										
- Long positions	364	-	-	-	-	-	-	-	-	-
- Short positions	392	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**5,183**	**3,476**	**2,032**	**3,891**	**5,036**	**4,884**	**7,285**	**20,896**	**11,880**	**1,583**
A.1 Government bonds	6	69	180	389	1,227	753	925	6,360	5,115	-
A.2 Other debt securities	22	153	36	150	83	232	308	1,703	1,977	-
A.3 Quotas of UCI	199	-	-	-	-	-	-	-	-	2
A.4 Loans	4,956	3,254	1,816	3,352	3,726	3,899	6,052	12,833	4,788	1,581
- Banks	1,627	1,433	719	1,027	1,215	1,132	2,342	148	47	1,552
- Customers	3,329	1,821	1,097	2,325	2,511	2,767	3,710	12,685	4,741	29
B. Cash liabilities	**18,031**	**3,046**	**2,687**	**3,771**	**4,598**	**2,242**	**2,583**	**12,792**	**5,689**	**15**
B.1 Deposits and current accounts	17,106	1,216	1,146	1,609	1,513	951	926	1,703	245	-
- Banks	1,823	400	476	536	239	70	71	522	117	-
- Customers	15,283	816	670	1,073	1,274	881	855	1,181	128	-
B.2 Debt securities	53	256	313	481	1,008	428	1,500	10,534	4,320	-
B.3 Other liabilities	872	1,574	1,228	1,681	2,077	863	157	555	1,124	15
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	1,678	19,794	6,376	15,652	16,219	10,866	11,916	20,743	11,971	-
- Short positions	1,520	19,910	8,760	18,102	20,734	11,494	13,591	23,814	10,258	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,355	2	1	31	24	38	51	137	4	-
- Short positions	1,521	-	2	15	17	41	73	137	5	-
C.3 Deposits and loans to be settled										
- Long positions	58	-	-	-	-	-	-	-	-	-
- Short positions	18	2	5	24	1	9	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	532	3	150	145	278	337	1,458	12,101	1,768	-
- Short positions	14,833	289	-	-	-	2	44	58	-	-
C.5 Financial guarantees given	484	23	4	20	68	132	277	241	37	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	134	45	-	9	-	-
- Short positions	-	-	-	-	134	45	-	9	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	522	-	-	-	-	-	-	-	-	-
- Short positions	549	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
A brief description of the existing transactions as at 31 December 2019 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in December 2017, which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts to Adriano Lease Sec S.r.l. for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the bank for refinancing operations on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. originally issued two series of notes:

- a senior tranche (Class A), with a nominal amount of 2.9 billion euro, listed and assigned an A1 rating by Moody's and an A rating by DBRS Morningstar;
- a junior tranche (Class B), with a nominal amount of 1.4 billion euro, unlisted and unrated.

Following the merger by incorporation of Mediocredito Italiano into the Parent Company, the securities originally purchased by Mediocredito Italiano were transferred to Intesa Sanpaolo. As at 31 December 2019, the senior securities amounted to 1.6 billion euro and the junior securities to 1.4 billion euro. The senior securities are eligible for use in the Eurosystem.

Brera Sec S.r.l.

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and by four Banca dei Territori banks subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation. The transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio; as a result, the loans were not derecognised. Each selling bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo take cares of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro. The securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo. Following the merger by incorporation of Cassa di Risparmio in Bologna into Intesa Sanpaolo on 25 February 2019, the loans sold were transferred to the Intesa Sanpaolo portfolio.
As at 31 December 2019, the value of the outstanding subscribed securities was 4,772 million euro for senior securities and 1,067 million euro for junior securities.

Brera Sec S.r.l. (SME)

In October 2018, an additional self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and three of the Group Banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).
This transaction is the Group's second Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio; as a result, the loans were not derecognised. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Following the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze into Intesa Sanpaolo on 25 February 2019, the respective loans sold were transferred to the Intesa Sanpaolo portfolio.
On origination, the total sale consideration was 5.3 billion euro. The sale price was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.
The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and were subscribed by Intesa Sanpaolo.
As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was 1,890 million euro for senior securities and 1,530 million euro for junior securities.

Brera Sec S.r.l. (SEC 2)
In September 2019, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities on 27 November 2019:
- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating.

Both the senior and junior securities were subscribed by Intesa Sanpaolo; as a result, the loans were not derecognised. The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7.519 billion euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7.510 billion euro.
The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was unchanged: 6,650 million euro for senior securities and 860 million euro for junior securities.

Berica ABS 5 S.r.l.
This is a self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2019, securities totalling 325 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("A2") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), unrated and indexed to the 3-month Euribor.

Claris RMBS 2016 S.r.l.
In November 2016, Veneto Banca arranged a securitisation of mortgage loans, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 S.r.l.", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:
- class A tranche of 929 million euro, which had a residual amount of 522 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class B tranche of 116 million euro, which had a residual amount of 116 million euro as at 31 December 2019 and external ratings assigned by Fitch ("A+") and by DBRS Morningstar ("A High");
- class J1 tranche of 114 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 30 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were fully subscribed by Intesa Sanpaolo following the mergers by incorporation of Veneto Banca and Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.
As at 31 December 2019, the book value of the remaining loans was 770 million euro.

Claris RMBS 2014 S.r.l.
In February 2014, Veneto Banca, together with Banca Apulia, (now both incorporated into Intesa Sanpaolo), arranged a securitisation of mortgage loans which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in April 2014, Claris RMBS 2014 S.r.l., the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 881 million euro, broken down as follows:
- class A1 tranche of 550 million euro, fully redeemed;
- class A2 tranche of 155 million euro, which had a residual amount of 135 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class J1 tranche of 48 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 128 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A1 and A2 securities are denominated in euro and provide for the payment of a quarterly floating rate coupon linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed by Intesa Sanpaolo, also following the mergers by incorporation of the portfolios of Veneto Banca and Banca Apulia. The class A2 tranche can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.
As at 31 December 2019, the book value of the remaining loans was 333 million euro.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2019
Adriano Lease SEC S.r.l.					
of which issued in euro					**2,901**
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS A	1,550
	Class B	Junior	Receivables from lease payments	no rating	1,351
BRERA SEC S.r.l.					
of which issued in euro					**5,839**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS AH	4,772
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)					
of which issued in euro					**3,420**
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate	Moody's A1 / DBRS AH	1,890
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
BRERA SEC SRL (SEC 2)					
of which issued in euro					**7,510**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS AH	6,650
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
Berica ABS 5 S.r.l.					
of which issued in euro					**437**
	Class A	Senior	Mortgages	Fitch AA / Moodys Aa3	325
	Class B	Mezzanine	Mortgages	Fitch A+ / Moodys Aa3	39
	Class C	Mezzanine	Mortgages	Fitch A+ / Moodys A2	21
	Class J	Junior	Mortgages	no rating	52
CLARIS RMBS 2016 S.r.l.					
of which issued in euro					**782**
	Class A	Senior	Mortgages	Fitch AA+; DBRS AAA	522
	Class B	Mezzanine	Mortgages	Fitch A+; DBRS AH	116
	Class J	Junior	Mortgages	no rating	144
CLARIS RMBS 2014 SRL					
of which issued in euro					**311**
	Class A	Senior	Mortgages	Fitch AA / DBRS AAA	135
	Class J	Junior	Mortgages	no rating	176
TOTAL					**21,200**

During 2019, the self-securitisations of Intesa Sanpaolo SEC S.A., CLARIS FINANCE 2008 S.r.l. and CLARIS SME 2015 S.r.l. were terminated.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

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

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss			
EU Countries	**12,257**	**46,629**	**5,419**	**56,577**	**120,882**	**12,412**
Austria	-	5	39	2	46	-
Belgium	547	856	1	4	1,408	-
Bulgaria	-	-	-	63	63	-
Croatia	-	1,157	192	97	1,446	1,015
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	9	13	-	22	-
Estonia	-	-	-	-	-	-
Finland	-	30	21	3	54	-
France	779	2,760	24	1,944	5,507	4
Germany	259	1,600	1,916	545	4,320	-
Greece	-	-	32	-	32	-
Hungary	-	1,031	21	10	1,062	123
Ireland	540	296	-3	111	944	-
Italy	8,370	23,021	2,727	51,708	85,826	10,818
Latvia	-	8	-	-	8	36
Lithuania	-	5	-	-	5	-
Luxembourg	-	-	-	-	-	-
Malta	-	-	-	-	-	-
The Netherlands	262	302	228	120	912	-
Poland	40	34	-5	18	87	-
Portugal	376	416	-5	-	787	-
Romania	56	321	-	209	586	8
Slovakia	-	525	2	-	527	134
Slovenia	-	212	-	-	212	207
Spain	1,028	14,022	155	1,637	16,842	67
Sweden	-	-	150	-	150	-
United Kingdom	-	19	-89	106	36	-
Non-EU Countries						
Albania	517	6	1	-	524	1
Egypt	-	1,318	-5	53	1,366	-
Japan	-	1,556	688	-	2,244	-
Russia	-	172	3	-	175	-
Serbia	-	930	1	-	931	94
U.S.A.	14	4,826	38	9	4,887	-

Management accounts

As illustrated in the table, the exposure to Italian government securities at the end of 2019 totalled approximately 86 billion euro (76 billion euro at the end of 2018), in addition to around 11 billion euro represented by loans (12 billion euro at the end of 2018).

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, which amounted to 2,018 million euro as at 31 December 2018, came to 3,794 million euro as at 31 December 2019, showing a net increase of 1,776 million euro. The exposure includes investments in ABSs (asset-backed securities) of 2,339 million euro, in CLOs (collateralised loan obligations) of 1,379 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 76 million euro, subject to constant, gradual disposals, without any plans for additional transactions.

(millions of euro)

Accounting categories	Exposure as at 31.12.2019				31.12.2018	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	445	1,069	-	**1,514**	**1,031**	483	46.8
Financial assets mandatorily measured at fair value	-	20	-	**20**	**63**	-43	-68.3
Financial assets measured at fair value through other comprehensive income	542	943	-	**1,485**	**726**	759	
Financial assets mesured at amortised cost	392	307	76	**775**	**198**	577	
Total	**1,379**	**2,339**	**76**	**3,794**	**2,018**	**1,776**	**88.0**

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).
The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and continuous disposals of the portfolio, mainly referring to positions which at the time were affected by the financial crisis, on the other hand.
The exposure in ABSs/CLOs measured at fair value rose from 1,820 million euro in December 2018 to 3,019 million euro in December 2019, a net increase of 1,199 million euro attributable to Banca IMI and, only to a marginal extent, to the Parent Company due to the higher level of investments made compared to the disposals in the portfolio of assets measured at fair value through other comprehensive income and of financial assets held for trading. The portfolio mandatorily measured at fair value was subject to sales and redemptions.
The exposure in securities classified as assets measured at amortised cost rose from 198 million euro in December 2018 to 775 million euro in December 2019, also due to the higher level of investments made in the period by Banca IMI.
The investments made by Banca IMI consisted of a higher amount of ABSs with underlying residential mortgages and a lower amount of CLOs with mainly AAA ratings.
From the perspective of the income statement, a profit of +27 million euro was posted for 2019, against +16 million euro in 2018.
The profits (losses) on trading - caption 80 of the income statement - for the exposures in ABSs/CLOs amounted to +15 million euro, distributed equally to valuation and sale impacts (-10 million euro in 2018).
The profits (losses) from financial assets mandatorily measured at fair value amounted to +10 million euro (+19 million euro in 2018), of which +16 million euro related to sales of funded and unfunded ABS positions in the Parent Company's loan portfolio, which were reclassified in 2018 into the new accounting category upon First-Time Adoption (FTA) of IFRS 9, and -6 million euro related to valuation components.
The exposures to ABSs/CLOs in securities classified as assets measured at fair value through other comprehensive income primarily refer to the subsidiary Banca IMI and recorded a net increase in fair value of +2 million euro in 2019 through a shareholders' equity reserve (from a nil reserve in December 2018 to a reserve of +2 million euro in December 2019); there was also an impact of +1 million euro from sales made in 2019 (similar result to that seen in 2018).
Valuation impacts of +1 million euro were recognised on the securities classified as assets measured at amortised cost in 2019, compared with the result of +6 million euro in 2018.
With regard to the monoline and non-monoline packages, as in 2018, there were no positions held in 2019.

(millions of euro)

Income statement results broken down by accounting category	31.12.2019				31.12.2018	changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	-	15	-	**15**	**-10**	25	
Financial assets mandatorily measured at fair value	-	10	-	**10**	**19**	-9	-47.4
Financial assets measured at fair value through other comprehensive income	-	1	-	**1**	**1**	-	-
Financial assets mesured at amortised cost	-	-	1	**1**	**6**	-5	-83.3
Total	**-**	**26**	**1**	**27**	**16**	**11**	**68.8**

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The declared purpose of the regulations is to strengthen company controls over "leveraged" transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.
The scope identified in the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate, object financing and commodities financing) and certain other types of credit, such as trade finance operations, are also excluded.
As at 31 December 2019, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 20.8 billion euro, relating to approximately 1,900 credit lines (as at 31 December 2018 the amount was 22.4 billion euro, relating to around 2,900 credit lines).
In accordance with the requirements of the ECB Guidance, a specific limit for the outstanding stock of leveraged transactions was submitted for approval to the Board of Directors, within the framework of the 2019 Credit Risk Appetite.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2019 amounted to 115 million euro in the trading book and 194 million euro in the banking book, compared to 146 million euro and 88 million euro respectively in December 2018.
The investments allocated to the banking book are recognised under financial assets mandatorily measured at fair value and relate to investments made in funds that have medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.
During 2019, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the total exposure. In particular, the reduction amounted to 33 million euro.
In the banking book, higher investments in new positions for 75 million euro and increases in positions already held by the Bank for 46 million euro were added, partially offsetting them, to the disposals during the year totalling 20 million euro.
In terms of effects on the income statement, profits (losses) on trading – caption 80 of the income statement – showed a positive contribution of 2 million euro in 2019, compared to a loss of -16 million euro in 2018, while the net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement – recorded a positive contribution of 5 million euro, compared to a loss of -5 million euro in 2018.
Both positive effects were mainly due to a general improvement in the valuations of the funds in the portfolio. Specifically, systematic long/short equity funds showed good performance and discretionary long/short equity funds showed excellent results, against slighter improvement in US credit/distressed and global macro strategy funds.
Overall, the strategy for the portfolio remained substantially prudent.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2019, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 7,694 million euro (6,602 million euro as at 31 December 2018). The notional value of these derivatives totalled 62,528 million euro (57,047 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 58,403 million euro (53,501 million euro as at 31 December 2018), while that of structured contracts was 4,125 million euro (3,546 million euro as at 31 December 2018).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 5,269 million euro (4,452 million euro as at 31 December 2018), of which 476 million euro (311 million euro as at 31 December 2018) referred to structured contracts.
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,410 million euro as at 31 December 2019 (1,412 million euro as at 31 December 2018). The notional value of these derivatives totalled 20,334 million euro (24,649 million euro as at 31 December 2018). In particular, the notional value of plain vanilla contracts was 17,392 million euro (21,822 million euro as at 31 December 2018), while that of structured contracts was 2,942 million euro (2,827 million euro as at 31 December 2018).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2019, this led to a negative effect of 23 million euro being recorded under "Profits (Losses) on trading" in the income statement.
As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the consolidated financial statements. Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

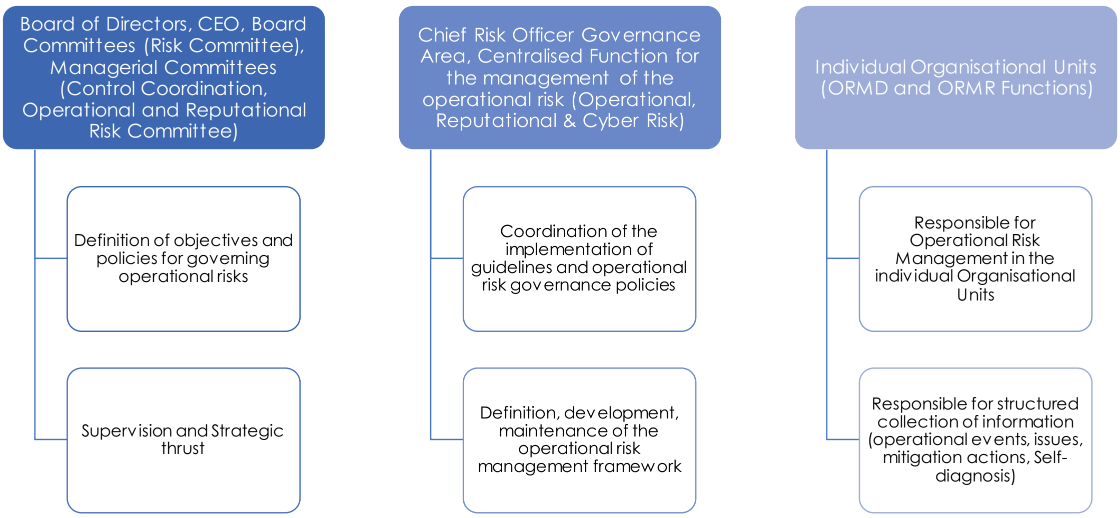
1.5. OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, operational risk management processes and measurement methods

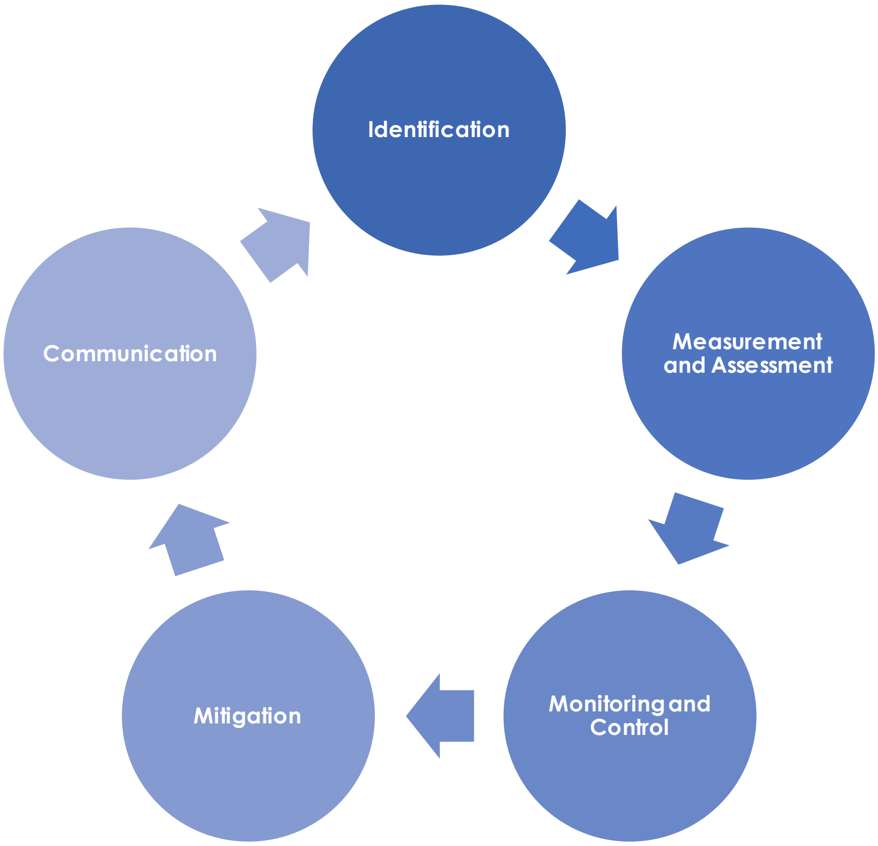
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.
The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.
In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement. The AMA approach is adopted by Intesa Sanpaolo SpA and the main banks and companies in the Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.

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



Group Operational Risk Management Process

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



Identification
The identification phase involves:
- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of issues;
- the performance of the annual Self-diagnosis process;
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

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

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

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

In this regard, in addition to a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber-crimes, fire and earthquake, and third-party liability), the

Group has taken out an insurance coverage policy named Operational Risk Insurance Programme, in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.
In addition, with respect to risks relating to real estate and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

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

Self-diagnosis
The self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of control of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA). The assessment takes into account the issues identified and the operational events actually occurred. This assessment does not replace the specific risk assessments carried out by the specialist and control functions within the scope of their responsibilities (e.g. assessments carried out by the Chief Audit Officer, by the Manager responsible for preparing the Company's financial reports and by the Chief Compliance Officer), but allows the assessments that emerge during the process to be brought to the attention of the functions concerned and to be discussed with the Head of the Organisational Unit concerned.
The detection of issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT and cyber risk
ICT risk means the risk of incurring economic, reputational and market share losses, in relation to the use of information and communication technology. In the integrated representation of business risks for prudential purposes, this type of risk is considered, according to the specific aspects, under the operational, reputational and strategic risks and includes the risk of violation of the confidentiality, integrity or availability of the information.
In line with the methodological framework established for the governance of corporate risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk management model has been developed with a view to integrating and coordinating the specific expertise of the structures involved.
Every year, the Technical Functions (e.g. ICT Head Office Department, IT functions of the main Italian and international subsidiaries) and the Cybersecurity Function identify the level of exposure to ICT risk (and to the Information Security risk included within it) of the information technology assets managed through the top-down assessment of the level of management of the relevant Risk Factors. In addition to this analysis, carried out for all the application areas and company processes, when there are situations that may modify the overall level of risk or in the case of innovation projects or changes to significant components of the ICT System, the Technical Functions and the Cybersecurity Function identify the level of exposure to IT risk of the specific components of the ICT system.
This assessment is accompanied, as part of the Self-diagnosis process, by the bottom-up assessment carried out by the individual Group Organisational Units, which analyse their own exposure to ICT risk and provide an opinion on the level of management of the risk factors relevant for this purpose (e.g. relating to the adequacy of the software for the Unit's operations, etc.).
The information from the processes established to identify and assess the exposure to ICT risk (for the procedures in place or related to changes to significant components of the IT system) together with the analysis and prevention activities carried out by the Cybersecurity function are also used to identify the main areas of exposure and determine the cyber risk scenarios.

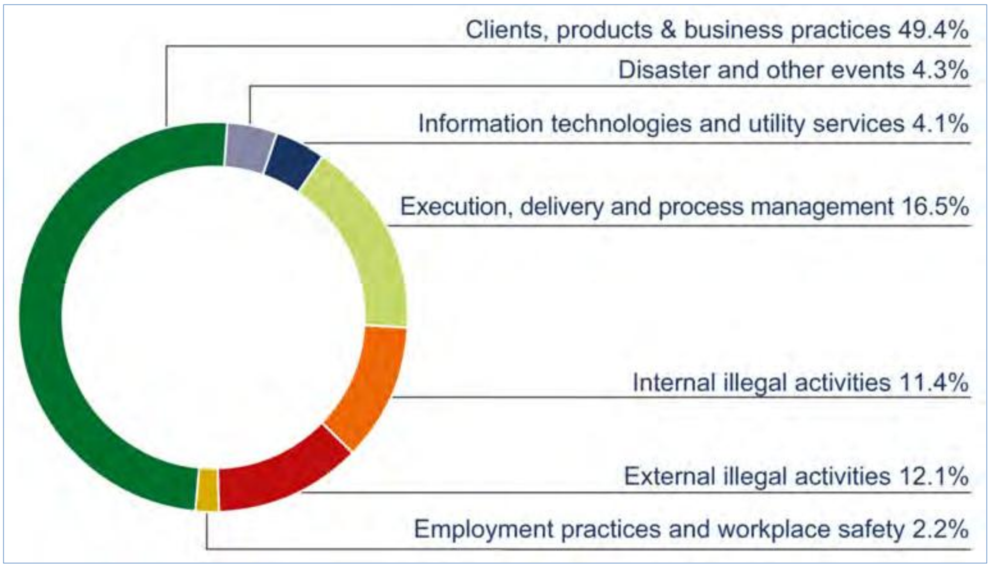
Internal model for the measurement of operational risk
The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: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

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations. The capital requirement amount to 1,697 million euro as of 31 December 2019, up from 1,414 million euro of 31 December 2018. This increase was mainly due to the changes made to the AMA model in compliance with Delegated Regulation (EU) 2018/959.

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of operational event (Event Type).

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by event type



With regard to the sources of operational risk, the chart below shows the impact of the operational losses recorded during the year, based on event type.
In 2019, the most significant event type was *Clients, Products and Business Practices*, which included losses related to defaults connected with professional obligations towards customers, suppliers or outsourcers and to the provision of services and products to customers performed improperly or negligently.
The *Execution, delivery and process management* category is also particularly significant, which reports the losses relating to unintentional errors in the management of operational and support activities, or to contractual disputes with counterparties that cannot be qualified as customers, suppliers or outsourcers.

Breakdown of operational losses recorded in 2019, by event type

LEGAL RISKS

As at 31 December 2019, there were a total of about 22,000 disputes, other than tax disputes, pending at Group level (excluding those involving Risanamento S.p.A. and Autostrade Lombarde S.p.A., which are not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of around 5,635 million euro[34]. This amount includes all outstanding disputes, regardless of the estimated risk of a disbursement of financial resources resulting from a potential negative outcome and therefore also includes disputes with a remote risk.
The risks associated with these disputes are thoroughly and individually analysed by the Parent Company and Group companies. Specific and appropriate provisions have been made to the Allowances for Risks and Charges in the event of disputes for which there is an estimated probability of a disbursement of more than 50% and where the amount of the disbursement may be reliably estimated (disputes with likely risk). These disputes amount to around 12,000 with a remedy sought of 1,824 million euro and provisions of 588 million euro. The part relating to the Parent Company Intesa Sanpaolo is around 5,000 disputes with a remedy sought of 1,430 million euro and provisions of 435 million euro, the part relating to other Italian subsidiaries is around 500 disputes with a remedy sought of 250 million euro and provisions of 96 million euro, and the part relating to the international subsidiaries is around 6,500 disputes with a remedy sought of 144 million euro and provisions of 57 million euro.
The breakdown according to the main categories of disputes with likely risk shows the prevalence of cases related to the Group's ordinary banking and credit activities: disputes involving claims relating to banking and investment products and services or on credit positions and revocatory actions account for about 74% of the remedy sought and 67% of the provisions. The remaining disputes mainly consist of other civil and administrative proceedings and, for the remainder, to labour disputes or criminal proceedings or proceedings related to operational violations.
The paragraphs below provide summary information on the significant disputes (mainly those with a remedy sought of more than 20 million euro and where the risk of a disbursement is currently considered likely or possible), together with the cases considered significant.

Disputes relating to anatocism and other current account and credit facility conditions, as well as usury – In 2019, the disputes of this type – which for many years have been a significant part of the civil disputes brought against the Italian banking industry – decreased both in number and in total value of claims made compared to the previous year. Overall, the remedy sought with likely risk, including mediations, amounted to around 475 million euro with provisions of 134 million euro. As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and case-law decisions, for each dispute.
You are reminded that in 2014 and 2016, Article 120 of the Consolidated Law on Banking, which governs the compounding of interest in banking transactions, was amended with the establishment of the ban on anatocism and the delegation of the CICR (Interdepartmental Committee for Credit and Savings) to regulate this matter. In February 2017, the Italian Antitrust Authority initiated proceedings against Intesa Sanpaolo for alleged unfair business practices involving, among other things, the methods used to request the above-mentioned authorisation from customers for the charging of the interest to the account imposed by the new regulations introduced in 2016. The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting customers to provide it through various means of communications and without putting them in a position to consider the consequences of that choice in terms of the interest calculation on the compounded debt interest. As a result, the Authority issued a fine of 2 million euro against Intesa Sanpaolo. Intesa Sanpaolo has submitted an appeal with the Lazio Regional Administrative Court, on the grounds that the ruling was unfounded. The proceedings are still pending.

Disputes relating to investment services – Also in this area, the disputes decreased in terms of number compared to the previous year. The most significant sub-group was disputes concerning derivatives, which remained substantially stable in number and value, but were nevertheless not significant in amount overall. The total remedy sought for the disputes with likely risk for this type of litigation amounted to around 150 million euro with provisions of 51 million euro. As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and the case-law guidance, for each dispute.

Disputes relating to loans in CHF – As already noted in the financial statements for the years 2013-2015, Privredna Banka Zagreb ("PBZ") and seven other Croatian banks were jointly sued by the plaintiff Potrošač (Croatian Union of the Consumer Protection Association) , which claimed - in relation to loans denominated or indexed in Swiss francs granted in the past - that the defendants engaged in an unfair practice by allegedly using unfair contractual provisions on variable interest rate changed unilaterally by the banks and by linking payments in local currency to Swiss franc, without (allegedly) appropriately informing the consumers of all the risks prior to entering into a loan agreement.
In September 2019, the Croatian Supreme Court rendered a ruling in the collective action proceedings, rejecting the appeals filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause.

The decision of the Supreme Court was challenged by PBZ before the Constitutional Court, on the grounds that the claim Being of the opinion that the claim does not have meritorious grounds, PBZ filed a constitutional complaint against the decision reached by the Supreme Court of the Republic of Croatia.

O In connection with the mentioned proceedings for the protection of the collective interests of consumers, numerous individual proceedings have been brought by clients against PBZ, despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively, in accordance with the Act on the Amendments to the Consumer Credit Act (Croatian Official Gazette 102/2015).

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

In 2019, the number of such individual lawsuits filed against PBZ increased to a low single digit thousands. It cannot be excluded the possibility that additional lawsuits might be filed against PBZ in the future in connection with CHF loans.
The amount of provisions recognized as at 31 December 2019 is reasonably adequate – according to available information to meet the obligations arising from the claims filed against the subsidiary so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

ENPAM **–** In June 2015 Fondazione ENPAM – Ente Nazionale di Previdenza ed Assistenza dei Medici e degli Odontoiatri (ENPAM) sued Cassa di Risparmio di Firenze (subsequently merged into Intesa Sanpaolo), along with other defendants including JP Morgan Chase & Co and BNP Paribas, before the Court of Milan. ENPAM's claims related to the trading (in 2005) of several complex financial products, and the subsequent "*swap*" (in 2006) of those products with other similar products; the latter were credit linked notes, i.e. securities whose repayment of principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses.
In the writ of summons, ENPAM submitted several petitions for enquiries and rulings, in particular for contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance, asking for the repayment of an amount of around 222 million euro and compensation for damages on an equitable basis; the part relating to Cassa di Risparmio di Firenze's position should be around 103 million euro (plus interest and purported additional damages).
Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consors S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within which the above-mentioned securities had been subscribed.
Cassa di Risparmio di Firenze raised various objections at the preliminary stage (including a lack of standing to be sued and the time bar). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance cited were not applicable and that there was no evidence of the damages. If an unfavourable judgement is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to hold it harmless.
In February 2018, the judge ordered a court-appointed expert's review aimed at determining, among other matters:

- whether the securities were fit for the purpose indicated in the entity's Charter and Investment Guidelines;
- the difference, if any, between the performance achieved by ENPAM and the performance that would have resulted if other investments consistent with the entity's Charter and Investment Guidelines had been undertaken (also considering the need for diversification of the risk).

In December 2019, the court-appointed expert submitted the draft report, which compared the return generated by the securities purchased with that of a hypothetical "counterfactual scenario" of the purchase of securities in line with those indicated in the entity's Charter and the Guidelines and found that the damage in terms of principal for the security that Cassa di Risparmio di Firenze was involved in trading was allegedly 14.1 million euro, which, together with interest, amounted to around 15 million euro or 18.7 million euro (depending on the calculation method used).
Following the forthcoming examination of the expert's review, a hearing for the submission of the final arguments is scheduled for the end of March 2020.
In 2019, upon invitation from the expert, discussions were initiated between the parties to consider a possible settlement solution, but this was not reached because of the distance between their respective positions.

Florida 2000 **–** In 2018, Florida 2000 s.r.l. (together with two directors of the company) challenged the legitimacy of the contractual terms and conditions applied to the accounts held with the Bank, requesting that the latter be ordered to pay back 22.6 million euro in interest and fees that were not due, plus compensation for damages quantified as an additional amount of 22.6 million euro.
Based on the results of the court-appointed expert review and case-law, it appears likely that the claim for repayment of the sums involved will be upheld, but only for a very small amount, whereas the claim for damages is unlikely to be upheld.
The case is now pending a decision by the court.

Alitalia Group: Claw-back actions – In August 2011, companies of the Alitalia Group – namely Alitalia Linee Aeree, Alitalia Servizi, Alitalia Airport and Alitalia Express – brought five bankruptcy claw-back proceedings against the Bank before the Court of Rome, requesting the repayment of a total of 44.6 million euro.
When the proceedings were initiated, a line of defence was adopted based mainly on the grounds that the actions were invalid due to the vagueness of the claims, that the condition of knowledge of the Alitalia Group's state of insolvency (subject first of the Air France plan and then of the subsequent rescue conducted by the Italian Government) did not apply, and that the credited items were not eligible for claw back, due to the specific nature of the account movements.
In March 2016, the Court of Rome upheld Alitalia Servizi's petition and ordered the Bank to repay around 17 million euro, plus accessory costs.
In addition to being contestable on the merits, the ruling was issued before the deadline for filing of the final arguments. Accordingly, in the appeal subsequently lodged, a preliminary objection was made regarding the invalidity of the judgment, together with an application for suspension of its provisional enforceability, which was upheld by order of 15 July 2016 of the Court of Appeal. The final arguments have been filed in the case and the judgment is pending.

In contrast, the Bank won the Alitalia Linee Aeree and Alitalia Express cases at first instance and the appeal proceedings are underway, whereas for Alitalia Airport, which was also won at first instance, the favourable judgment has become final.
The lawsuit against the former Cassa di Risparmio di Firenze also ended favourably on first instance and is now pending an appeal.

Tirrenia di Navigazione in A.S. (Extraordinary Administration): Claw-back actions – In July 2013, Tirrenia di Navigazione in A.S. filed two bankruptcy claw-back actions before the Court of Rome against the former Cassa di Risparmio di Venezia for 2.7 million euro and against the former Banco di Napoli for 33.8 million euro.
In both cases, the plaintiff claimed that there was knowledge of the state of insolvency for the entire half year prior to admission to extraordinary administration on the basis of media reports, the non-renewal of shipping concessions, the absence of state subsidies (because they were considered state aid), and the information from the central credit register.
The claim was quantified on the same basis as the so-called "return of profits" earned on Tirrenia's accounts, corresponding to the difference between the maximum debt exposure and the final balance of the accounts generated in the half year prior to the declaration of insolvency.
The case against the former CR Venezia was concluded at first instance in 2016 with an order for payment of 2.8 million euro and is pending an appeal brought by the Bank.
In the case against the former Banco di Napoli, the most significant dispute concerns a currency adjustment of 28 million euro, whose recognition has a substantial impact on the total amounts that can be clawed back, and a court-appointed expert review is now underway. The hearing for the submission of the final arguments has been set for 16 April 2020.
Discussions were initiated during the period aimed at settling both disputes.

Dargent lawsuit – The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Dargent, which made a request to the Bank for compensation of 55.6 million euro for the alleged "improper financial support" provided to the entrepreneur. The claim of the trustee in bankruptcy has consistently been rejected by the courts of different instance which dealt with the case over 17 years, until the Court of Colmar, on 23 May 2018, ordered the Bank to pay compensation of around 23 million euro (equal to the insolvency liabilities, minus the bank's credit claim and the proceeds from the sale of several assets). An appeal against the Court of Colmar ruling has been lodged with the French Court of Cassation. The amount of the payment ordered has been temporarily deposited with the appropriate "*Caisse des Reglements Pecuniaires des Avocats*"..
A hearing before the Court of Cassation was held in November 2019, no significant elements arose.
On 22 January 2020, the French Supreme Court of Cassation quashed the decision of the Court of Appeal of Colmar and referred the matter to the Court of Appeal of Metz, because, in particular:
- it failed to demonstrate and, in any case, justify the reasons why it considered the entire asset shortfall to be reparable damage rather than only the part attributable to the Bank's alleged fault and used an incorrect criterion for determining any damage that might be compensable (if need be);
- even if the Bank were required to pay damages, that circumstance would not prevent it from being allowed to participate in the insolvency distribution for the recovery of its preferential claim.

As a result of this, the Bank will request the repayment of the sum of 23 million euro paid following the decision that has now been quashed, which was deposited with the "*Caisse des Reglements Pecuniaires des avocats*". The bankruptcy receivership, in case, may refer the matter to the Court of Appeal of Metz, which however in such a case must take into account the findings of the Court of Cassation.
It shall be reminded that all the rulings made in this long legal case, prior to that of the Colmar Court of Appeal, had been in favour of the Bank.

Disputes regarding tax-collection companies - In the context of the government's decision to re-assume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A., now the Italian Revenue Agency - Collections Division, full ownership of Gest Line and ETR/ESATRI, companies that managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity interests.
In particular, such expenses refer to liabilities for disputes (with tax authorities, taxpayers and employees) and out-of-period expenses and capital losses with respect to the financial situation at the time of the sale. Overall, the claims made amount to 80 million euro. A technical roundtable has been formed with the Italian Revenue Agency - Collections Division in order to assess the parties' claims.

Fondazione Monte dei Paschi di Siena (FMPS) **–** In 2014, FMPS brought an action for compensation for the damages allegedly suffered as a result of a loan granted in 2011 by a pool of 13 banks and intended to provide it with the resources to subscribe for a capital increase of MPS. The damages claimed were allegedly due to the reduction in the market value of the MPS shares purchased with the sums disbursed by the banks. In the proceedings, FMPS summoned 8 former directors of the Foundation that were in office in 2011 and the 13 banks in the pool (including Intesa Sanpaolo and Banca IMI). The banks have been charged with non-contractual liability due to their participation in the alleged violation by the former directors of the debt-equity ratio limit set in the charter. The claim for damages has been quantified at around 286 million euro, jointly and severally for all the defendants.
The defence adopted by the banks included the argument that the alleged breach of the aforementioned charter limit did not apply, because it was based on an incorrect valuation of the Foundation's balance sheet items. In addition, in the loan agreement, FMPS itself assured the banks that the charter limit had not been breached and, therefore, any breach of the charter would at most give rise to the sole responsibility of the former directors of the Foundation. And, lastly, there was no causal link between the alleged misconduct and the damaging event.
In November 2019, the Court of Florence rejected a number of the preliminary objections made by the banks and scheduled a hearing for March 2020 to decide on the petitions for preliminary rulings. To be able to make a risk assessment of the proceedings, we need to wait for the court's decision on the matter, as well as the completion of any preliminary investigation.

Private banker (Sanpaolo Invest) – An inspection conducted by the Audit function identified serious irregularities by a private banker of Sanpaolo Invest.
The checks carried out revealed serious irregularities affecting several customers, including misappropriation of funds and reports with false incremental amounts. On 28 June 2019, the Company terminated the agency contract with the private banker due to just cause and communicated the findings to the Judicial Authority and the Supervisory Body for financial advisors, which first suspended and then removed the private banker from the Register of Financial Advisors in

December 2019.
The Judicial Authority, at the Company's request, confiscated a total amount of around 7 million euro from several customers that had unduly benefited from the sums misappropriated by the private banker from his other customers. At the same time, the Company initiated out-of-court and legal actions against the unlawful beneficiaries for the recovery of the amounts misappropriated.
As at 31 December 2019, as a result of the offence, the Company had received 56 claims of misappropriation for a total remedy sought of around 15 million euro, and the checks conducted by the Internal Audit Department and the Legal Department found that the amounts misappropriated totalled 12 million euro. The Company has already taken action for the initial refunds and, as at 31 December 2019, around 1 million euro had been accepted and recognised under costs for claims management. The Company also received another 195 claims for around 18 million euro relating to false accounting and unauthorised transactions, as well as requests for reimbursement of fees for the advanced advisory service.
The Company had made a provision at the end of 2019 for the risks associated with the aforesaid offence, for a total amount of around 11 million euro, which also took into account the legal costs indicated by the customers. This amount was determined based on the claims for misappropriations confirmed at the end of 2019, without taking into account the recovery actions already initiated and the discovery orders issued, or the cover provided by the specific insurance policy that the Company promptly implemented for the refund due under the terms of the policy.

Ruling of the EU Court of Justice of 11 September 2019 on credit agreements for consumers - so-called Lexitor ruling – Article 16, paragraph 1 of Directive 2008/48 on credit agreements for consumers states that in the event of early repayment of the loan the consumer is "*entitled to a reduction in the total cost of the credit, such reduction consisting of the interest and the costs for the remaining duration of the contract*". According to the Lexitor ruling, this provision must be interpreted as meaning that the right to a reduction in the total cost of the credit includes all the costs incurred by the consumer and therefore also includes the costs relating to services prior to or connected with the signing of the contract (upfront costs such as processing costs or agency fees).
Article 16, paragraph 1 of Directive 2008/48 has been transposed in Italy through Article 125 sexies of the Consolidated Law on Banking, according to which in the event of early repayment "*the consumer is entitled to a reduction in the total cost of the credit, equal to the amount of interest and costs due for the remaining life of the contract*". On the basis of this rule, the Bank of Italy, the Financial Banking Arbitrator and case law have held that the obligation to repay only relates to the charges that have accrued during the course of the relationship (recurring costs) and have been paid in advance by the customer to the lender. In the event of early repayment, these costs must be repaid in the amount not yet accrued and the obligation to repay does not include the upfront costs.
Following the Lexitor judgment, the question has arisen as to whether Article 125 sexies of the Consolidated Law on Banking should be interpreted in accordance with the principle laid down therein or whether the new principle requires a legislative amendment.
According to the EU principle of "consistent interpretation", national courts are required to interpret the rules in their own jurisdiction in a manner consistent with the European provisions. However, if the national rule has an unambiguous interpretation, it cannot be (re)interpreted by the court in order to bring it into line with the various provisions of a European directive: the principles recognised by European Union law prevent the national court from being required to make an interpretation that goes against the provisions of the domestic law. In this regard, we note that Article 125 sexies of the Consolidated Law on Banking is clear in its wording and its scope: it states that, in the event of early repayment, the obligation to repay relates only to recurring costs and therefore does not include upfront costs. The unambiguity of the scope of the provision is confirmed by the fact that – as stated above – it has always been interpreted and applied in this way.
However, in December 2019 the Bank of Italy issued "*guidance*" for the implementation of the principle established by the EU Court of Justice, to the effect that all costs (including upfront costs) should be included among the costs to be refunded in the event of early repayment, both for new relationships and for existing relationships.
Intesa Sanpaolo has decided to follow the Bank of Italy "*guidance*", even though it believes that the legal arguments set out above regarding the fact that Article 125 sexies of the Consolidated Law on Banking cannot be interpreted in a manner that complies with the Lexitor ruling are well founded. Accordingly, Intesa Sanpaolo reserves the right to reconsider this operational stance in the light of future developments. A provision has therefore been made in the Allowance for Risks and Charges corresponding to the estimated higher charges resulting from the decision to follow the Bank of Italy "*guidance*".
With regard, on the other hand, to disputes relating to terminated relationships, the few court decisions have been discordant and no prevailing case-law has emerged. In view of this and in the light of the legal arguments set out above (which will be broadened and included in the defences presented in the above-mentioned disputes), at this stage there is no evidence to consider that a negative outcome will be likely.

Offering of diamonds – In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by DPI to the customers of Intesa Sanpaolo. The aim of this initiative was to provide customers with a diversification solution with the characteristics of a "safe haven asset" in which to allocate a marginal part of their assets over the long-term. Diamonds had already been sold for several years by other leading national banking networks.
This recommendation activity was carried out primarily in 2016, with a significant decline starting from the end of that year.
A total of around 8,000 customers purchased diamonds, for a total of around 130 million euro. The marketing process was based on criteria of transparency, with safeguards progressively enhanced over time, including quality controls on the diamonds and the fairness of the prices applied by DPI.
In February 2017, the AGCM (the Italian Competition Authority) brought proceedings against companies that marketed diamonds, (DPI and other companies), for alleged conduct in breach of the provisions on unfair business practices.
In April, those proceedings were extended to the banks that carried out the recommendation of the services of those companies.
At the end of those proceedings, on 30 October 2017, the AGCM notified the penalties imposed for the alleged breach of the Consumer Code through the conduct of DPI and of the banks which the proceedings had been extended to, consisting - in

short - of having provided partial, deceptive and misleading information on the characteristics of the diamond purchases, the methods used to calculate the price - presented as being the market price - and the performance of the market. The Authority issued a fine of 3 million euro against Intesa Sanpaolo, reduced from the initial fine of 3.5 million euro, after the Authority had recognised the value of the measures taken by the Bank from 2016 to strengthen the safeguards on the offering process aimed, in particular, at ensuring proper information to customers.
Following the order by the AGCM, the Bank paid the amount of the fine and filed an appeal with the Lazio Regional Administrative Court against the order. There were no developments regarding this appeal during 2019.
From November 2017, the Bank:

- terminated the partnership agreement with Diamond Private Investment (DPI) and ceased the activity, which had already been suspended in October 2017;
- started a process that provides for the payment to customers of the original cost incurred for the purchase of the diamonds and the withdrawal of the stones, in order to satisfy the customers' resale needs which, due to the illiquidity that had arisen in the market, are not met by DPI;
- sent a communication in January 2018 to the diamond-holding customers reiterating the nature of the stones as durable goods, and also confirming the Bank's willingness to intervene directly in relation to any realisation needs expressed by the customers and not met by DPI.

As at 31 December 2019, a total of 6,595 repurchase requests had been received from customers and met by the Bank, for a total value of 111.9 million euro, with the flow of requests steadily decreasing in the second half of 2019. The valuation of the repurchased diamonds is carried out using the values provided by the IDEX Diamond Retail Benchmark, one of the main online trading platforms used in the main markets by over 7,000 traders.
In February 2019, an order for preventive criminal seizure of 11.1 million euro was served, corresponding to the fee and commission income paid by DPI to the Bank.
The preliminary investigations initiated by the Public Prosecutor's Office of Milan also concern four other banks (more involved) and two companies that sell diamonds.
In early October, the notice of conclusion of the investigation was served, which stated that two of the Bank's operators were currently under investigation for alleged aggravated fraud (in collusion with other parties to be identified) and other persons are being identified for allegations of self-laundering, while ISP is being charged with the administrative offence pursuant to Italian Legislative Decree 231/2001 in relation to this latter predicate offence.

Disputes arising from the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation – We remind you first of all that:

a) based on the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo (Sale Contract of 26 June 2017 and Second Acknowledgement Agreement of 17 January 2018), two distinct categories of disputes have been identified (also relating to the subsidiaries of the former Venetian banks included in the sale):
    - the Previous Disputes, included among the liabilities of the Aggregate Set transferred to Intesa Sanpaolo, which include civil disputes relating to judgements already pending at 26 June 2017, with some exceptions, and in any case different from those included under the Excluded Disputes (see the point below);
    - the Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation and which concern, among other things, disputes brought (also before 26 June 2017) by shareholders and convertible and/or subordinate bondholders of one of the two former Venetian banks, disputes relating to non-performing loans, disputes relating to relationships terminated at the date of the transfer, and all disputes (whatever their subject) arising after the sale and relating to acts or events occurring prior to the sale;
b) the relevant allowances were transferred to Intesa Sanpaolo along with the Previous Disputes; in any case, if the allowances transferred prove insufficient, Intesa Sanpaolo will be entitled to be indemnified by the Banks in compulsory administrative liquidation, at the terms provided for in the Sale Contract of 26 June 2017;
c) after 26 June 2017, a number of lawsuits included within the Excluded Disputes were initiated or resumed against Intesa Sanpaolo. With regard to these lawsuits:
    - Intesa Sanpaolo is pleading and will plead its non-involvement and lack of capacity to be sued, both on the basis of the provisions of Decree Law 99/2017 (Article 3) and the agreements signed with the Banks in compulsory administrative liquidation and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the Sale Contract of 26 June 2017), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
    - if there were to be a ruling against Intesa Sanpaolo (and in any event for the charges incurred by Intesa Sanpaolo for any reason in relation to its involvement in any Excluded Disputes), it would have the right to be fully reimbursed by the Banks in compulsory administrative liquidation;
    - the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and convertible and/or subordinate bondholders against Intesa Sanpaolo (or in any case included in the category of Excluded Disputes), asking for the declaration of their exclusive capacity to be sued and the consequent exclusion of Intesa Sanpaolo from those proceedings;
d) pursuant to the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo, the disputes regarding the marketing of shares/convertible and/or subordinated bonds initiated against Banca Nuova (subsequently merged by incorporation into Intesa Sanpaolo) and Banca Apulia are also included in the Excluded Disputes (and therefore have the same treatment as described above, as a result of the above-mentioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented).

The above-mentioned disputes in the Excluded Disputes include 63 disputes (for a total remedy sought of around 87 million euro) involving claims relating to loans sold to Intesa Sanpaolo and deriving from so-called "*operazioni baciate*"; this term refers to loans granted by the former Venetian banks (or their Italian subsidiaries Banca Nuova/Banca Apulia) for the purpose of, or in any case related to, investments in shares or convertible and/or subordinated bonds of the two former Venetian Banks.

The most recurrent claims relate to:

- the violation by the former Venetian banks (or their subsidiaries) of the requirements of the rules on investment services; the customers claim that they were induced to purchase the shares on the basis of false or misleading information on the product's risk characteristics;
- the invalidity of the "*baciata*" transaction due to the breach of Article 2358 of the Italian Civil Code, which prohibits companies from granting loans for the purchase of treasury shares, except in certain limited cases.

The first ruling on this matter was issued in early 2020, which declared that the loan sold was invalid; an appeal will be filed against this ruling. Since this is the only decision on this matter for the time being, it is not possible to draw any legal conclusions regarding the validity of this type of loan sold to Intesa Sanpaolo.

With regard to the risks arising from these disputes, it should be borne in mind that the Sale Contract establishes the following:

- that any liability, charge and/or negative effect that may arise to Intesa Sanpaolo from shares, disputes or claims made by shareholders and subordinated bondholders constitutes an Excluded Liability under the Contract and, as such, must be subject to indemnification by the Banks in compulsory administrative liquidation;
- the obligation of each Bank in compulsory administrative liquidation to indemnify ISP against any damage arising from, or connected to, the violation or non-compliance of the Representations and Warranties issued by the two Banks in compulsory administrative liquidation with respect to the Aggregate Set transferred to Intesa Sanpaolo, and, in particular, those relating to the full propriety, validity and effectiveness of the loans and contracts transferred.

On the basis of these provisions, Intesa Sanpaolo is entitled to be indemnified by the Banks in compulsory administrative liquidation against any negative effect incurred if these loans are totally or partially invalid, unrecoverable, or in any case not repaid as a result of legal disputes.

Intesa Sanpaolo has already made a formal reservation in this regard to the two Banks in compulsory administrative liquidation for all the loans acquired and arising from loans potentially qualifying as "*operazioni baciate*", even if they have not (yet) been formally contested by customers (see below "Initiatives undertaken with respect to the compulsory administrative liquidations").

In 2019, Intesa Sanpaolo sent several claims to the Banks in compulsory administrative liquidation containing requests (or reservations of the right to make subsequent requests) for reimbursement/indemnification of damages already incurred or potentially incurred and violations of the above-mentioned Representations and Warranties, in relation to Previous Disputes and Excluded Disputes, as well as in relation to the value and recoverability of several assets transferred to Intesa Sanpaolo.

To enable the Banks in compulsory administrative liquidation to perform a more thorough examination of the claims made, Intesa Sanpaolo granted an extension (with respect to the contractual provisions) of the deadline for contesting the claims made up to 22 November 2019. Subsequently, upon request from the Banks in compulsory administrative liquidation, Intesa Sanpaolo granted a further extension of this deadline up to 31 March 2020.

In this regard, it should also be noted that Paragraph 11.1.9 of the Sale Contract establishes that "*the precise and timely payment of any obligations and liabilities assumed in favour of the ISP by BPVi and/or VB shall be guaranteed by the Issuing Body [i.e. the Ministry of the Economy and Finance]: (i) with regard to the indemnification obligations assumed by BPVi and/or VB and relating to the Previous Disputes, up to the maximum amount of the remedy sought for each of the Previous Disputes as indicated in the case documents, net of the specific risk allowances transferred to ISP with the Aggregate Set; and (ii) with regard to the remaining obligations and liabilities assumed by BPVi and/or VB, up to the maximum amount of 1.5 billion euro*" (the "Indemnification Guarantee").

This provision is consistent with and implements Article 4, paragraph 1, letter c) of Law Decree no. 99/2017: the Ministry of the Economy and Finance "*grants the Government independent first demand guarantee on the performance of the obligations of the entity in liquidation arising from commitments, representations and warranties issued by the entity in liquidation in the sale contract, for a maximum amount equal to the sum of 1,500 million euro plus the result of the difference between the value of the past disputes of the entities in liquidation, as indicated in the case documents, and the related risk provision, up to a maximum of 491 million euro*".

The Indemnification Guarantee is therefore an essential prerequisite of the Sale Contract. To date, this guarantee has not yet been formalised by a specific Decree from the Ministry of the Economy and Finance. The issuance of the guarantee by the government is a required procedure that is envisaged, not only by the Sale Contract of 26 June 2017, but also by the above-mentioned Law Decree 99/2017.

In January 2018, as part of a criminal proceeding before the Court of Rome for the alleged market rigging and obstructing the Supervisory Authorities in the performance of their functions with respect to officers and executives of Veneto Banca, the preliminary hearing judge decided that Intesa Sanpaolo could be charged with civil liability. According to the judge, the exclusion from the sale to Intesa Sanpaolo of the debts, responsibilities and liabilities deriving from the sale of shares and subordinated bonds – envisaged by Decree Law 99/2017 – would not be objectionable by third parties, while Article 2560 of the Italian Civil Code would be applicable in the case in question and Intesa Sanpaolo should therefore take on those liabilities.

As a result of this decision, more than 3,800 civil plaintiffs holding Veneto Banca shares or subordinated bonds joined the proceedings. Intesa Sanpaolo therefore entered an appearance requesting its exclusion from the proceedings, in application of the provisions of Decree Law 99/2017, of the rules established for the compulsory administrative liquidation of banks and, before that, of the principles and rules contained in the bankruptcy law, in addition to the constitutional principles and decisions made at EU level with regard to the operation relating to the former Venetian banks. In turn, Veneto Banca in compulsory administrative liquidation intervened voluntarily affirming its exclusive, substantial and procedural capacity to be sued.

In March 2018, the preliminary hearing judge declared his lack of territorial jurisdiction, transferring the files to the Public Prosecutor's Office of Treviso. The charge of civil liability and the joinders of the civil parties were therefore removed.

It should be noted that, in a criminal proceeding before the Court of Vicenza against the directors and executives of Banca Popolare di Vicenza, the preliminary hearing judge rejected the request for authorisation to charge Intesa Sanpaolo with civil liability, arguing on the basis of the provisions of the sale contract of 26 June 2017 and the special provisions contained in Law Decree 99/2017.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2019.
In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

Potential assets
With regard to potential assets – given that there have been no substantial changes – please see the information provided in the 2016 Financial Statements regarding the IMI/SIR dispute.

TAX LITIGATION

At Group level, at the end of 2019 the total value of the claim for tax disputes (tax, penalties and interest) was 175 million euro, a significant decrease on 365 million euro as at 31 December 2018.

As at 31 December 2019, the Parent Company Intesa Sanpaolo had 612 pending litigation proceedings (246 as at 31 December 2018) for a total amount claimed (taxes, penalties and interest) of 111 million euro (222 million euro as at 31 December 2018), considering both administrative and judicial proceedings at various instances. Compared to the previous year, the figure as at 31 December 2019 also takes into account the disputes and the related allowance for risks "inherited" from the merged companies Carifirenze, Carisbo, Banca Apulia and Mediocredito Italiano (MCI).
In relation to these proceedings, the actual risks were quantified for Intesa Sanpaolo (including those originating from the merged companies) at 54 million euro as at 31 December 2019 (47 million euro as at 31 December 2018).
The main events that gave rise to significant movements during the year consisted of:
- increases, due to the mergers, during the year, including Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna, Banca Apulia, and MCI, which led to an increase of approximately 35 million euro in disputed tax claims (23 million euro relating to MCI) and 21 million euro in the allowance for tax litigation (16 million euro relating to MCI), in addition to the ordinary recognition of interest expense;
- decreases, due to the effect of the settlement of numerous significant disputes through the so-called "tax amnesty", which had a positive impact on the contested amount, which decreased by 162 million euro, of which 7 million euro relating to the merged company MCI, against a charge of 15 million euro, which resulted in a release of around 4 million euro from the provision for disputes, in addition to the net release of around 14 million euro already recorded in the last quarter of 2018.

In total, 177 disputes for ISP (including MCI) were closed during the year for a total of 172 million euro with a disbursement of around 18 million euro.

At the Group's other Italian companies, tax disputes totalled 53 million euro as at 31 December 2019 (139 million euro as at 31 December 2018), covered by specific provisions of 1 million euro (47 million euro at the end of 2018).
For the Italian subsidiaries, the decrease in both claims and provisions was partly due to the merger of the above-mentioned banks into Intesa Sanpaolo and mostly due to the use of the so-called "tax amnesty" by Banca IMI, MCI and Intesa Sanpaolo Vita, as well as the settlement by Fideuram of its dispute relating to Euro-Trésorérie.

Tax disputes involving international subsidiaries, totalling 11 million euro at year-end (5 million euro as at 31 December 2018), were covered by allowances of 7 million euro (4 million euro as at 31 December 2018).

With regard to the new claims arising during the year, the following were the most significant.
On 5 March 2019, the Provincial Department of Florence sent a questionnaire to Engineering - Ingegneria Informatica S.p.A. with requests for clarification on the VAT applied in 2014 by Infogroup Informatica e Servizi Telematici S.c.p.A., a consortium company wholly represented by Intesa Sanpaolo Group companies and sold to Engineering - Ingegneria Informatica S.p.A. on 28 December 2017. The assessment arose from the Tax Audit Report of 20 December 2018, which claimed the unlawful application by Infogroup, for the year 2015, of the VAT exemption for postal expenses incurred on behalf of customers (VAT due in the amount of 370,000 euro plus penalties and interest) but, above all, the alleged unlawful application of the VAT exemption to services provided to the consortium companies because – in the opinion of the auditors – they had been charged for an amount exceeding the costs incurred, in violation of the principle of Article 10, paragraph 2, of Presidential Decree 633 of 1972 (VAT recovery claimed of 5.8 million euro, plus penalties and interest). The VAT taxability of the services provided to the consortium members allegedly automatically resulted in the tax deductibility and, as a result, the non-deductibility of the deductible VAT of 4.7 million euro, which no longer constituted a deductible cost for the company (higher IRES and IRAP of 1.5 million euro plus penalties and interest).
Following complex negotiations, in December an agreement was reached with the Italian Revenue Agency which provided for the settlement of all the open tax periods (2014-2017) with: a) the cancellation of the claim relating to the postal expenses; and b) a very significant reduction in the number of transactions to be made subject to ordinary VAT and interest and penalties.

For all the open years, the agreement was definitively reached with a total net cost for the Bank of around 8 million euro, of which 2 million euro has already been paid for 2014 in 2019, while for the years 2015-2017 the settlement has been deferred until 2020 through the use of a specifically established allowance.
With regard to the merged company MCI, we remind you that the Milan Tax Police (Guardia di Finanza) initiated a general

audit of direct taxes for the tax years 2015 and 2017 and of VAT for the years 2014 and 2015, which ended with a Tax Audit Report that, for the year 2014, contested the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases, and of the exemption established in Article 7-bis of Presidential Decree 633/72 for the buyback of a vessel. In December 2019, an appeal was filed against the assessment notice regarding VAT for the year 2014 (value of the claim 5 million euro).

With regard to the Intesa Sanpaolo branches located abroad, tax audits are underway in relation to: i) VAT on the London branch for the years 2016, 2017 and 2018; and ii) federal direct taxes at the New York branch for the tax periods 2015, 2016 and 2017. No claims have been made for the time being.

With regard to Fideuram, detailed information was provided in the notes to the 2018 financial statements regarding the claims for the years 2014 to 2017 arising from the tax audit report served on 11 October 2018 by the Tax Police (Guardia di Finanza), following similar claims previously made for the years 2012 and 2013. Between April and June 2019, the Bank signed settlement agreements with the Italian Revenue Agency, Lazio Regional Office, for all the years indicated above as final closure of each claim.

Specifically, the agreements concerned the reclassification of the claims made by the Tax Police as follows:

- with regard to the transfer prices of the transactions with Euro-Trésorérie (Financiére Fideuram from 2016, following a merger by incorporation), a significant reduction in the taxable income was obtained by using the comparable uncontrolled price method instead of the profit split method;
- for travel and conventions of private bankers, the existence of training activities was recognised and therefore deductible from the company income, except for the part relating solely to two events, net of the amount already subject to tax charged to the private bankers;
- lastly, the deductibility of the cost of the advisory services provided by a leading company was recognised.

In short, all the annual periods and all the claims were settled with a total disbursement of 21.5 million euro.

For Fideuram, as at 31 December 2019, there were still pending claims concerning the failure to withhold 27% of the interest accrued in 2009, 2010 and 2011 on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds (Fonditalia and Interfund SICAV), for which Fideuram was only the placement bank and correspondent bank (total value of the disputes of 9.1 million euro). The risk has been assessed as being remote.

For Intesa Sanpaolo Private Banking, with regard to the disputes relating to the deduction of the amortisation charge for the goodwill arising from the transfers of the private banking business lines of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna, in the years 2009 and 2010, as realigned by Intesa Sanpaolo Private Banking in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008, the following is noted:

- the favourable ruling no. 2763/2019, filed on 26 June 2019, by the Lombardy Regional Tax Commission, which rejected the main appeal by the Italian Revenue Agency against the ruling no. 7028/2017 by the Milan Provincial Tax Commission, which had in turn upheld the (combined) appeals against the 2011 IRES and 2011 IRAP assessment notices (total claim amount of 7.3 million euro, of which 3.8 million euro for taxes and 3.5 million euro for penalties). The court of second instance also upheld the company's cross-appeal on the preliminary matter of the lapse of the tax administration's power of assessment: the release of the goodwill had been reported in the tax return for the 2010 tax year, and the notices were served in 2017, i.e. beyond the time limits laid down in Article 43 of Presidential Decree 600/73;
- the notification, in October, of the appeal to the Supreme Court of Cassation by the Italian Revenue Agency against the above-mentioned ruling no. 2763/2019 of the Milan Regional Tax Commission relating to the year 2011. The defence in the proceedings before the courts have been entrusted to a leading law firm;
- also in October, the ruling of the Lombardy Regional Tax Commission, which was contrary to the previous rulings and upheld the appeals of the Italian Revenue Agency, with rulings no. 5172/2019 and 5173/2019 relating to the year 2012, declared that the IRES and IRAP assessment notices were legitimate. An appeal will be lodged with the Court of Cassation.

Also in relation to this dispute, on 8 and 10 April 2019 the Italian Revenue Agency, Lombardy Regional Revenue Office - Large Taxpayers Office, served assessment notices on Intesa Sanpaolo Private Banking and the Parent Company, as the consolidating entity, for IRES and IRAP for the tax years 2014 and 2015.

The amount deducted by the company and now contested by Lombardy Regional Revenue Office concerns:

- for the year 2014, the same amount already adjusted for the years 2012 and 2013, equal to 11.9 million euro, corresponding to a higher IRES of 3.3 million euro and a higher IRAP of 0.6 million euro;
- for the year 2015, the same amount already adjusted for previous years plus the amortisation deriving from the deeds of transfer of the business lines of Cassa di Risparmio di Pistoia and Casse di Risparmio dell'Umbria, amounting to 12.1 million euro, which correspond to a higher IRES of 3.3 million euro and a higher IRAP of 0.7 million euro.

The total amount claimed against Intesa Sanpaolo Private Banking, also including the claims made in 2011, 2012 and 2013, amounts to 42.3 million euro for tax, penalties and interest. The risk of liability has been assessed as remote, because the legitimacy of the exemption of goodwill that is newly generated by the transferee has been expressly acknowledged by the Agency in its Circular no. 8/E of 2010.

For Banca IMI, as at 31 December 2018, the remaining tax dispute related to proceedings pending before the Court of Cassation against assessment and adjustment notices for the years 2003, 2004 and 2005 (total remedy sought of almost 20 million euro for tax, penalties and interest). Following the unfavourable decisions in the proceedings on the merits before the Tax Commissions, payments of around 16 million euro had already been made on a provisional basis for this dispute.

As a result of these outcomes, an in-depth examination was conducted with a view to settling the disputes through the so-called "tax amnesty", and the bank decided to exercise this option, also because it would not result in any disbursements (other than those already made during the provisional tax collection) and would avoid the risk of a negative outcome and therefore of additional potential charges for 2004 for IRES (3 million euro) and VAT and IRAP (0.5 million euro), as well as costs for the reimbursement of litigation expenses.

Intesa Sanpaolo Vita also made use of the "tax amnesty", through which it settled disputes regarding VAT on the services provided via contracts between insurance companies classed as co-insurance contracts (remedy sought of around 8 million euro for tax, plus penalties and interest), with a total payment of 5.8 million euro. In relation to that cost a receivable of around 5 million euro has been recognised for the right of recourse against the following counterparties: Poste Vita, Reale Mutua

Assicurazioni, Unipol Assicurazioni and Cardif Assicurazioni.
With regard to the former Banca Nuova, the tax audit by the Sicily Regional Office of the Italian Revenue Agency - Large Taxpayers Office on IRES, IRAP and VAT for the tax year 2015 that began on 12 June was concluded with the notification of a Tax Audit Report on 20 December 2019. The Tax Audit Report contains claims for a total taxable income for IRES purposes of 1.7 million euro, mainly due to accounting errors and violation of the criterion of pertinence of costs and expenses.
For the international subsidiaries, a tax audit is underway on IMI SEC for the years 2015 and 2016. In 2019 the audit was also extended to 2017. No claims have been made for the time being.
Three disputes are pending (total remedy sought of 0.5 million euro) for the subsidiary Intesa Sanpaolo Bank Albania (as the absorbing company of Veneto Banka) and the Albanian bank is involved in two other disputes (total amount 2.3 million euro): i) a pending dispute being appealed by the bank concerning the elimination of loans that were no longer recoverable that, according to the tax authorities, led to an unjustified reduction in the taxable amount for direct tax (1.3 million euro); and ii) a dispute pending before the Court of Cassation on appeal by the bank relating to errors made in the tax return for the 2011 tax year (1 million euro).
Intesa Sanpaolo Brasil S.A. - Banco Multiplo, was audited by Receita Federal do Brasil (RFB), which was followed by a notice of assessment for direct taxes for the years 2015 and 2016. This dispute concerns the improper use of past tax losses, which could not be used, in the opinion of the Brazilian tax authorities, because they were generated before the reorganisation involving Intesa Sanpaolo Brasil S.A. - Banco Multiplo, which changed its business activities and corporate structure. The RFB's claim amounts to 2.3 million euro, against which the company has not made any provision, because, also based on the assessment by the local adviser, the risk of a negative outcome is remote.
Alexbank has a material claim involving various branches of the bank in Egypt concerning the non-payment of stamp duty amounting to approximately 4 million euro for the tax periods from 1984 to 2006. The potential liability arising from the litigation has been fully provisioned.
Lastly, with regard to relations between the international subsidiary banks and Italian customers, we remind you that during the year a new investigation was started by the Italian tax authorities concerning the tax treatment of the interest arising from the disbursement of loans to individuals resident in Italy and received by banks resident abroad without a permanent establishment in Italy. This matter involved the Group's subsidiary banks resident in Switzerland (Intesa Sanpaolo Private Bank (Suisse) Morval) and in Luxembourg (Intesa Sanpaolo Bank Luxembourg) first through questionnaires and then through formal notices of assessment for the years 2013 and 2017. A dispute is also underway regarding one of the Swiss banks with registered office in the Cayman Islands. For Intesa Sanpaolo Morval, the audit was concluded with total costs of around 70,000 euro for the years 2013-2017, whereas, for Intesa Sanpaolo Luxembourg, the costs amounted to around 30,000 euro for the same years. For the Cayman-based bank, it is estimated that there will be a claim for a few thousand euro.

* * * * *

In connection with all the tax disputes outstanding as at 31 December 2019, for a total value, as stated above, of 175 million euro, of which 111 million euro relating to Intesa Sanpaolo (365 million euro as at 31 December 2018, of which 222 million euro for Intesa Sanpaolo), the Group has recognised receivables of 39 million euro in its balance sheet assets (68 million euro as at 31 December 2018) to account for amounts paid on a provisional basis due to tax assessments, of which 28 million euro (37 million euro as at 31 December 2018) related to the Parent Company.
The portion of the allowance for risks, which relates to provisional tax assessments, amounts to 25.5 million euro (73 million euro at 31 December 2018), of which 25 million euro (in line with 31 December 2018) for Intesa Sanpaolo.
The provisional payments in question were made in compliance with specific legal provisions, which provide for the mandatory payment based on an automatic mechanism totally independent of whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely because of the enforceable nature of the administrative acts that set forth the related tax claim, which does not lose its effectiveness even in the event of an appeal (no suspensive effect) and has no impact on the assessment of the actual risk of a negative outcome, which must be measured using the criterion set forth in IAS 37 for liabilities.

SECTION 3 – RISKS OF INSURANCE COMPANIES

3.1 INSURANCE RISKS

QUALITATIVE AND QUANTITATIVE INFORMATION

Life business

The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita) 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). During the definition of a product, profit testing is used, aimed at measuring profitability and identifying any weaknesses beforehand, by means of specific sensitivity analyses.

Actuarial and demographic risks arise when an unfavourable trend is recorded in the actual loss ratio compared with the trend estimated when the rate was calculated, and these risks are reflected in the level of “reserves”. The loss ratio refers not only to actuarial loss, but also to financial loss (guaranteed interest rate risk). The Company guards against these risks 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 guarded against through the exact calculation of mathematical reserves, with a series of detailed checks (for example, checking that all the variables required for the calculation such as yields, quotations, technical foundations, parameters for the supplementary reserves, and recalculation of the value of single contracts are correctly saved in the system) as well as overall verifications, by comparing results with the estimates produced on a monthly basis. Specific attention is paid to checking the correct assumption of contracts, by checking the relative portfolio against the reconstruction of movements during the period, divided by purpose, and checking the consistency of the amounts settled compared with the movements of reserves.

The tables below show the structure of the mathematical reserves by expiry date, excluding reserves for amounts to be paid and before intercompany netting, and the structure of the guaranteed minimum yield as at 31 December 2019.

(millions of euro)

Breakdown of mathematical reserves of life branch: maturity	Mathematical reserve	%
up to 1 year	2,865	3.52
1 to 5 years	4,041	4.97
6 to 10 years	1,302	1.60
11 to 20 years	2,244	2.76
over 20 years	70,927	87.15
TOTAL	**81,379**	**100.00**

(millions of euro)

Breakdown of risk concentration by type of guarantee	Total Reserves	%
Insurance and investment products with guaranteed annual yield		
0% - 1%	25,736	29.51
from 1% to 3%	41,459	47.54
from 3% to 5%	6,143	7.04
Insurance products	**8,041**	**9.22**
Shadow reserve	**5,821**	**6.69**
TOTAL	**87,200**	**100.00**

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.

The following table shows a breakdown by maturity of financial liabilities, before intercompany netting, represented by assets covering commitments arising under unit- and index-linked policies and subordinated liabilities.

(millions of euro)

Breakdown of financial liabilities by maturity	Within 12 months	Over 12 months	Total as at 31.12.2019	Total as at 31.12.2018
Unit linked	127	76,038	76,165	67,990
Index linked	-	-	-	-
Subordinated liabilities	-	1,536	1,536	1,535
Total	**127**	**77,574**	**77,701**	**69,525**

Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura and Intesa Sanpaolo Vita) mainly relate to premium 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).
Reserve risk is monitored through the exact calculation of technical reserves. More specifically, for companies with non-life business the technical reserves may be broken down into: premium reserves, claims reserves, profit sharing and reversal reserves, other technical reserves and the equalisation reserve.
With regard to risk assumption, policies are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable tariff. The check is thus not only formal, but also substantive, and in particular allows the identification of exposures in terms of capital and limits of liability, in order to verify that the portfolio matches the technical and tariff scheme agreed upon with the sales network.
Subsequently, statistical checks are carried out to verify potentially anomalous situations (such as concentration by area or by type of risk) and to keep under control accumulation at the level of individual persons (with particular reference to policies that provide cover in the accident and health branches). This is also carried out in order to provide the Financial Reporting Actuarial Analysis and Reinsurance Unit with suitable indications of the portfolio characteristics in order to prepare the annual reinsurance plan.

The following table presents the development of claims by year of generation, broken down into the major business lines of operation, as at 31 December 2019.

(millions of euro)

Development of Claims Reserves	YEAR OF GENERATION/EVENT					TOTAL
	2015	2016	2017	2018	2019	
Reserve amount:						
as at 31/12 generation year N	122	128	132	151	222	
as at 31/12 year N+1	99	108	111	139		
as at 31/12 year N+2	97	106	108			
as at 31/12 year N+3	94	104				
as at 31/12 year N+4	92					
Total claims paid	**88**	**95**	**89**	**97**	**66**	**435**
Claims reserve booked as at 31.12.2019	**4**	**10**	**20**	**43**	**157**	**234**
Final claims reserve for previous years						**18**
Total claims reserve booked as at 31.12.2019						**252**

3.2 FINANCIAL RISKS

QUALITATIVE AND QUANTITATIVE INFORMATION

Financial Risks

These risks derive from the level or volatility of market prices of financial instruments that impact the book value of both assets and liabilities. The risk factors identified by the company are as follows:

- Interest rate risk: impacts assets and liabilities whose value is sensitive to changes in the forward structure of interest rates or the volatility of interest rates;
- Equity price risk: derives from the level or volatility of market prices of equities and impacts assets and liabilities whose value is sensitive to changes in equity prices;
- Property risk: derives from the level or volatility of market prices of real estate property and impacts assets and liabilities sensitive to said changes;
- Foreign exchange risk: derives from changes in the level or volatility of foreign exchange rates;
- Spread risk: impacts assets and liabilities whose value is sensitive to adverse changes in credit spreads;
- Concentration risk: reflects the risk of holding high percentages of financial assets of the same counterparty.

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 31 December 2019, the investment portfolios of Group companies, recorded at book value, amounted to 170,555 million euro. Of these, a part amounting to 86,360 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 84,195 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.

Financial assets under segregated funds and free capital

In terms of breakdown by asset class, net of derivative financial instruments, 84% of assets, i.e. approximately 72,410 million euro, were bonds, whereas assets subject to equity risk represented 1.7% of the total and amounted to 1,485 million euro. The remainder (12,271 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (14.3%).
The carrying value of derivatives came to approximately 189 million euro, almost entirely relating to hedging derivatives while the portion of effective management derivatives[35] amounts to approximately 169 million euro.
At the end of 2019, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 838 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 7 million euro.

Interest rate risk exposure

The breakdown by maturity of bonds showed 16.72% short-term (under 1 year), 33.17% medium-term and 50.11% long-term (over five years).

(millions of euro)

Financial assets	Book value	%	Duration
Fixed-rate bonds	**67,374**	**78.18**	**5.65**
up to 1 year	10,986	12.75	
1 to 5 years	22,891	26.56	
over 5 years	33,497	38.87	
Floating rate/indexed bonds	**5,036**	**5.85**	**3.20**
up to 1 year	1,118	1.30	
1 to 5 years	1,127	1.31	
over 5 years	2,791	3.24	
TOTAL	**72,410**	**84.03**	**-**
Equities or similar capital securities	**1,485**	**1.72**	
UCI, Private Equity, Hedge Fund	**12,276**	**14.25**	
TOTAL AS AT 31.12.2019	**86,171**	**100.00**	

35 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.

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights the exposure of the portfolio: for example, a parallel shift in the yield curve of +100 basis points leads to a negative fair value change in the bond portfolios of 3,863 million euro.

(millions of euro)

	Book value	%	Fair value changes due to interest rate fluctuations	
			+100 bps	-100 bps
Fixed-rate bonds	67,374	93.05	-3,731	4,182
Floating rate/indexed bonds	5,036	6.95	-132	134
Interest rate risk hedging effect	-	-	-	-
TOTAL	**72,410**	**100.00**	**-3,863**	**4,316**

Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 7.23% of total investments and A bonds approximately 6.02%. Low investment grade securities (BBB) were 84.82% of the total, while the portion of speculative grade or unrated was minimal (1.93%).
With regard to exposure to BBB rated securities, the majority of the exposure related to bonds issued by the Republic of Italy.

(millions of euro)

Breakdown of financial assets by issuer rating	Book value	%
Bonds	**72,410**	**84.03**
AAA	1,852	2.15
AA	3,380	3.92
A	4,360	5.06
BBB	61,420	71.28
Speculative grade	1,369	1.59
Unrated	29	0.03
Equities or similar capital securities	**1,485**	**1.72**
UCI, Private Equity, Hedge Fund	**12,276**	**14.25**
TOTAL	**86,171**	**100.00**

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by governments, central banks and other public entities made up 80.41% of the total investments, whereas the securities of corporate issuers contributed around 19.59%.
The sensitivity values of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of ±100 basis points, as at end of 2019, are shown in the table below.

(millions of euro)

	Book value	%	Fair value changes due to credit spread fluctuations	
			+100 bps	-100 bps
Government bonds	58,221	80.40	-3,345	3,783
Corporate bonds	14,189	19.60	-611	621
TOTAL	**72,410**	**100.00**	**-3,956**	**4,404**

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to 149 million euro, as shown in the table below.

(millions of euro)

	Book value	%	Fair value changes due to stock price fluctuations -10%
Equities - Financial institutions	165	11.11	-17
Equities - Non-financial companies and other counterparties	1,320	88.89	-132
TOTAL	**1,485**	**100.00**	**-149**

Foreign exchange risk exposure

Approximately 97% of investments is made up of assets denominated in the EU currency. The residual exposure to foreign exchange risk was hedged by positions in derivative financial instruments, particularly domestic currency swaps, in the same currency.

Derivative financial instruments

Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management.
The table below shows the book values of the financial derivative instruments as at 31 December 2019.

(millions of euro)

Type of underlying	DEBT SECURITIES/ INTEREST RATES		EQUITIES, EQUITY INDICES, COMMODITIES, EXCHANGE RATES		TOTAL	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
Hedging derivatives	-	201	-	-	-	201
Effective management derivatives	-	-43	28	3	28	-40
TOTAL	**-**	**158**	**28**	**3**	**28**	**161**

SECTION 4 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the companies Romulus Funding Corp. and Duomo Funding Plc, subsidiaries included within the scope of consolidation pursuant to IFRS 10, and in the Risanamento Group companies, consolidated for accounting purposes starting in 2015, but not subject to management and coordination.

THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo’s strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers.
As at 31 December 2019, approximately 5.9 billion euro of the securities issued by Romulus, amounting to 6 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2019, the investment portfolio of Romulus included 6 billion euro in loans to the vehicle Duomo.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 6 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.

With regard to the portfolio of the vehicle Duomo, at the end of 2019 – in addition to loans to customers of 6 billion euro – this portfolio mainly consisted of amounts due from banks in the Intesa Sanpaolo Group of 0.1 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2019.

(millions of euro)

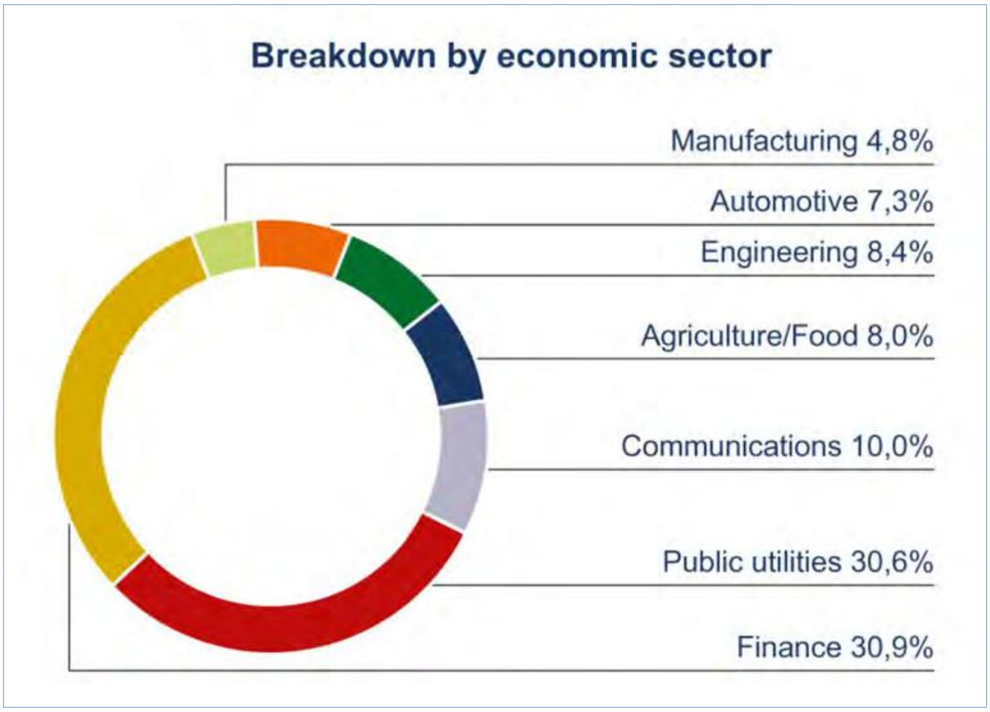
		Vehicle data		**Liquidity lines**	**Guarantees given**		***Securities issued***			
		Total assets	Cumulated losses		nature	amount	amount	amount	Accounting classification	Valuation
ROMULUS FUNDING CORP.	Asset backed commercial paper conduit	6,009	(1)	-		-	6,007	5,887	Fin.Ass. at amm.cost	Amortised cost
DUOMO FUNDING PLC	Asset backed commercial paper conduit	6,114	-	6,211		-	-	-		

(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.7% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 62% accounted for by trade receivables and the remainder by consumer loans (12%), loans deriving from lease contracts (8%), inventory-backed loans (7%), factoring contracts (5%), mortgage loans (2%) and loans/lease contracts to pharmaceutical companies (4%). The eligible assets held by the vehicles are expressed in euro (98.4% of the total portfolio). The remainder is denominated primarily in British pounds (1.27%) and US dollars (0.26%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, 100% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 97.11% of the debtors are located in Italy.

RISANAMENTO GROUP

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

Expectations for the real-estate sector are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real-estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario.
The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:
- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards.
The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections

This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.
The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives.
It is noted that during the year, in line with forecasts, the main building of the Group was sold at values in line with the carrying amount.

Risks associated with project execution
The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.
This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.
The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.
In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.
In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of integrity, suitability, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

Subject to the risks indicated above, the observation, already made in the 2017 and 2018 Annual Reports, still applies, regarding the signing of an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which represents the Group’s main asset.
Although it is currently conditional upon the approval of the modification of the Master Plan for the Milano Santa Giulia Project, this agreement is of considerable importance for the Risanamento Group because it (i) confirms the soundness and feasibility of the project and (ii) can generate benefits and synergies both during the development and marketing phases.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 683 million euro.
In further detail, the portfolio may be broken down as follows:
- owner-occupied properties: 36 million euro (registered office and place of business);
- real-estate development areas and projects: 612 million euro (Milano Santa Giulia);
- trading properties: 35 million euro.

As mentioned above, 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.

AUTOSTRADE LOMBARDE GROUP

The Autostrade Lombarde Group has identified both the risks linked to specific business factors and the financial risks. With regard to the management of financial risks, it has identified and defined the objectives and policies for managing them.

In the ordinary course of its business, the Group is potentially exposed to the following financial risks:
- "interest rate risk”, mainly deriving from exposure to fluctuations in interest rates associated with the financial assets disbursed and financial liabilities assumed;
- "liquidity risk”, deriving from the possible lack of sufficient financial resources to cover operating activities and the repayment of the liabilities assumed;
- "credit risk”, consisting of both the risk of default by the counterparty and the risk associated with normal business dealings.

The abovementioned risks are analysed in detail below:

Interest rate risk
With regard to the risks associated with interest rate fluctuations, the Group’s strategy is to contain them mainly by carefully monitoring interest rate changes, identifying the optimal combination of floating and fixed rates and also entering into specific hedging contracts.
With regard to the Group’s financial debt as at 31 December 2019, it consists of bond loans and bank loans against which there are hedges on the change in interest rates for the floating rate component.

Liquidity risk
“Liquidity risk” represents the risk that available financial resources may be insufficient to cover maturing obligations. Despite the temporary reduction in revenues compared to the initial forecasts when the infrastructure went into operation, the Group believes that the measures adopted in the new rebalancing plan, approved with the Additional Deed no. 3 to the Standard Agreement, together with the generation of cash flows and the refinancing of the debt position, will ensure that the planned financial requirements are met.

Credit risk

To minimise “credit risk”, the Group pursues a policy of prudent use of liquidity and there are currently no critical positions with individual counterparties. With regard to trade receivables, the Group constantly monitors them and writes down positions that have been identified as partially or totally uncollectable.

With regard to the specific activity carried out by the subsidiary Società di Progetto Brebemi S.p.A., the following risks are also identified:

Legislative and regulatory risk

The Group provides a public service and operates in a regulated sector subject to legislative measures that may affect the setting of the tariffs applied to users and the imposition of unforeseen obligations and charges. The tariffs are subject to control and application by the Concession Grantor and the Ministry of Infrastructure and Transport and are updated annually, as provided for in the current Agreement. The Group constantly monitors possible new legislation, using both internal and external expertise.

Risks of revocation of the concession in the public interest

With regard to the risks connected with a possible revocation/nationalisation of the motorway concessions, if the concession agreement is terminated for reasons of public interest or due to breach by the Concession Grantor, it envisages appropriate safeguards for the Concession Holder. In particular, it is established that the Concession Holder will be entitled to a refund equal to: (i) the value of the works carried out plus ancillary costs, net of depreciation, (ii) the penalties and other costs incurred or to be incurred as a result of the termination and (iii) an indemnity, as compensation for loss of earnings, equal to 10 percent of the value of the works still to be carried out or of the part of the service to be managed valued on the basis of the business and financial plan.

Price risk

With regard to the Group’s main investment, the existing procurement and service agreements exclude the revision of prices, unless these are recognised by the Concession Grantor, because the agreements are structured with back-to-back commitments and rights deriving from the relationship between the Concession Grantor and the Concession Holder.
The above also applies for the higher construction and expropriation costs increased following the rebalancing of the Business and Financial Plan.

Market risk

In view of the nature of the business conducted, the main market risk is attributable to “traffic risk”, i.e. the risk that the traffic estimates underlying the agreed business and financial plan may be incorrect. This risk is covered by the contractual instruments that allow the Concession Holder to re-establish the business and financial balance when updating or revising the Business and Financial Plan.

As mentioned above, Intesa Sanpaolo does not exercise management and coordination over Autostrade Lombarde S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

Part F – Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.
The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.
Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.
The capital at risk considered is twofold:
- regulatory capital covering Pillar 1 risks;
- overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.
Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications ("Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decree 180 and 181 on 16 November 2015), with international practice and in compliance with both the Group Risk Appetite Framework and the crisis management model adopted by the Bank.

As part of the process of defining budget targets, a projection compatibility analysis is conducted annually at Group level and at the level of individual entities in the Group. Depending on the expected performance of balance sheet and income statement aggregates, the appropriate capital management measures to ensure the required financial resources for the individual business units are already identified in this phase, if necessary.
Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate action when necessary.
Compliance with capital adequacy is sought via various levers, such as the dividend distribution policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly loans, on the basis of counterparty risk.
Further analyses for preliminary assessment of capital adequacy are performed during extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the scope of consolidation of the Group.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

On 8 February 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 March 2019. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.88% under the transitional arrangements for 2019 and 9.25% on a fully loaded basis.
This is the result of:
a) a SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis in 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.38% under the transitional arrangements in force for 2019 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[36], the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.38% on a fully loaded basis.

On 31 August 2018, the Group received the authorisation to use the new Retail model, applied to the Retail Mortgages sub-segment (Model Change) and the Other Retail sub-segment (First Adoption). The new model adopts a counterparty approach instead of the previous product approach. During the first disbursement phase, an on-line rating is calculated, also including social and income information. A mass calculation is then used for the entire Retail portfolio (Retail Mortgage and Other Retail).

[36] Countercyclical Capital Buffer calculated taking into account the exposures as at 31 December 2019 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2019-2021, where available, or to the latest update of the reference period requirement was set at zero per cent in Italy for the first quarter of 2020.

On 9 September 2019, Intesa Sanpaolo received notification of the ECB's permission to calculate the Group's consolidated capital ratios applying the so-called Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019.
On 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 9.06% under the transitional arrangements for 2020 and 9.25% on a fully loaded basis.
This is the result of:

a) a SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer, the Common Equity Tier 1 ratio to be met is 9.18% under the transitional arrangements in force for 2020 and 9.38% on a fully loaded basis.

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to adopt the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022.

B. Quantitative information

B.1. Consolidated book shareholders' equity: breakdown by type of company

(millions of euro)

Balance sheet captions	Prudential consolidation	Insurance companies	Other companies	Netting and adjustments on consolidation	TOTAL	*of which minority interests*
1. Share capital	**9,134**	**-**	**321**	**-**	**9,455**	***369***
2. Share premium reserves	**25,093**	**-**	**2**	**-**	**25,095**	***20***
3. Reserves	**13,477**	**140**	**-703**	**327**	**13,241**	***-38***
4. Equity instruments	**4,103**	**-**	**-**	**-**	**4,103**	-
5. (Treasury shares)	**-104**	**-2**	**-**	**2**	**-104**	-
6. Valuation reserves:	**300**	**503**	**-62**	**-488**	**253**	***-94***
- Equities designated at fair value through other comprehensive income	178	-	-	-	178	*6*
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	60	-	-	-	60	*3*
- Property and equipment	1,552	-	-	-	1,552	*26*
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash flow hedges	-844	-	-85	-	-929	*-47*
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,055	-	23	-	-1,032	*-76*
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	-414	-1	-	-	-415	*-5*
- Share of valuation reserves connected with investments carried at equity	515	-	-	-488	27	*-1*
- Legally-required revaluations	308	-	-	-	308	-
- Share of valuation reserves pertaining to insurance companies	-	504	-	-	504	-
7. Parent company's net income (loss) and minority interest (+/-)	**4,224**	**694**	**-91**	**-655**	**4,172**	***-10***
Shareholders' equity	**56,227**	**1,335**	**-533**	**-814**	**56,215**	**247**

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

B.2. Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	820	-335	428	-7	-	-	-428	7	820	-335
- of which measured pursuant to IAS 39	*428*	*-7*	*428*	*-7*	*-*	*-*	*-428*	*7*	*428*	*-7*
2. Equities	343	-136	32	-1	-	-	-32	1	343	-136
- of which measured pursuant to IAS 39	*32*	*-1*	*32*	*-1*	*-*	*-*	*-32*	*1*	*32*	*-1*
2bis. Quotas of UCI (pursuant to IAS 39)	40	-8	40	-8	-	-	-40	8	40	-8
4. Loans	1	-	-	-	-	-	-	-	1	-
Total as at 31.12.2019	**1,204**	**-479**	**500**	**-16**	**-**	**-**	**-500**	**16**	**1,204**	**-479**
Total as at 31.12.2018	**367**	**-652**	**27**	**-20**	**-**	**-**	**-27**	**20**	**367**	**-652**

The reserve on equities classified as level 1 is negative for about 89 million euro.

B.3. Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

(millions of euro)

	Debt securities	*Debt securities: of which measured pursuant to IAS39*	Equities	*Equities: of which measured pursuant to IAS39*	Quotas of UCI (pursuant to IAS39)	TOTAL
1. Opening balance	**-470**	**15**	**194**	**1**	**-9**	**-285**
2. Increases	*1,479*	*472*	*163*	*36*	*54*	*1,696*
2.1. Fair value increases	1,346	*456*	158	*35*	46	1,550
2.2. Adjustments for credit risk	*26*	-	-	-	-	*26*
2.3. Reversal to the income statement of negative reserves from disposal	*83*	-	-	-	-	83
2.3bis Reversal to the income statement of negative reserves from impairment (pursuant to IAS39)	*3*	*3*	-	-	*4*	7
2.4. Transfer to other shareholders' equity items (equities)	-	-	-	-	-	-
2.5. Other increases	*21*	*13*	*5*	*1*	*4*	30
3. Decreases	**-524**	**-66**	**-150**	**-6**	**-13**	**-687**
3.1. Fair value decreases	*-303*	*-29*	*-127*	*-2*	*-5*	-435
3.2. Recoveries for credit risk	*-3*	-	-	-	-	-3
3.2bis Impairment losses (pursuant to IAS39)	-	-	-	-	-	-
3.3. Reversal to the income statement of positive reserves from disposal	*-198*	*-20*	*-4*	*-4*	*-5*	-207
3.4. Transfer to other shareholders' equity items (equities)	-	-	*-8*	-	-	-8
3.5. Other decreases	*-20*	*-17*	*-11*	-	*-3*	-34
4. Final balance	**485**	***421***	**207**	***31***	**32**	**724**

Trading on treasury shares

During the year, Intesa Sanpaolo and the Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

Ordinary shares:		
Initial number	no.	32,752,365
Purchases	no.	20,511,847
Sales	no.	-9,381,813
End-of-year number	no.	43,882,399

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year, the reserves at issue recorded a decrease of 37 million euro. Therefore, as at 31 December 2019, there was an overall negative reserve equal to approximately 415 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

Reference is made to the “Basel 3 Pillar 3” public disclosure as at 31 December 2019 for the disclosure on own funds and capital adequacy.

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

1.1 Business combinations

During the year, no business combinations were undertaken, pursuant to IFRS 3, involving the acquisition of control over businesses or legal entities.

Conversely, several extraordinary intragroup transactions were carried out, which are not included in the scope of IFRS 3 and had no effects on the Consolidated financial statements. They consisted in transfers of business lines or legal entities between Intesa Sanpaolo Group companies or business combinations (under common control).
Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved.
The main intragroup transactions completed during the year concerned:
- the merger by incorporation of Intesa Sanpaolo Group Services into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio in Bologna into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio di Firenze into Intesa Sanpaolo;
- the sale of the Qingdao Yicai Wealth Management equity investment by Eurizon Capital SA and Fideuram - ISP Private Banking to Intesa Sanpaolo;
- the merger by incorporation of Banca Apulia into Intesa Sanpaolo;
- the merger by incorporation of Banca Prossima into Intesa Sanpaolo;
- the merger by incorporation of Morval Vonwiller Holding and Intesa Sanpaolo Private Bank (Suisse) into Banque Morval, renamed Intesa Sanpaolo Private Bank (Suisse) Morval;
- the partial spin-off by Banca IMI of the equity investment in Epsilon (49%) to Eurizon Capital.
- the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo;
- the merger by incorporation of Consumer Finance Holding into Vseobecna Uverova Banka (VUB);
- the merger by incorporation of Intesa Sanpaolo Real Estate into Intesa Sanpaolo Holding International;
- the merger by incorporation of Intesa Sanpaolo SEC 3 into Intesa Sanpaolo.

Annual changes in goodwill

(millions of euro)

	31.12.2019
Initial goodwill	**4,163**
Increases	**64**
- Goodwill recorded in the year	-
- Positive foreign exchange differences and other changes	64
Decreases	**-172**
- Impairment recorded in the year	-
- Disinvestments	-123
- Negative foreign exchange differences and other changes	-49
Final Goodwill	**4,055**

Goodwill

(millions of euro)

CGUs/Goodwill	31.12.2019	31.12.2018
Banca dei Territori	983	1,211
Corporate and Investment Banking (**)	56	-
Insurance	494	494
Asset Management	1,060	1,060
Private Banking	1,291	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	171	107
Total	**4,055**	**4,163**

(*) The table does not include goodwill attributable to the acquiring business line that will be transferred to Nexi, which has been reclassified among discontinued operations.

(**) The amount refers to the portion of goodwill reallocated to Banca dei Territori following the finalisation of the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo in the fourth quarter of 2019. For additional details, see Part B - Section 10 of the Notes to the consolidated financial statements.

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

2.1 Business combinations

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2019.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

The final accounting treatment of the Autostrade Lombarde business combination

Following the agreements reached with the Gavio Group, with effect from 31 December 2018 Intesa Sanpaolo acquired control, pursuant to IFRS 10, of Autostrade Lombarde S.p.A., the concession operator, through its operating subsidiary Società di Progetto Brebemi (hereinafter “Brebemi”), of the Milan-Brescia motorway section (A35).

The transaction had been accounted for in the Intesa Sanpaolo Group’s consolidated financial statements as at and for the year ended 31 December 2018, in accordance with IFRS 3, by recognising the Autostrade Lombarde Group’s assets and liabilities at their fair values as at the acquisition date. In further detail, the difference between the acquisition cost incurred and the proportional share of net assets, at fair value, amounting to 107 million euro, was provisionally allocated, as explicitly disclosed in the 2018 Annual report, to goodwill, in accordance with IFRS 3, which grants the acquirer a period of 12 months to complete the purchase price allocation (PPA) process. In fact, IFRS 3 requires that if the accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, since the fair value to assign to the assets acquired and liabilities assumed may only be determined provisionally, the accounting treatment must be based on the provisional values, and adjustments to those values then recognised with retroactive effect within 12 months of the acquisition, thus yielding the definitive acquisition values. According to IFRS 3, retrospective modifications to the values recognised on a provisional basis on the acquisition date are to be recognised by means of a decrease/(increase) in goodwill.

Among the liabilities assumed at the acquisition date, Intesa Sanpaolo had recognised at fair value the long-term project financing contracted by Brebemi in 2015 from a pool of banks (including Intesa Sanpaolo) and Cassa Depositi e Prestiti within the framework of the project to design and build the A35 motorway. For the purposes of the 2018 Annual report, the fair value of the loan, calculated in accordance with the Group’s Fair Value policy, and in line with the provisions of IFRS 13, by discounting future cash flows at a rate representing the current level of market rates and the counterparty’s creditworthiness, was found to be lower than its book value by a total of 183 million euro.

However, an event which was already implicit at 31 December 2018, but which could not be considered certain at that date and thus had not been incorporated into the measurement process, occurred in 2019. Specifically, this was the refinancing of Brebemi’s debt exposure, completed on 22 October 2019, with repayment at par of the project financing through the issuance of debt instruments with characteristics substantially different from those repaid. As mentioned above, this element was already known at 31 December 2018, and Autostrade Lombarde had provided adequate disclosure of this fact in its 2018 financial statements.

Accordingly, it was determined that the refinancing of Brebemi’s debt is an event that was already known at the acquisition date but that only occurred in 2019, and thus after the acquisition date. In fact, at 31 December 2018 the refinancing operation was in the process of being structured and, considering that its execution could not be regarded as certain at that date, it had not been taken into account when determining the fair value of the project financing. The refinancing operation in question represents new information obtained regarding facts and circumstances existing at the acquisition date, which, had it been known, would have influenced the measurement of the amounts recognised on a provisional basis for the purposes of the 2019 financial statements. Considering that the refinancing involved the repayment at par of the project financing on 22 October 2019, if this aspect had been contemplated in the measurement process it would have entailed a fair value of the liability close to its nominal value, and thus significantly different from that determined at 31 December 2018, given that in the purchase price allocation process the original contractual maturity of the project financing (2033) had been taken into account.

Accordingly, in the light of the foregoing, it was concluded that the fair value of Brebemi’s project financing was to be modified, with retroactive effect from the acquisition date, to take account of the refinancing operation described above. Specifically, the new fair value of project financing – once again calculated on the basis of the Group’s Fair Value Policy and in accordance with IFRS 13 – was found to be substantially aligned with its nominal value.

As required by IFRS 3, the overall fair value adjustment was recognised through goodwill, which, as shown in the table below, increased by 64 million euro, from 107 to 171 million euro.

(millions of euro)

	Provisional allocation (2018 Finaancial statements)	Final allocation (2019 Financial statements)
Purchase price	**207**	**207**
IAS/IFRS-compliant shareholders' equity acquired (55.8%)	**47**	**47**
Difference to be allocated	**160**	**160**
Fair value differences of assets acquired and liabilities assumed		
Project financing	183	-19
Shareholders' loans	-15	-15
Tax effect	-36	21
Total net gain on assets acquired and liabilities assumed	**132**	**-13**
Minority interest share of the fair value differences (1)	-79	2
Total net gain for the acquired interest	**53**	**-11**
Goodwill recognised	**107**	**171**

(1) For the purposes of determining goodwill, the fair value differences were considered in respect of the interest acquired in Autostrade Lombarde (55.8%), given that Autostrade Lombarde held a 79% interest in Brebemi at the acquisition date.

Since IFRS 3 requires that adjustments to provisionally allocated amounts be recognised with retroactive effect from the acquisition date, the amortised cost of the project financing was recalculated with effect from 31 December 2018 (the acquisition date pursuant to IFRS 3) to 22 October 2019 (the date of the refinancing of the position), considering the definitively calculated fair value to be the initial recognition value. The redetermination of the amortised cost of the project financing had an immaterial impact on the Intesa Sanpaolo Group’s 2019 income statement.

Based on the effects arising from the definitive fair value measurement of the identifiable assets and liabilities, the balance sheet of Autostrade Lombarde is provided below, as accounted for at the acquisition date by Intesa Sanpaolo. In detail, the balance sheet shows figures as at the acquisition date based on the IAS/IFRS-compliant carrying values derived from Autostrade Lombarde, the fair value recognised on a provisional basis for the purposes of the 2018 financial statements and the definitive fair value recognised with retroactive effect for the purposes of the Consolidated financial statements as at and for the year ended 31 December 2019.

(millions of euro)

Assets		Book value in accordance with the IAS/IFRS	Provisional fair value (2018 financial statements)	Final fair value (2019 financial statements)
10.	Cash and cash equivalents	1	1	1
20.	Financial assets measured at fair value through profit or loss	-	-	-
	a) financial assets held for trading	-	-	-
	b) financial assets designated at fair value	-	-	-
	c) other financial assets mandatorily measured at fair value	-	-	-
30.	Financial assets measured at fair value through other comprehensive income	25	25	25
35.	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-
40.	Financial assets measured at amortised cost	770	770	770
	a) due from banks	*117*	*117*	*117*
	b) loans to customers	*653*	*653*	*653*
50.	Hedging derivatives	-	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-	-
70.	Investments in associates and companies subject to joint control	-	-	-
80.	Technical insurance reserves reassured with third parties	-	-	-
90.	Property and equipment	4	4	4
100.	Intangible assets	975	1,082	1,146
	Of which:			
	- goodwill	-	*107*	*171*
110.	Tax assets	193	197	203
	a) current	-	-	-
	b) deferred	*193*	*197*	*203*
120.	Non-current assets held for sale and discontinued operations	-	-	-
130.	Other assets	251	251	251
Total assets		**2,219**	**2,330**	**2,400**

(millions of euro)

Liabilities		**Book value in accordance with the IAS/IFRS**	**Provisional fair value (2018 financial statements)**	**Final fair value (2019 financial statements)**
10.	Financial liabilities measured at amortised cost	1,662	1,494	1,696
	a) due to banks	*1,616*	*1,448*	*1,650*
	b) due to customers	*46*	*46*	*46*
	c) securities issued	-	-	-
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-
20.	Financial liabilities held for trading	-	-	-
30.	Financial liabilities designated at fair value	-	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-
40.	Hedging derivatives	*331*	*331*	*331*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	-	-	-
60.	Tax liabilities	24	75	24
	a) current	-	-	-
	b) deferred	*24*	*75*	*24*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-
80.	Other liabilities	157	157	157
90.	Employee termination indemnities	1	1	1
100.	Allowances for risks and charges	-	-	-
	a) commitments and guarantees given	-	-	-
	b) post-employment benefits	-	-	-
	c) other allowances for risks and charges	-	-	-
110.	Technical reserves	-	-	-
120.	Valuation reserves	-	-	-
130.	Redeemable shares	-	-	-
140.	Equity instruments	-	-	-
150.	Reserves	-387	-264	-264
160.	Share premium reserve	3	3	3
170.	Share capital	468	468	468
180.	Treasury shares (-)	-	-	-
190.	Minority interests (+/-)	-40	65	-16
200.	Net income (loss) (+/-)	-	-	-
Total liabilities and shareholders' equity		**2,219**	**2,330**	**2,400**

Part H – Information on compensation and transactions with related parties

A) TRANSACTIONS WITH RELATED PARTIES

1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.

These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

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

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

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

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

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

2. Information on balances with related parties
Receivable and payable balances with related parties as at 31 December 2019 within the consolidated accounts – other than those fully consolidated 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.

	31.12.2019	
	Amount (millions of euro)	**Impact (%)**
Total financial assets (1)	8,940	1.2
Total other assets (2)	155	1.2
Total financial liabilities (3)	7,946	1.2
Total other liabilities (4)	1,453	1.3

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

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

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

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

	31.12.2019	
	Amount (millions of euro)	**Impact (%)**
Total interest income	117	1.1
Total interest expense	-49	-1.5
Total fee and commission income	26	0.3
Total fee and commission expense	-25	-1.2
Total operating costs (1)	-167	-1.7

(1) Includes caption 180 of the income statement

The operating costs shown in the table include non-performing loan servicing fees.
In relation to associates and companies subject to joint control, in the year a total of around 8 million euro of net adjustments to loans were recorded.
The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.
The following table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 65 million euro.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis	**Companies subject to joint control and their subsidiaries**	**Associates and their subsidiaries**	**Board Members and General Managers, Key Managers and their related parties**	**Pension funds**	**TOTAL**	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	17	-	155	-	-	172	-	2,468
a) financial assets held for trading	*-*	*-*	*2*	*-*	*-*	*2*	*-*	*2,461*
b) financial assets designated at fair value	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
c) other financial assets mandatorily measured at fair value	*17*	*-*	*153*	*-*	*-*	*170*	*-*	*7*
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	21	82
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	-	3	-	-	3	2	217
Financial assets measured at amortised cost	5	50	475	9	-	539	1	4,195
a) due from banks	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2,828*
b) loans to customers	*5*	*50*	*475*	*9*	*-*	*539*	*1*	*1,367*
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	8	-	11	-	1	20	-	135
Investments in associates and companies subject to joint control	43	77	1,120	-	-	1,240	-	-
Financial liabilities measured at amortised cost	96	14	846	20	297	1,273	148	2,003
a) due to banks	*69*	*-*	*2*	*-*	*-*	*71*	*-*	*1,658*
b) due to customers	*27*	*14*	*844*	*20*	*297*	*1,202*	*148*	*345*
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	4	-	-	4	-	4,518
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	-	-	-	-
Other financial liabilities	4	-	53	9	517	583	3	867
Guarantees and committments given	12	26	540	1	1	580	22	1,852
Guarantees and committments received	-	17	215	14	-	246	13	535

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

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

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

3. Information on transactions with related parties

Most significant transactions
During the year, the Intesa Sanpaolo Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and at non-market or non-standard conditions subject – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – to the obligation to publish a market disclosure document.
For a description of Intesa Sanpaolo's transactions, which are exempt from the above obligation, see Part H of the Parent Company's Financial Statements.
Please note the that 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
For information on the most significant intragroup transactions – exempt, pursuant to the aforementioned internal Procedures, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – see the description provided in Part H of the Notes to the Parent Company's Financial Statements.

Other significant transactions
The transactions undertaken by the Intesa Sanpaolo Group with related parties fall within the scope of the Group's ordinary activities and are generally entered into at market conditions, based on considerations of mutual economic interest, in line with the internal procedures mentioned above.
For details of the transactions carried out by the Parent Company Intesa Sanpaolo, see the description provided in Part H of the Notes to the Parent Company's Financial Statements.
The main less significant transactions concluded during the year by subsidiaries with related parties are reported below.
Transactions with fully consolidated intragroup related parties are not included in this document because they are netted at consolidated level. However, details of the abovementioned transactions can be found in the description provided in Part H of the Notes to the Parent Company's Financial Statements.
Transactions carried out with subsidiaries over which Intesa Sanpaolo does not exercise management and coordination include a credit facility provided by Banca IMI to Società di Progetto Brebemi ("Brebemi"), the concession operator of the Milan-Brescia (A35) motorway segment, a subsidiary of Intesa Sanpaolo controlled through Autostrade Lombarde. The facility provided by Banca IMI was part of the larger refinancing operation carried out by Brebemi, involving the repayment in full of the previous project financing using new debt in the form of bank borrowings and, primarily, bonds placed on the market.
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 – which hold equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management – and with entities with significant shareholding or financial relationships (to which the provisions governing transactions with related parties has been extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken at market conditions.
These included the following in particular:
- recurrent and ordinary transactions in OTC financial instruments carried out by Banca IMI S.p.A. in the course of continuing operations, with JP Morgan Securities PLC, Blackrock Fund Managers Ltd, Goldman Sachs International and Quaestio Capital SGR S.p.A., an entity attributable to Fondazione Cariplo;
- a credit facility provided by Banca IMI to F2I Sgr;
- the sale from Intesa Sanpaolo Assicura S.p.A. to JP Morgan Chase & Co. of financial instruments with a nominal value of 290 million euro;
- the subscription by Intesa Sanpaolo Vita S.p.A. of a Luxembourg alternative fund set up and managed by Blackrock Financial Management Inc. for 200 million euro;
- an agreement signed by Intesa Sanpaolo Innovation Center S.p.A. and several counterparties, including Compagnia di San Paolo, with Techstars, a US-registered company specialising in the provision of acceleration programmes for startups, aimed at activating a three-year programme for Officine Grandi Riparazioni in Turin, a centre for cultural and technological development. The transaction, which amounts to around 8 million euro, is intended to support initiatives undertaken by Intesa Sanpaolo Innovation Center S.p.A. to develop and learn future new businesses.
  The agreement involves an outlay for the Group of approximately 3 million dollars per year for three years, with standard financial conditions and general terms for all the programmes, governed by a Partnership Service Agreement.

Under the strategic payments partnership between Banca 5 and Sisal Group – which led to the creation of a Newco (70% Sisal Group and 30% Banca 5) which is a leader in proximity financial services – Banca 5 carried out the following transactions, among others:
- transfer to the Newco of its payment services and commercial activity business lines for total consideration of 250 million euro, certified by a specific fairness opinion by an independent third party;
- signing of a Commercial Collaboration Agreement designed to ensure the governance at market conditions of the product offering not transferred to the two vehicles.

The transactions with jointly-controlled subsidiaries and associates included the following:

- the acquisition by Eurizon Capital SGR S.p.A. of a 12.5% holding in the capital of Oval Money LTD for a total maximum price of approximately 5 million euro through the subscription of a reserved capital increase in two tranches (the first of which, for approximately 3 million euro, was carried out on 28 October 2019);
- transactions in OTC financial instruments carried out by Banca IMI S.p.A. with Cassa di Risparmio di Fermo;
- the loan granted by Banca IMI S.p.A. to Cassa di Risparmio di Fermo in support of the voluntary takeover bid on the shares of Italiaonline S.p.A. – a transaction promoted by Libero Acquisition S.a.r.l. and the Golden Tree and Avenue Capital funds – for a value of approximately 11 million euro.

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

Other significant information

During the year, adjustments to the counterparties Rainbow, Ideami and Mir Capital (consolidated according to the equity method) were posted.

For pension funds benefiting the Group's employees in which Intesa Sanpaolo companies are co-obliged by virtue of guarantees given, payments were made during the period for the settlement of the technical imbalance of the funds concerned.

B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

The following table shows the amounts of the compensation paid in 2019 to the members of the Management and Control Bodies and the General Managers of the subsidiary companies, as well as the compensation paid to other Key Managers of the Parent Company who fall within the notion of "related party". This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

	MANAGEMENT BODIES/ CONTROL BODIES[1]		OTHER MANAGERS [2]		TOTAL as at 31.12.2018	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits [3]	21	16	48	39	69	55
Post-employement benefits [4]	-	-	5	3	5	3
Other long-term benefits [5]	-	-	7	-	7	-
Termination benefits [6]	-	-	-	-	-	-
Share-based payments [7]	-	-	24	-	24	-
Total	**21**	**16**	**84**	**42**	**105**	**58**

(1) Figures referring to 441 positions. The table does not include approximately 1.6 million euro relating to 66 positions in the Boards of Directors (or similar bodies), as this was fully transferred to other Group Companies

(2) Figures referring to 94 positions. The table does not include approximately 4.4 million euro relating to 16 General Manager positions (or similar positions), as this was fully transferred to other Group Companies

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations

(5) Includes an estimate of provisions for employee seniority bonuses

(6) Includes benefits due under the employment contract for termination of employment

(7) The cost refers to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares through LECOIPs

Detailed information on the remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the "Report on Remuneration", which includes:

- a detailed indication of the compensation paid to the members of the management and control bodies and General Managers and, in aggregate, the Key Managers, as well as the stock option plans reserved for Board Members, General Managers and Key Managers;
- the details and the evolution of the stock option plans relative to Key Managers;
- Parent Company's and subsidiary companies' shares held by the members of the management and control bodies, General Managers, Key Managers and other associated entities.

Part I – Share-based payments

A. QUALITATIVE INFORMATION

Description of share-based payments

Annual incentive plan based on financial instruments

The Supervisory Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, *inter alia*, that a portion of annual incentives paid to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result, the Intesa Sanpaolo Group sets up annual incentive plans linked to performance. In fulfilment of these plans:

- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 9 October 2015 the Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro.
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Group purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro.
- with regard to the results for 2018, and in implementation of the Shareholders' Meeting resolution of 30 April 2019, on 17 and 18 September 2019 the Group totally purchased - through Banca IMI, in charge of the programme execution - 17,137,954 Intesa Sanpaolo ordinary shares (representing approximately 0.10% of the ordinary share capital) at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro.
  In addition, the purchase programme has been implemented in order to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.
The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive systems. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the “malus condition” – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0 Plans

At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:

- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 Plan targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.
The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).

The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).

Furthermore, in June 2018 the Group signed a novation agreement *(accollo liberatorio)* with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transferred to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby took on all the volatility risks associated with the Plan.

Instead, with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.

The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:
- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment ("Free Shares");
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment ("Matching Shares") and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price ("Discounted Shares").

The Certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

The POP and the LECOIP 2.0 were subject to the approval of the ordinary Shareholders' Meeting of 27 April 2018.

With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders' Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset with a balancing entry in Shareholders' Equity. Fair value changes associated with subsequent measurements are recognised through profit or loss. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry in Shareholders' Equity.

With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset with a balancing entry in Shareholders' Equity. In particular, the Certificates entered in the Group's financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value. Fair value changes associated with subsequent measurements are recognised through profit or loss.

B. QUANTITATIVE INFORMATION

Evolution of the annual incentive plans based on financial instruments in 2019

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2018	20,678,351	-	May 2019 / May 2023
Financial instruments granted during the year	14,484,276	-	May 2021 / May 2024
Financial instruments no longer assignable (a)	355,731	-	
Financial instruments vested during the year and assigned	7,390,736	-	
Financial instruments outstanding as at 31 December 2019	27,416,160	-	May 2020 / May 2024
of which: vested and assigned as at 31 December 2019	-	-	-

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

In addition to the shares specified above, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration and Incentive Policies of the Group, during 2019, 729,128 shares were assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance). The residual life of those shares, assigned over a multi-year time horizon, ends between July 2020 and January 2025.

Breakdown by residual life

Residual life	Number of shares
May - November 2020	8,166,041
May - November 2021	11,454,952
May - November 2022	4,580,458
May - November 2023	2,425,711
May 2024	788,998

Evolution of long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		**Matching Shares at July 2018**		**Discounted Shares at July 2018**		**Sell to cover shares at July 2018 (a)**		**Total number of shares assigned at July 2018**	**Number of LECOIP Certificates at 31.12.2018**	Changes in the year (c)	**Number of LECOIP Certificates at 31.12.2019**	**Average fair value 31.12.2019**
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	25,147,152	2.4750	47,411,243	2.4750	507,908,765	0.3771	96,595,275	2.5416	677,062,435	71,561,923	-1,467,257	70,094,666	2.6222

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

	Performance-based Option Plan (POP)						
	POP options at July 2018 (a)		**POP options at 31.12.2018**		**Changes in the year (b)**	**POP options at 31 December 2019**	
	Number of POP options	Average unit fair value	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value
Total beneficiaries (Top Management, Risk Takers and Key Managers)	517,066,285	0.3098	517,066,285	0.0372	-25,990,729	491,075,556	0.0560

(a) Number of POP options and relevant average fair value assigned on 11 July 2018 to beneficiaries (Top Management, Risk Takers and Key Managers)

(b) Number of POP options for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees due to failure to comply with the condition of continuation of employment and other vesting conditions.

Part L – Segment reporting

Breakdown by business area: 2019 income statement figures[a]

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total
Net interest income	4,187	1,899	1,370	177	1	-	-629	7,005
Net fee and commission income	4,212	1,029	537	1,746	799	-	-361	7,962
Income from insurance business	2	-	-	-	-	1,144	38	1,184
Profits (Losses) on financial assets and liabilities designated at fair value	72	1,232	124	42	5	-	453	1,928
Other operating income (expenses)	-	2	-33	6	35	-12	6	4
Operating income	**8,473**	**4,162**	**1,998**	**1,971**	**840**	**1,132**	**-493**	**18,083**
Personnel expenses	-3,135	-435	-540	-358	-81	-90	-1,105	-5,744
Other administrative expenses	-1,890	-623	-346	-199	-70	-102	742	-2,488
Adjustments to property, equipment and intangible assets	-9	-30	-105	-56	-6	-12	-840	-1,058
Operating costs	**-5,034**	**-1,088**	**-991**	**-613**	**-157**	**-204**	**-1,203**	**-9,290**
Operating margin	**3,439**	**3,074**	**1,007**	**1,358**	**683**	**928**	**-1,696**	**8,793**
Net adjustments to loans	-1,016	-211	-77	-2	-	-	-783	-2,089
Other net provisions and net impairment losses on other assets	-111	-41	5	-30	-	-2	-75	-254
Other income (expenses)	111	3	9	9	-	-	-77	55
Income (Loss) from discontinued operations	-	-	-	-	-	-	88	88
Gross income (loss)	**2,423**	**2,825**	**944**	**1,335**	**683**	**926**	**-2,543**	**6,593**
Taxes on income	-848	-888	-181	-394	-165	-247	885	-1,838
Charges (net of tax) for integration and exit incentives	-23	-5	-40	-21	-	-2	-15	-106
Effect of purchase price allocation (net of tax)	-1	-	-	-2	-	-16	-98	-117
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-360	-360
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-
Minority interests	-	-	-	1	-	-	9	10
Net income (loss)	**1,551**	**1,932**	**723**	**919**	**518**	**661**	**-2,122**	**4,182**

(a) Figures from the reclassified financial statements as described in the Report on operations.

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

In application of IFRS 15, in particular paragraphs 114 and 115, which require a breakdown of revenues from contracts with customers, the breakdown of fee and commission income and expense by business area is provided below.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (a)	Total 2019	Total 2018	Changes	
										amount	%
Guarantees given	85	228	33	1	-	-	-6	341	353	-12	-3.4
Collection and payment services	404	83	179	7	-	-	8	681	658	23	3.5
Current accounts	1,063	29	122	8	-	-	-	1,222	1,260	-38	-3.0
Credit and debit cards	370	3	242	8	-	-	8	631	620	11	1.8
Commercial banking activities	**1,922**	**343**	**576**	**24**	**-**	**-**	**10**	**2,875**	**2,891**	**-16**	**-0.6**
Dealing and placement of securities	1,142	488	23	198	274	-	-1,165	960	929	31	3.3
Currency dealing	39	5	4	3	-	-	1	52	53	-1	-1.9
Portfolio management	127	9	17	1,521	1,685	-	-249	3,110	3,028	82	2.7
Distribution of insurance products	825	-	23	593	-	-	-	1,441	1,462	-21	-1.4
Other	31	48	12	167	-	-	58	316	296	20	6.8
Management, dealing and consultancy activities	**2,164**	**550**	**79**	**2,482**	**1,959**	**-**	**-1,355**	**5,879**	**5,768**	**111**	**1.9**
Other net fee and commission income	**382**	**447**	**67**	**24**	**111**	**-**	**37**	**1,068**	**1,105**	**-37**	**-3.3**
Fee and commission income	**4,468**	**1,340**	**722**	**2,530**	**2,070**	**-**	**-1,308**	**9,822**	**9,764**	**58**	**0.6**
Fee and commission expense	**-256**	**-311**	**-185**	**-784**	**-1,271**	**-**	**947**	**-1,860**	**-1,812**	**48**	**2.6**
Net fee and commission income	**4,212**	**1,029**	**537**	**1,746**	**799**	**-**	**-361**	**7,962**	**7,952**	**10**	**0.1**

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

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

Breakdown by business area: balance sheet figures as at 31 December 2019[a]

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total
Loans to customers	186,354	131,543	34,038	9,329	435	-	33,530	395,229
Direct deposits from banking business	199,256	96,550	43,420	38,737	10	-	47,539	425,512

(a) Figures from the reclassified financial statements as described in the Report on operations.

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

Breakdown by geographical area: 2019 income statement figures[(a)]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Net interest income	5,135	1,312	558	7,005
Net fee and commission income	6,465	1,346	151	7,962
Income from insurance business	978	206	-	1,184
Profits (Losses) on financial assets and liabilities designated at fair value	1,812	87	29	1,928
Other operating income (expenses)	-36	1	39	4
Operating income	**14,354**	**2,952**	**777**	**18,083**
Personnel expenses	-4,997	-599	-148	-5,744
Other administrative expenses	-1,985	-416	-87	-2,488
Adjustments to property, equipment and intangible assets	-911	-124	-23	-1,058
Operating costs	**-7,893**	**-1,139**	**-258**	**-9,290**
Operating margin	**6,461**	**1,813**	**519**	**8,793**
Net adjustments to loans	-1,906	-94	-89	-2,089
Other net provisions and net impairment losses on other assets	-259	-13	18	-254
Other income (expenses)	48	7	-	55
Income (Loss) from discontinued operations	88	-	-	88
Gross income (loss)	**4,432**	**1,713**	**448**	**6,593**
Taxes on income	-1,381	-366	-91	-1,838
Charges (net of tax) for integration and exit incentives	-68	-29	-9	-106
Effect of purchase price allocation (net of tax)	-115	-2	-	-117
Levies and other charges concerning the banking industry (net of tax)	-281	-79	-	-360
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	51	-7	-34	10
Net income (loss)	**2,638**	**1,230**	**314**	**4,182**

The International Branches are reported in the geographical breakdown with reference to the country where the branches are located. As far as taxes on income are concerned, since Intesa Sanpaolo did not apply the option for the scheme of income exemption for international branches (known as Branch exemption), these branches' income is also taxed in Italy.

In application of the new IFRS 15, in particular paragraphs 114 and 115, which require a breakdown of revenues from contracts with customers, the breakdown of fee and commission income and expense by geographical area of operations is provided below.

(millions of euro)

	Italy	Europe	Rest of the world	Total
Fee and commission income	9,776	2,414	187	12,377
Fee and commission expense	-3,311	-1,068	-36	-4,415

Breakdown by geographical area: balance sheet figures as at 31 December 2019[(a)]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Loans to customers	322,977	54,694	17,558	395,229
Direct deposits from banking business	351,849	65,056	8,607	425,512

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

(a) Figures from the reclassified financial statements, as described in the Report on operations.

Part M – Disclosure of leases

This section provides the information required by IFRS 16 that is not included in other parts of the financial statements, divided between lessee and lessor.

SECTION 1 - LESSEE

QUALITATIVE INFORMATION

The Intesa Sanpaolo Group essentially has real estate and car or other vehicle lease contracts in place. There are also other types of lease contracts, for residual amounts, mainly relating to hardware.
As at 31 December 2019, there were 7,650 lease contracts, 5,152 of which relating to real estate leases, for a total value of rights of use of 1,498 million euro.
Real estate lease contracts include, for the most part, properties designated for use as offices or bank branches. The contracts, within Italy, normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions. These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the companies. On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be set at twelve years. This general rule is superseded if there are new elements or specific situations within the contract. Within the international scope, contractual terms may vary according to local practice, while generally not exceeding a period of 5 years, subject to renewal. In the case of the international subsidiaries as well, these contracts do not provide for either an option to purchase at the end of the lease or significant restoration costs for the companies.
The contracts relating to other leases mainly involve motor vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. These contracts generally have a four-year term, with monthly payments, no renewal option and do not include the option to purchase the asset. The contract may be extended depending on the management of the car fleet and there may be a penalty in the event of early termination.
Lease contracts other than those relating to real estate and cars primarily relate to hardware and are immaterial in amount.
The amounts of the sale or leaseback transactions carried out in 2019 were insignificant.
Sub-leasing transactions are immaterial and are connected to intra-group transactions.
As already stated in the accounting policies, the Group makes use of the exemptions allowed by IFRS 16 for short-term leases (i.e. with a term of less than or equal to 12 months) or leases of low value assets (i.e. with a value of 5,000 euro or less).

QUANTITATIVE DISCLOSURES

Part B - Assets in the Notes to the consolidated financial statements contains information on the rights of use acquired through leases (Table 9.1 - Property and equipment used in operations: breakdown of assets measured at cost and Table 9.4 - Investment property: breakdown of assets measured at fair value) and Part B - Liabilities contains information on the lease payables (Table 1.1 - Financial liabilities measured at amortised cost: breakdown of amounts due to banks and Table 1.2 - Financial liabilities measured at amortised cost: breakdown of amounts due to customers and Table 1.6 bis – Amounts due to customers: breakdown). In particular, the rights of use acquired through leases amounted to 1,498 million euro, of which 1,464 million euro relating to real estate leases. Lease payables amounted to 1,496 million euro. See the abovementioned sections for more details.
Part C of the Notes to the consolidated financial statements contains information on the interest expense on lease payables and other charges connected to rights of use acquired through leases, and on the income from sub-leasing transactions. See the specific sections for more details.
The table below provides a breakdown of the amortisation and depreciation charges for assets consisting of the right of use among the various categories, in line with the disclosure of property and equipment/intangible assets.

(millions of euro)

Captions	31.12.2019
Depreciation charges by asset class	**-**
Property and equipment used in operations	**222**
a) buildings	210
b) furniture	-
c) electronic equipment	3
d) other	9
Property and equipment for investment	**-**
a) buildings	-
TOTAL	**222**

As at 31 December 2019, there was no property and equipment relating to commitments for leases not yet commenced.

There is no other information that needs to be reported in addition to that already contained in this Section.

SECTION 2 - LESSOR

QUALITATIVE INFORMATION

The Intesa Sanpaolo Group undertakes leasing transactions, as lessor, primarily through the Parent Company, Intesa Sanpaolo (following the merger by incorporation of Mediocredito Italiano), and various international subsidiaries, specifically PBZ Leasing, VUB Leasing, CIB Leasing and Intesa Leasing Beograd.
The transactions primarily consist of finance leases of real estate and industrial and commercial assets. The companies are also present on the market with lease products relating to capital goods, industrial vehicles, boats and pleasure craft. The risks associated with the ownership rights to the leased assets within Italy are managed through the compulsory subscription of an all-risk insurance policy, either offered through concessionary agreements or taken out directly by the customer with their insurer.
Operating leases refer to both real estate and vehicles and equipment.

The Notes to the consolidated financial statements report the following:
- finance leases (Part B, Assets: Table 4.1 - Financial assets measured at amortised cost: breakdown of amounts due from banks and Table 4.2 - Financial assets measured at amortised cost: breakdown of loans to customers);
- assets leased under operating leases contained in caption 90 Property and equipment and described in Part B, Assets (Table 9.4 - Investment property: breakdown of assets measured at fair value); this consists of real estate no longer used in operations by the Group, which is leased to third parties or held for possible appreciation in value. The amounts involved are immaterial.

See the abovementioned sections for more details.

Part C of the Notes to the consolidated financial statements contains information on interest income on finance leases and other income from finance and operating leases. See the specific sections for more details.

2. Finance leases

2.1. Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets
This table provides the breakdown by time bands of lease payments to be received and the reconciliation between lease payments to be received and finance leases in accordance with IFRS 16, paragraph 94. In particular, the lease payments to be received, representing the sum of the minimum payments due as principal and interest, are shown net of the adjustment allowances and the unguaranteed residual value due to the lessor. The reconciliation with finance leases, shown in the financial statements under financial assets measured at amortised cost, is performed by subtracting the unearned finance income and adding the unguaranteed residual value.

(millions of euro)

Time bands	31.12.2019 Payments to be received
Up to 1 year	2,287
Between 1 and 2 years	1,860
Between 2 and 3 years	1,640
Between 3 and 4 years	1,267
Between 4 and 5 years	1,065
Over 5 years	4,341
Total lease payments to be received	**12,460**
Reconciliation with loans	104
Not accrued gains (+)	2,101
Unguaranteed residual value (-)	-1,997
Loans for leases	**12,356**

2.2. Other information

2.2.1 Classification of finance leases by type of leased asset

The table shows the classification of finance leases by credit quality (performing and non-performing) and by type of leased asset. The amounts are shown net of adjustments.

(millions of euro)

Finance leases	Performing exposures	Non-performing exposures
A. Real estate assets	**7,934**	**1,869**
B. Operating assets	**1,424**	**80**
C. Movable assets	**981**	**57**
- Motor vehicles	719	33
- Aircraft and rolling stock	149	23
- Other	113	1
D. Intangible assets	**11**	**-**
- Trademarks	11	-
- Software	-	-
- Other	-	-

2.2.2 Classification of assets under finance leases

The table below provides a breakdown by category of leased asset (not yet transferred to property and equipment) relating to lease receivables, net of adjustments.

(millions of euro)

	Unexercised assets	Assets withdrawn following termination	Other assets
A. Real estate assets	**22**	**417**	**9,364**
B. Operating assets	**-**	**1**	**1,503**
C. Movable assets	**46**	**-**	**992**
- Motor vehicles	40	-	712
- Aircraft and rolling stock	1	-	171
- Other	5	-	109
D. Intangible assets	**-**	**-**	**11**
- Trademarks	-	-	11
- Software	-	-	-
- Other	-	-	-
TOTAL	**68**	**418**	**11,870**

Unexercised assets are assets still held by customers, for which the repurchase option has not been exercised, related to positions that do not show any deterioration in credit quality. Assets withdrawn following termination relate to terminated contracts, where the customer has not yet been released from the contractual obligations, despite having returned the asset covered by the lease contract. The category "other assets" includes the assets underlying the other lease receivables not included in the previous columns.

3. Operating lease

3.1. Breakdown of payments to be received by time bands

(millions of euro)

Time bands	31.12.2019 Payments to be received for leases
Up to one year	11
Over one year up to 2 years	8
Over 2 years up to 3 years	7
Over 3 years up to 4 years	11
Over 4 years up to 5 years	8
For over 5 years	13
Total	**58**

3.2. Other information

There is no other information that needs to be reported in addition to that already contained in this Section.

Certification of the consolidated financial statements pursuant to Art. 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, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements during 2019.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2019 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems[37].

3. The undersigned also certify that:

   3.1 The Consolidated financial statements as at 31 December 2019:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
   - correspond to the results of the books and accounts;
   - 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 report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer and the companies included in the consolidation, together with a description of the main risks and uncertainties that they face.

25 February 2020

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

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

Independent Auditors' Report on the Consolidated financial statements

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Intesa Sanpaolo Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Intesa Sanpaolo Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Intesa Sanpaolo S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 4 "Financial assets measured at amortised cost"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 8.1 "Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown"

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": Section 1.1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets measured at amortised cost, totalled €418,788 million at 31 December 2019, accounting for 51.3% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €2,173 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of	Our audit procedures included: — gaining understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the parent's and group companies' customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures on loans and receivables with customers recognised under financial assets at amortised cost in the consolidated financial statements.

Classification and measurement of financial assets and liabilities at fair value

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 2 "Financial assets measured at fair value through profit or loss", Section 3 "Financial assets measured at fair value through other comprehensive income", Section 3-bis "Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39", Section 5 "Hedging derivatives"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet- Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 3-bis "Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39", Section 4 "Hedging derivatives"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 4 "Profits (losses) on trading", Section 5 "Fair value adjustments in hedge accounting ", Section 7 "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", Section 7-bis "Profits (losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39"

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": paragraph 1.2 "Market risks", paragraph 1.3 "Derivatives and hedging policies", paragraph 3.2 "Financial risks"

Key audit matter	**Audit procedures addressing the key audit matter**
Trading in and holding financial instruments are one of the parent's and group companies' core activities. The consolidated financial statements at 31 December 2019 include financial assets and financial liabilities at fair value totalling €293,055 million and €130,453 million, respectively. A portion thereof, equal to roughly €47,883 million and €112,031 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the trading, classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3. We carried out these procedures with the assistance of experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure with the assistance of experts of the KPMG network — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the consolidated financial statements.

Measurement of intangible assets with an indefinite useful life

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 15 "Net adjustments to/recoveries on intangible assets", Section 19 "Goodwill Impairment"

Key audit matter	**Audit procedures addressing the key audit matter**
As a result of a number of business combinations carried out in previous years, the group recognised intangible assets with an indefinite useful life, amounting to €5,937 million at the reporting date and comprising goodwill of €4,055 million and trademarks of €1,882 million. As disclosed in the notes to the consolidated financial statements, in accordance with IFRS 3, the parent's directors allocated the intangible assets with an indefinite useful life to certain cash-generating units ("CGU") they had identified As in the past, the directors tested the reporting-date carrying amounts for impairment in order to identify any impairment loss on the CGU to which the intangible assets with an indefinite useful life have been allocated compared to their recoverable amount. The directors calculated the recoverable amount on the basis of the value in use by discounting the expected future cash flows. Impairment testing requires complex valuations and a high level of judgement, especially in relation to: — the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about the group's future performance; — the financial parameters to be used to discount the cash flows. For the above reasons, we believe that the measurement of intangible assets with an indefinite useful life is a key audit matter.	Our audit procedures included: — gaining an understanding of the process adopted to prepare the impairment tests approved by the parent's directors; — gaining an understanding of the process used to draft the group's business plan approved by the parent's directors; — checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasting process; — analysing the criteria used to identify the CGU and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — analysing the key assumptions used by the directors to determine the CGU's value in use. Our analyses included checking that the method applied was consistent with that applied in the previous years and comparing the key assumptions used to external information, where available; we carried out these procedures with the assistance of experts of the KPMG network; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about intangible assets with an indefinite useful life and the related impairment test in the consolidated financial statements.

Responsibilities of the parent's directors and management control committee for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 10 May 2011, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254 of 30 December 2016

The directors of Intesa Sanpaolo S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016.

We have checked that the directors had approved such non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254 of 30 December 2016, we attested the compliance of the non-financial statement separately.

Milan, 18 March 2020

KPMG S.p.A.

(signed on the original)

Mario Corti
Director

Attachments to the Consolidated Financial Statements

Consolidated reconciliation statements

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31.12.2018 and the adjusted consolidated balance sheet as at 31.12.2018

Reconciliation between published consolidated income statement for 2018 and adjusted consolidated income statement for 2018

Reconciliation between adjusted consolidated financial statements and IFRS 16/restated consolidated financial statements

Reconciliation between the adjusted consolidated balance sheet as at 31 December 2018 and the consolidated balance sheet as at 1 January 2019 (IFRS 16)

Reconciliation between adjusted consolidated income statement for 2018 and restated consolidated income statement for 2018

Restated consolidated financial statements

Consolidated Balance Sheet

Restated Consolidated Income Statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31.12.2018 and the adjusted consolidated balance sheet as at 31.12.2018

(millions of euro)

Assets		31.12.2018 Published	Effect of application of IFRS 3 (a)	31.12.2018 Adjusted
10.	Cash and cash equivalents	10,350	-	10,350
20.	Financial assets measured at fair value through profit or loss	42,115	-	42,115
	a) financial assets held for trading	*38,806*	-	*38,806*
	b) financial assets designated at fair value	*208*	-	*208*
	c) other financial assets mandatorily measured at fair value	*3,101*	-	*3,101*
30.	Financial assets measured at fair value through other comprehensive income	60,469	-	60,469
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	-	149,546
40.	Financial assets measured at amortised cost	476,503	-	476,503
	a) due from banks	*69,307*	-	*69,307*
	b) loans to customers	*407,196*	-	*407,196*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	-	952
50.	Hedging derivatives	2,993	-	2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-	124
70.	Investments in associates and companies subject to joint control	943	-	943
80.	Technical insurance reserves reassured with third parties	20	-	20
90.	Property and equipment	7,372	-	7,372
100.	Intangible assets	9,077	64	9,141
	of which:			
	- goodwill	*4,163*	*64*	*4,227*
110.	Tax assets	17,253	5	17,258
	a) current	*3,320*	-	*3,320*
	b) deferred	*13,933*	*5*	*13,938*
120.	Non-current assets held for sale and discontinued operations	1,297	-	1,297
130.	Other assets	8,707	-	8,707
Total assets		**787,721**	**69**	**787,790**

(a) Final purchase price allocation of Autostrade Lombarde

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018 Published	Effect of application of IFRS 3 (a)	31.12.2018 Adjusted
10.	Financial liabilities measured at amortised cost	513,775	167	513,942
	a) due to banks	*107,815*	*167*	*107,982*
	b) due to customers	*323,900*	*-*	*323,900*
	c) securities issued	*82,060*	*-*	*82,060*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	-	*810*
20.	Financial liabilities held for trading	41,895	-	*41,895*
30.	Financial liabilities designated at fair value	4	-	*4*
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	-	*67,800*
40.	Hedging derivatives	7,221	-	*7,221*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	-	*398*
60.	Tax liabilities	2,433	-42	2,391
	a) current	*163*	*-*	*163*
	b) deferred	*2,270*	*-42*	*2,228*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	-	258
80.	Other liabilities	11,645	25	11,670
90.	Employee termination indemnities	1,190	-	1,190
100.	Allowances for risks and charges	5,064	-	5,064
	a) commitments and guarantees given	*510*	*-*	*510*
	b) post-employment benefits	*261*	*-*	*261*
	c) other allowances for risks and charges	*4,293*	*-*	*4,293*
110.	Technical reserves	80,797	-	80,797
120.	Valuation reserves	-913	-	-913
125.	Valuation reserves pertaining to insurance companies	9	-	9
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,006	-	13,006
160.	Share premium reserve	24,768	-	24,768
170.	Share capital	9,085	-	9,085
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	407	-81	326
200.	Net income (loss) (+/-)	4,050	-	4,050
Total liabilities and shareholders' equity		**787,721**	**69**	**787,790**

(a) Final purchase price allocation of Autostrade Lombarde

Reconciliation between published consolidated income statement for 2018 and adjusted consolidated income statement for 2018

(millions of euro)

		2018 Published	Effect of application of IFRS 5 (a)	2018 Adjusted
10.	Interest and similar income	10,486	-	10,486
	of which: interest income calculated using the effective interest rate method	*10,814*	-	*10,814*
20.	Interest and similar expense	-3,144	-	-3,144
30.	**Interest margin**	**7,342**	**-**	**7,342**
40.	Fee and commission income	9,911	-363	9,548
50.	Fee and commission expense	-2,308	285	-2,023
60.	**Net fee and commission income**	**7,603**	**-78**	**7,525**
70.	Dividend and similar income	94	-	94
80.	Profits (Losses) on trading	442	3	445
90.	Fair value adjustments in hedge accounting	-111	-	-111
100.	Profits (Losses) on disposal or repurchase of:	549	-	549
	a) financial assets measured at amortised cost	*-19*	-	*-19*
	b) financial assets measured at fair value through other comprehensive income	*508*	-	*508*
	c) financial liabilities	*60*	-	*60*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	298	-	298
	a) financial assets and liabilities designated at fair value	*28*	-	*28*
	b) other financial assets mandatorily measured at fair value	*270*	-	*270*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	-	3,240
120.	**Net interest and other banking income**	**19,457**	**-75**	**19,382**
130.	Net losses/recoveries for credit risks associated with:	-2,509	-	-2,509
	a) financial assets measured at amortised cost	*-2,507*	-	*-2,507*
	b) financial assets measured at fair value through other comprehensive income	*-2*	-	*-2*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-26	-	-26
140.	Profits (Losses) on changes in contracts without derecognition	-11	-	-11
150.	**Net income from banking activities**	**16,911**	**-75**	**16,836**
160.	Net insurance premiums	8,180	-	8,180
170.	Other net insurance income (expense)	-9,968	-	-9,968
180.	**Net income from banking and insurance activities**	**15,123**	**-75**	**15,048**
190.	Administrative expenses:	-10,002	2	-10,000
	a) personnel expenses	*-5,932*	*1*	*-5,931*
	b) other administrative expenses	*-4,070*	*1*	*-4,069*
200.	Net provisions for risks and charges	-35	-	-35
	a) commitments and guarantees given	*88*	-	*88*
	b) other net provisions	*-123*	-	*-123*
210.	Net adjustments to / recoveries on property and equipment	-383	-	-383
220.	Net adjustments to / recoveries on intangible assets	-597	1	-596
230.	Other operating expenses (income)	732	1	733
240.	**Operating expenses**	**-10,285**	**4**	**-10,281**
250.	Profits (Losses) on investments in associates and companies subject to joint control	177	-	177
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-	-9
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	452	-	452
290.	**Income (Loss) before tax from continuing operations**	**5,458**	**-71**	**5,387**
300.	Taxes on income from continuing operations	-1,386	23	-1,363
310.	**Income (Loss) after tax from continuing operations**	**4,072**	**-48**	**4,024**
320.	Income (Loss) after tax from discontinued operations	-	48	48
330.	**Net income (loss)**	**4,072**	**-**	**4,072**
340.	Minority interests	-22	-	-22
350.	**Parent Company's net income (loss)**	**4,050**	**-**	**4,050**

(a) 2018 Income Statement figures relating to the business line to be contributed to Nexi, pursuant to the agreement signed in December 2019.

Reconciliation between adjusted consolidated financial statements and IFRS 16/restated consolidated financial statements

Reconciliation between the adjusted consolidated balance sheet as at 31 December 2018 and the consolidated balance sheet as at 1 January 2019 (IFRS 16)

(millions of euro)

Assets		31.12.2018 Adjusted	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Cash and cash equivalents	10,350	-	10,350
20.	Financial assets measured at fair value through profit or loss	42,115	-	42,115
	a) financial assets held for trading	*38,806*	-	*38,806*
	b) financial assets designated at fair value	*208*	-	*208*
	c) other financial assets mandatorily measured at fair value	*3,101*	-	*3,101*
30.	Financial assets measured at fair value through other comprehensive income	60,469	-	60,469
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	-	149,546
40.	Financial assets measured at amortised cost	476,503	-	476,503
	a) due from banks	*69,307*	-	*69,307*
	b) loans to customers	*407,196*	-	*407,196*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	-	952
50.	Hedging derivatives	2,993	-	2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-	124
70.	Investments in associates and companies subject to joint control	943	-	943
80.	Technical insurance reserves reassured with third parties	20	-	20
90.	Property and equipment	7,372	1,607	8,979
100.	Intangible assets	9,141	-	9,141
	of which:			
	- goodwill	*4,227*	-	*4,227*
110.	Tax assets	17,258	-	17,258
	a) current	*3,320*	-	*3,320*
	b) deferred	*13,938*	-	*13,938*
120.	Non-current assets held for sale and discontinued operations	1,297	-	1,297
130.	Other assets	8,707	-12	8,695
Total assets		**787,790**	**1,595**	**789,385**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018 Adjusted	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10.	Financial liabilities measured at amortised cost	513,942	1,590	515,532
	a) due to banks	*107,982*	-	*107,982*
	b) due to customers	*323,900*	*1,590*	*325,490*
	c) securities issued	*82,060*	-	*82,060*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	9	819
20.	Financial liabilities held for trading	41,895	-	41,895
30.	Financial liabilities designated at fair value	4	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	-	67,800
40.	Hedging derivatives	7,221	-	7,221
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	-	398
60.	Tax liabilities	2,391	-	2,391
	a) current	*163*	-	*163*
	b) deferred	*2,228*	-	*2,228*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	-	258
80.	Other liabilities	11,670	-4	11,666
90.	Employee termination indemnities	1,190	-	1,190
100.	Allowances for risks and charges	5,064	-	5,064
	a) commitments and guarantees given	*510*	-	*510*
	b) post-employment benefits	*261*	-	*261*
	c) other allowances for risks and charges	*4,293*	-	*4,293*
110.	Technical reserves	80,797	-	80,797
120.	Valuation reserves	-913	-	-913
125.	Valuation reserves pertaining to insurance companies	9	-	9
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,006	-	13,006
160.	Share premium reserve	24,768	-	24,768
170.	Share capital	9,085	-	9,085
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	326	-	326
200.	Net income (loss) (+/-)	4,050	-	4,050
Total liabilities and shareholders' equity		**787,790**	**1,595**	**789,385**

Reconciliation between adjusted consolidated income statement for 2018 and restated consolidated income statement for 2018

(millions of euro)

		2018 Adjusted	Effect of transition to IFRS 16	Change in the scope of consolidation (a)	Reclassification Deposit Protection Fund International Subsidiary Banks (b)	2018 Restated
10.	Interest and similar income	10,486	-	5	-	10,491
	of which: interest income calculated using the effective interest rate method	*10,814*	-	-	-	*10,814*
20.	Interest and similar expense	-3,144	-27	-101	-	-3,272
30.	**Interest margin**	**7,342**	**-27**	**-96**	**-**	**7,219**
40.	Fee and commission income	9,548	-	6	-	9,554
50.	Fee and commission expense	-2,023	-	-2	-	-2,025
60.	**Net fee and commission income**	**7,525**	**-**	**4**	**-**	**7,529**
70.	Dividend and similar income	94	-	-	-	94
80.	Profits (Losses) on trading	445	-	1	-	446
90.	Fair value adjustments in hedge accounting	-111	-	-	-	-111
100.	Profits (Losses) on disposal or repurchase of:	549	-	-	-	549
	a) financial assets measured at amortised cost	*-19*	-	-	-	*-19*
	b) financial assets measured at fair value through other comprehensive income	*508*	-	-	-	*508*
	c) financial liabilities	*60*	-	-	-	*60*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	298	-	-	-	298
	a) financial assets and liabilities designated at fair value	*28*	-	-	-	*28*
	b) other financial assets mandatorily measured at fair value	*270*	-	-	-	*270*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	-	-	-	3,240
120.	**Net interest and other banking income**	**19,382**	**-27**	**-91**	**-**	**19,264**
130.	Net losses/recoveries for credit risks associated with:	-2,509	-	-	-	-2,509
	a) financial assets measured at amortised cost	*-2,507*	-	-	-	*-2,507*
	b) financial assets measured at fair value through other comprehensive income	*-2*	-	-	-	*-2*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-26	-	-	-	-26
140.	Profits (Losses) on changes in contracts without derecognition	-11	-	-	-	-11
150.	**Net income from banking activities**	**16,836**	**-27**	**-91**	**-**	**16,718**
160.	Net insurance premiums	8,180	-	-	-	8,180
170.	Other net insurance income (expense)	-9,968	-	-	-	-9,968
180.	**Net income from banking and insurance activities**	**15,048**	**-27**	**-91**	**-**	**14,930**
190.	Administrative expenses:	-10,000	231	-42	-47	-9,858
	a) personnel expenses	*-5,931*	-	*26*	-	*-5,905*
	b) other administrative expenses	*-4,069*	*231*	*-68*	*-47*	*-3,953*
200.	Net provisions for risks and charges	-35	-	-	-	-35
	a) commitments and guarantees given	*88*	-	-	-	*88*
	b) other net provisions	*-123*	-	-	-	*-123*
210.	Net adjustments to / recoveries on property and equipment	-383	-213	-1	-	-597
220.	Net adjustments to / recoveries on intangible assets	-596	-	-18	-	-614
230.	Other operating expenses (income)	733	-	89	47	869
240.	**Operating expenses**	**-10,281**	**18**	**28**	**-**	**-10,235**
250.	Profits (Losses) on investments in associates and companies subject to joint control	177	-	-	-	177
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-	-	-	-9
270.	Goodwill impairment	-	-	-	-	-
280.	Profits (Losses) on disposal of investments	452	-	-	-	452
290.	**Income (Loss) before tax from continuing operations**	**5,387**	**-9**	**-63**	**-**	**5,315**
300.	Taxes on income from continuing operations	-1,363	3	15	-	-1,345
310.	**Income (Loss) after tax from continuing operations**	**4,024**	**-6**	**-48**	**-**	**3,970**
320.	Income (Loss) after tax from discontinued operations	48	-	-	-	48
330.	**Net income (loss)**	**4,072**	**-6**	**-48**	**-**	**4,018**
340.	Minority interests	-22	6	48	-	32
350.	**Parent Company's net income (loss)**	**4,050**	**-**	**-**	**-**	**4,050**

(a) The restatement refers to the income statement figures of the first three months of 2018 of the companies of the Morval Vonwiiller Holding SA. Group and of the 12 months of 2018 of Autostrade Lombarde and the Intrum transaction.

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

Restated consolidated financial statements

Consolidated Balance Sheet

(millions of euro)

Assets		31.12.2019	01.01.2019 IFRS16	Changes amount	%
10.	Cash and cash equivalents	9,745	10,350	-605	-5.8
20.	Financial assets measured at fair value through profit or loss	49,414	42,115	7,299	17.3
	a) financial assets held for trading	*45,152*	*38,806*	*6,346*	*16.4*
	b) financial assets designated at fair value	*195*	*208*	*-13*	*-6.3*
	c) other financial assets mandatorily measured at fair value	*4,067*	*3,101*	*966*	*31.2*
30.	Financial assets measured at fair value through other comprehensive income	72,410	60,469	11,941	19.7
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	149,546	18,656	12.5
40.	Financial assets measured at amortised cost	467,815	476,503	-8,688	-1.8
	a) due from banks	*49,027*	*69,307*	*-20,280*	*-29.3*
	b) loans to customers	*418,788*	*407,196*	*11,592*	*2.8*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	952	-340	-35.7
50.	Hedging derivatives	3,029	2,993	36	1.2
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	124	1,445	
70.	Investments in associates and companies subject to joint control	1,240	943	297	31.5
80.	Technical insurance reserves reassured with third parties	28	20	8	40.0
90.	Property and equipment	8,878	8,979	-101	-1.1
100.	Intangible assets	9,211	9,141	70	0.8
	of which:				
	- goodwill	*4,055*	*4,227*	*-172*	*-4.1*
110.	Tax assets	15,467	17,258	-1,791	-10.4
	a) current	*1,716*	*3,320*	*-1,604*	*-48.3*
	b) deferred	*13,751*	*13,938*	*-187*	*-1.3*
120.	Non-current assets held for sale and discontinued operations	494	1,297	-803	-61.9
130.	Other assets	7,988	8,695	-707	-8.1
Total assets		**816,102**	**789,385**	**26,717**	**3.4**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2019	01.01.2019 IFRS16	Changes amount	%
10.	Financial liabilities measured at amortised cost	519,382	515,532	3,850	0.7
	a) due to banks	*103,324*	*107,982*	*-4,658*	*-4.3*
	b) due to customers	*331,181*	*325,490*	*5,691*	*1.7*
	c) securities issued	*84,877*	*82,060*	*2,817*	*3.4*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	819	7	0.9
20.	Financial liabilities held for trading	45,226	41,895	3,331	8.0
30.	Financial liabilities designated at fair value	4	4	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	67,800	8,135	12.0
40.	Hedging derivatives	9,288	7,221	2,067	28.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	398	129	32.4
60.	Tax liabilities	2,321	2,391	-70	-2.9
	a) current	*455*	*163*	*292*	
	b) deferred	*1,866*	*2,228*	*-362*	*-16.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	258	-217	-84.1
80.	Other liabilities	12,070	11,666	404	3.5
90.	Employee termination indemnities	1,134	1,190	-56	-4.7
100.	Allowances for risks and charges	3,997	5,064	-1,067	-21.1
	a) commitments and guarantees given	*482*	*510*	*-28*	*-5.5*
	b) post-employment benefits	*232*	*261*	*-29*	*-11.1*
	c) other allowances for risks and charges	*3,283*	*4,293*	*-1,010*	*-23.5*
110.	Technical reserves	89,136	80,797	8,339	10.3
120.	Valuation reserves	-157	-913	-756	-82.8
125.	Valuation reserves pertaining to insurance companies	504	9	495	
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,279	13,006	273	2.1
160.	Share premium reserve	25,075	24,768	307	1.2
170.	Share capital	9,086	9,085	1	0.0
180.	Treasury shares (-)	-104	-84	20	23.8
190.	Minority interests (+/-)	247	326	-79	-24.2
200.	Net income (loss) (+/-)	4,182	4,050	132	3.3
Total liabilities and shareholders' equity		**816,102**	**789,385**	**26,717**	**3.4**

Restated consolidated income statement

(millions of euro)

		2019	2018	Changes	
			Restated	amount	%
10.	Interest and similar income	10,193	10,491	-298	-2.8
	of which: interest income calculated using the effective interest rate method	*10,565*	*10,814*	*-249*	*-2.3*
20.	Interest and similar expense	-3,269	-3,272	-3	-0.1
30.	**Interest margin**	**6,924**	**7,219**	**-295**	**-4.1**
40.	Fee and commission income	9,658	9,554	104	1.1
50.	Fee and commission expense	-2,159	-2,025	134	6.6
60.	**Net fee and commission income**	**7,499**	**7,529**	**-30**	**-0.4**
70.	Dividend and similar income	117	94	23	24.5
80.	Profits (Losses) on trading	506	446	60	13.5
90.	Fair value adjustments in hedge accounting	-61	-111	-50	-45.0
100.	Profits (Losses) on disposal or repurchase of:	1,385	549	836	
	a) financial assets measured at amortised cost	*97*	*-19*	*116*	
	b) financial assets measured at fair value through other comprehensive income	*1,218*	*508*	*710*	
	c) financial liabilities	*70*	*60*	*10*	*16.7*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	123	298	-175	-58.7
	a) financial assets and liabilities designated at fair value	*-103*	*28*	*-131*	
	b) other financial assets mandatorily measured at fair value	*226*	*270*	*-44*	*-16.3*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,991	3,240	751	23.2
120.	**Net interest and other banking income**	**20,484**	**19,264**	**1,220**	**6.3**
130.	Net losses/recoveries for credit risks associated with:	-2,201	-2,509	-308	-12.3
	a) financial assets measured at amortised cost	*-2,175*	*-2,507*	*-332*	*-13.2*
	b) financial assets measured at fair value through other comprehensive income	*-26*	*-2*	*24*	
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-9	-26	-17	-65.4
140.	Profits (Losses) on changes in contracts without derecognition	-6	-11	-5	-45.5
150.	**Net income from banking activities**	**18,268**	**16,718**	**1,550**	**9.3**
160.	Net insurance premiums	10,147	8,180	1,967	24.0
170.	Other net insurance income (expense)	-12,673	-9,968	2,705	27.1
180.	**Net income from banking and insurance activities**	**15,742**	**14,930**	**812**	**5.4**
190.	Administrative expenses:	-9,692	-9,858	-166	-1.7
	a) personnel expenses	*-5,825*	*-5,905*	*-80*	*-1.4*
	b) other administrative expenses	*-3,867*	*-3,953*	*-86*	*-2.2*
200.	Net provisions for risks and charges	-73	-35	38	
	a) commitments and guarantees given	*23*	*88*	*-65*	*-73.9*
	b) other net provisions	*-96*	*-123*	*-27*	*-22.0*
210.	Net adjustments to / recoveries on property and equipment	-523	-597	-74	-12.4
220.	Net adjustments to / recoveries on intangible assets	-692	-614	78	12.7
230.	Other operating expenses (income)	774	869	-95	-10.9
240.	**Operating expenses**	**-10,206**	**-10,235**	**-29**	**-0.3**
250.	Profits (Losses) on investments in associates and companies subject to joint control	53	177	-124	-70.1
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-13	-9	4	44.4
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	96	452	-356	-78.8
290.	**Income (Loss) before tax from continuing operations**	**5,672**	**5,315**	**357**	**6.7**
300.	Taxes on income from continuing operations	-1,564	-1,345	219	16.3
310.	**Income (Loss) after tax from continuing operations**	**4,108**	**3,970**	**138**	**3.5**
320.	Income (Loss) after tax from discontinued operations	64	48	16	33.3
330.	**Net income (loss)**	**4,172**	**4,018**	**154**	**3.8**
340.	Minority interests	10	32	-22	-68.8
350.	**Parent Company's net income (loss)**	**4,182**	**4,050**	**132**	**3.3**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets		**31.12.2019**	**01.01.2019 IFRS16**
Due from banks		**47,170**	**68,723**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	47,164	68,721
Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	6	2
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers		**395,229**	**393,550**
Loans to customers measured at amortised cost		***394,093***	***392,945***
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	388,881	388,448
- Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	-670	-654
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,882	5,151
Loans to customers at fair value through other comprehensive income and through profit or loss		***1,136***	***605***
Caption 20a (partial)	Financial assets held for trading - Loans to customers	24	75
Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	748	502
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	364	28
Financial assets measured at amortised cost which do not constitute loans		**25,888**	**14,183**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	1,863	586
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	24,025	13,597
Financial assets at fair value through profit or loss		**48,636**	**41,536**
Caption 20a (partial)	Financial assets held for trading	45,128	38,731
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	195	208
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	3,313	2,597
Financial assets at fair value through other comprehensive income		**72,046**	**60,441**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	72,046	60,441
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		**168,202**	**149,546**
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	168,202	149,546
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**612**	**952**
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	952
Investments in associates and companies subject to joint control		**1,240**	**943**
Caption 70	Investments in associates and companies subject to joint control	1,240	943
Property, equipment and intangible assets		**17,153**	**17,145**
Assets owned		***15,655***	***15,516***
Caption 90 (partial)	Property and equipment	7,380	7,350
Caption 100	Intangible assets	9,211	9,141
- Caption 100 (partial)	Intangible assets (concession rights - intangible component)	-936	-975
Rights of use acquired under leases		***1,498***	***1,629***
Caption 90 (partial)	Property and equipment	1,498	1,629
Tax assets		**15,467**	**17,258**
Caption 110	Tax assets	15,467	17,258
Non-current assets held for sale and discontinued operations		**494**	**1,297**
Caption 120	Non-current assets held for sale and discontinued operations	494	1,297
Other assets		**23,965**	**23,811**
Caption 10	Cash and cash equivalents	9,745	10,350
+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (concession rights - financial component)	670	654
Caption 50	Hedging derivatives	3,029	2,993
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	1,569	124
Caption 80	Technical insurance reserves reassured with third parties	28	20
+Caption 100 (partial)	Intangible assets (concession rights - intangible component)	936	975
Caption 130	Other assets	7,988	8,695
Total Assets		**816,102**	**789,385**

(millions of euro)

Liabilities		31.12.2019	01.01.2019 IFRS16
Due to banks at amortised cost		**103,316**	**107,982**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	103,324	107,982
- Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-8	-
Due to customers at amortised cost and securities issued		**414,578**	**405,960**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	331,181	325,490
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	84,877	82,060
- Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,480	-1,590
Financial liabilities held for trading		**45,226**	**41,895**
Caption 20	Financial liabilities held for trading	45,226	41,895
Financial liabilities designated at fair value		**4**	**4**
Caption 30	Financial liabilities designated at fair value	4	4
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**818**	**810**
Caption 15	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	819
- Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	-8	-9
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39		**75,935**	**67,800**
Caption 35	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	67,800
Tax liabilities		**2,321**	**2,391**
Caption 60	Tax liabilities	2,321	2,391
Liabilities associated with non-current assets held for sale and discontinued operations		**41**	**258**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	41	258
Other liabilities		**23,381**	**20,884**
Caption 40	Hedging derivatives	9,288	7,221
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	527	398
Caption 80	Other liabilities	12,070	11,666
Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	8	-
Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,480	1,590
Caption 15 (partial)	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (of which lease payables)	8	9
Technical reserves		**89,136**	**80,797**
Caption 110	Technical reserves	89,136	80,797
Allowances for risks and charges		**5,131**	**6,254**
Caption 90	Employee termination indemnities	1,134	1,190
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	482	510
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	232	261
Caption 100 c)	Allowances for risks and charges - Other allowances for risks and charges	3,283	4,293
Share capital		**9,086**	**9,085**
Caption 170	Share capital	9,086	9,085
Reserves		**38,250**	**37,690**
Caption 130	Redeemable shares	-	-
Caption 150	Reserves	13,279	13,006
Caption 160	Share premium reserve	25,075	24,768
- Caption 180	Treasury shares	-104	-84
Valuation reserves		**-157**	**-913**
Caption 120	Valuation reserves	-157	-913
Valuation reserves pertaining to insurance companies		**504**	**9**
Caption 125	Valuation reserves pertaining to insurance companies	504	9
Equity instruments		**4,103**	**4,103**
Caption 140	Equity instruments	4,103	4,103
Minority interests		**247**	**326**
Caption 190	Minority interests	247	326
Net income (loss)		**4,182**	**4,050**
Caption 200	Net income (loss) (+/-)	4,182	4,050
Total Liabilities and Shareholders' Equity		**816,102**	**789,385**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions		2019	2018 Restated
Net interest income		**7,005**	**7,271**
Caption 30	Interest margin	6,924	7,219
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	91	112
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	15	4
+ Caption 80 (partial)	Hedging swap differentials	-79	-128
- Caption 30 (partial)	Charges related to the disposal of loans	-	19
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-28	-27
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-2	-3
- Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	-31	-43
- Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	115	118
Net fee and commission income		**7,962**	**7,952**
Caption 60	Net fee and commission income	7,499	7,529
- Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	290	328
- Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	25	4
- Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	197	140
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	6	-
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-55	-49
Income from insurance business		**1,184**	**1,084**
Caption 160	Net insurance premiums	10,147	8,180
Caption 170	Other net insurance income (expense)	-12,673	-9,968
+ Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	-6	-21
+ Caption 60 (partial)	Net fee and commission income - Contribution of insurance business	-290	-328
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,991	3,240
+ Caption 30 (partial)	Interest margin - Intragroup transactions between Banks/Other companies and the Insurance Segment	31	43
+ Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-14	-62
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	-2	-
Profits (Losses) on financial assets and liabilities designated at fair value		**1,928**	**1,472**
Caption 80	Profits (Losses) on trading	506	446
Caption 90	Fair value adjustments in hedge accounting	-61	-111
Caption 110 a)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	-103	28
Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value	226	270
Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	1,218	508
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	70	60
+ Caption 60 (partial)	Net fee and commission income - Share of the certificates issue premium paid to the placement agent	-197	-140
+ Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	117	82
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	103	-
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-15	-4
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	14	62
- Caption 80 (partial)	Hedging swap differentials	79	128
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-	-
- Caption 90 (partial)	Fair value adjustments in hedge accounting (Autostrade Lombarde - Transfer of the Revaluation Reserve)	-	86
- Caption 90 (partial)	Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to management and coordination	11	-
- Caption 100 c) (partial)	Profits (Losses) on disposal or repurchase of financial liabilities - Reclassification of operations of entities not subject to management and coordination (Effect of purchase price allocation)	-13	-
- Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	-	-5
- Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	-23	-
- Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	-13	72
+ Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	9	-10

(millions of euro)

Captions		2019	2018 Restated
Other operating income (expenses)		**4**	**34**
Caption 70	Dividend and similar income	117	94
Caption 230	Other operating expenses (income)	774	869
+ Caption 30 (partial)	Interest margin - Reclassification of operations of entities not subject to management and coordination	-115	-118
+ Caption 60 (partial)	Net fee and commission income - Reclassification of operations of entities not subject to management and coordination	-25	-4
+ Caption 90 (partial)	Fair value adjustments in hedge accounting - Reclassification of operations of entities not subject to management and coordination	-11	
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-117	-82
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-16	-13
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-738	-744
- Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	50	-
- Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	25	-
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
- Caption 230 (partial)	Other operating expenses (income) (Charges/revenues from integration)	-1	3
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	61	29
Operating income		**18,083**	**17,813**
Personnel expenses		**-5,744**	**-5,812**
Caption 190 a)	Personnel expenses	-5,825	-5,905
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	52	66
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	28	27
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	1	-
Other administrative expenses		**-2,488**	**-2,618**
Caption 190 b)	Other administrative expenses	-3,867	-3,953
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	45	60
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	526	469
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	55	49
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	738	744
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	15	13
Adjustments to property, equipment and intangible assets		**-1,058**	**-1,057**
Caption 210	Net adjustments to / recoveries on property and equipment	-523	-597
Caption 220	Net adjustments to / recoveries on intangible assets	-692	-614
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment	2	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	19	18
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	20	29
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	48	35
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	4	36
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	3	3
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	61	33
Operating costs		**-9,290**	**-9,487**
Operating margin		**8,793**	**8,326**
Net adjustments to loans		**-2,089**	**-2,394**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-14	-40
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	8	-1
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-2,119	-2,519
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-15	5
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-	-
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	6	-
Caption 140	Profits/losses from changes in contracts without derecognition	-6	-11
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	23	88
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	28	84

(millions of euro)

Captions		2019	2018 Restated
Other net provisions and net impairment losses on other assets		**-254**	**-187**
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	-41	8
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-	-1
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-26	-2
Caption 135	Net losses/recoveries pertaining to insurance companies pursuant to IAS 39	-9	-26
Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-13	-9
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-96	-123
+ Caption 110 b) (partial)	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Return components of insurance policies taken out for the benefit of financial advisor networks)	17	-
- Caption 135 (partial)	Impairment of securities through other comprehensive income - share attributable to insured parties	6	21
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	2	3
- Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-	14
- Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-9	10
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration)	-29	-36
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	-9	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-4	-36
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-3	-3
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Valuation effects of other assets)	-25	
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-15	-7
Other income (expenses)		**55**	**506**
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	103	8
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	-	14
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - (Effect of purchase price allocation)	-	-9
- Caption 30 (partial)	Charges related to the disposal of loans	-	-19
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	53	177
Caption 280	Profits (Losses) on disposal of investments	96	452
+ Caption 90 (partial)	Fair value adjustments in hedge accounting (Autostrade Lombarde - Transfer of the Revaluation Reserve)	-	-86
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - Effect associated with profits (losses) on trading	-103	-
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (settlement of tax litigation)	9	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Entities not subject to management and coordination - concession rights)	-19	-18
+ Caption 230 (partial)	Other operating expenses (income) (Profits/losses on disposal of repurchased property and equipment)	-	-
+ Caption 230 (partial)	Other operating expenses (income) (Non-recurring expenses)	-50	
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-61	-29
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	15	7
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	-	9
- Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	12	-
Income (Loss) from discontinued operations		**88**	**71**
Caption 320	Income (Loss) after tax from discontinued operations	64	48
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	24	23
Gross income (loss)		**6,593**	**6,322**
Taxes on income		**-1,838**	**-1,650**
Caption 300	Taxes on income from continuing operations	-1,564	-1,345
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-24	-23
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-35	-46
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-62	-73
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-153	-163
Charges (net of tax) for integration and exit incentives		**-106**	**-120**
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges for integration)	-6	-
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-52	-66
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-45	-60
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	29	36
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-20	-29
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-48	-35
+ Caption 230 (partial)	Other operating expenses (income) (Charges/revenues from integration)	1	-3
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	-	-9
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	35	46

(millions of euro)

Captions		2019	2018 Restated
Effect of purchase price allocation (net of tax)		**-117**	**-156**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-91	-112
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	-	5
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-28	-84
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) - (Effect of purchase price allocation)	-	9
+ Caption 100 c) (partial)	Profits (Losses) on disposal or repurchase of financial liabilities - Reclassification of operations of entities not subject to management and coordination (Effect of purchase price allocation)	13	-
+ Caption 200 b) (partial)	Net provisions for risks and charges (Effect of purchase price allocation)	-	-14
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-61	-33
+ Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-12	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	62	73
Levies and other charges concerning the banking industry (net of tax)		**-360**	**-378**
+ Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	13	-72
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-526	-469
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	153	163
Impairment (net of tax) of goodwill and other intangible assets			**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**10**	**32**
Caption 340	Minority interests	10	32
Net income (loss)		**4,182**	**4,050**

Other consolidated attachments

List of the IAS/IFRS endorsed by the European Commission as at 31 December 2019

ACCOUNTING STANDARDS		Regulation endorsement
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008 mod. 1260/2008 - 1274/2008 - 69/2009 - 70/2009 -254/2009 - 494/2009 - 495/2009 - 1136/2009 - 1164/2009 - 550/2010 - 574/2010 - 662/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 183/2013 - 301/2013 -1174/2013 - 2173/2015 - 2343/2015 - 2441/2015 - 1905/2016 - 2067/2016 - 182/2018
IFRS 2	Share-based Payment	1126/2008 mod. 1261/2008 - 495/2009 - 243/2010 - 244/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2067/2016 - 289/2018 - 2075/2019 (*)
IFRS 3	Business Combinations	1126/2008 mod. 495/2009 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1361/2014 - 28/2015 - 1905/2016 - 2067/2016 - 412/2019 - 2075/2019 (*)
IFRS 4	Insurance Contracts	1126/2008 mod. 1274/2008 - 494/2009 - 1165/2009 - 1255/2012 - 1905/2016 - 2067/2016 - 1988/2017
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 1142/2009 - 243/2010 - 475/2012 - 1254/2012 - 1255/2012 - 2343/2015 - 2067/2016
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008 - 2075/2019 (*)
IFRS 7	Financial Instruments: Disclosures	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 495/2009 - 824/2009 - 1165/2009 - 574/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 1174/2013 - 2343/2015 - 2406/2015 - 2067/2016 - 34/2020 (**)
IFRS 8	Operating Segments	1126/2008 mod. 1274/2008 - 243/2010 - 632/2010 - 475/2012 - 28/2015
IFRS 9	Financial Instruments	2067/2016 - 498/2018 - 34/2020 (**)
IFRS 10	Consolidated Financial Statements	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016
IFRS 11	Joint Arrangements	1254/2012 mod. 313/2013 - 2173/2015 - 412/2019
IFRS 12	Disclosure of Interests in Other Entities	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016 - 182/2018
IFRS 13	Fair Value Measurement	1255/2012 mod. 1361/2014 - 2067/2016
IFRS 15	Revenue from Contracts with Customers	1905/2016 - 1987/2017
IFRS 16	Leases	1986/2017
IAS 1	Presentation of Financial Statements	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 243/2010 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 301/2013 - 2113/2015 - 2406/2015 - 1905/2016 - 2067/2016 - 2075/2019 (*) - 2014/2019 (*)
IAS 2	Inventories	1126/2008 mod. 70/2009 - 1255/2012 - 1905/2016 - 2067/2016
IAS 7	Statement of Cash Flows	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 494/2009 - 243/2010 - 1254/2012 - 1174/2013 - 1990/2017
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2067/2016 - 2075/2019 (*) - 2104/2019 (*)
IAS 10	Events after the Reporting Period	1126/2008 mod. 1274/2008 - 70/2009 - 1142/2009 - 1255/2012 - 2067/2016
IAS 12	Income Taxes	1126/2008 mod. 1274/2008 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1174/2013 - 1905/2016 - 2067/2016 - 1989/2017 - 412/2019
IAS 16	Property, Plant and Equipment	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 1255/2012 - 301/2013 - 28/2015 - 2113/2015 - 2231/2015 - 1905/2016
IAS 19	Employee Benefits	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 29/2015 - 2343/2015 - 402/2019
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008 mod. 1274/2008 - 69/2009 - 494/2009 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 23	Borrowing costs	1126/2008 mod. 1260/2008 - 70/2009 - 2113/2015 - 2067/2016 - 412/2019
IAS 24	Related Party Disclosures	1126/2008 mod. 1274/2008 - 632/2010 - 475/2012 - 1254/2012 - 1174/2013 - 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008
IAS 27	Separate Financial Statements	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 494/2009 - 1254/2012 - 1174/2013 - 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 495/2009 - 1254/2012 - 1255/2012 - 2441/2015 - 1703/2016 - 2067/2016 - 182/2018 - 237/2019
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008 - 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 1293/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 301/2013 - 1174/2013 - 1905/2016 - 2067/2016
IAS 33	Earnings per Share	1126/2008 mod. 1274/2008 - 494/2009 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 34	Interim Financial Reporting	1126/2008 mod. 1274/2008 - 70/2009 - 495/2009 - 149/2011 - 475/2012 - 1255/2012 - 301/2013 - 1174/2013 - 2343/2015 - 2406/2015 - 1905/2016 - 2075/2019 (*)
IAS 36	Impairment of Assets	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 1374/2013 - 2113/2015 - 1905/2016 - 2067/2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008 mod. 1274/2008 - 495/2009 - 28/2015 - 1905/2016 - 2067/2016 - 2075/2019 (*)
IAS 38	Intangible Assets	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2231/2015 - 1905/2016 - 2075/2019 (*)
IAS 39	Financial Instruments: Recognition and Measurement (except for certain rules on hedge accounting)	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 824/2009 - 839/2009 - 1171/2009 - 243/2010 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1375/2013 - 28/2015 - 1905/2016 - 2067/2016 - 34/2020 (**)
IAS 40	Investment Property	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 1361/2014 - 2113/2015 - 1905/2016 - 400/2018
IAS 41	Agriculture	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2113/2015

(*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2020.

(**) Regulation 34/2020 was approved on 15 January and is compulsory from 1 January 2020, unless early adoption was applied to 2019.

INTERPRETATIONS		Regulation endorsement
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008 mod. 1260/2008 - 1274/2008
IFRIC 2	Members' Shares in Cooperative Entities and Similar Instruments	1126/2008 mod. 53/2009 - 1255/2012 - 301/2013 - 2067/2016
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008 mod. 1254/2012 - 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1126/2008
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008 mod. 1274/2008 - 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009 - 1905/2016 - 2067/2016 - 2075/2019 (*)
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008 mod. 1274/2008 - 633/2010 - 475/2012
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009 mod. 243/2010 - 1254/2012 - 2067/2016
IFRIC 17	Distributions of Non-cash Assets to Owners	1142/2009 mod. 1254/2012 - 1255/2012
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010 mod. 1255/2012 - 2067/2016 - 2075/2019 (*)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012 - 2075/2019 (*)
IFRIC 21	Levies	634/2014
IFRIC 22	Foreign Currency Transaction and Advance Consideration	519/2018 - 2075/2019 (*)
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018
SIC 7	Introduction of the Euro	1126/2008 mod. 1274/2008 - 494/2009
SIC 10	Government Assistance - No Specific Relation to Operating Activities	1126/2008 mod. 1274/2008
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	1126/2008 mod. 1274/2008
SIC 29	Service Concession Arrangements: Disclosures	1126/2008 mod. 1274/2008 - 254/2009
SIC 32	Intangible Assets - Web Site Costs	1126/2008 mod. 1274/2008 - 1905/2016 - 2075/2019 (*)

(*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2020.

Report and Parent Company's financial statements

Report on operations

Intesa Sanpaolo – Financial highlights and alternative performance measures (*)

Income statement figures (millions of euro)			**Changes** amount	**Changes** %
Net interest income	4,411	5,162	-751	-14.5
Net fee and commission income	4,448	4,555	-107	-2.3
Profits (Losses) on financial assets and liabilities designated at fair value	529	575	-46	-8.0
Operating income	11,846	13,879	-2,033	-14.6
Operating costs	-7,050	-7,263	-213	-2.9
Operating margin	4,796	6,616	-1,820	-27.5
Net adjustments to loans	-1,921	-2,221	-300	-13.5
Net income (loss)	2,137	3,847	-1,710	-44.5

Figures restated on a consistent basis, where necessary and material.

2019

2018

(*) For more detailed information on the Alternative Performance Measures, see the specific chapter of the Report on Operations in the consolidated financial statements.

Balance sheet figures (millions of euro)	31.12.2019	01.01.2019	Changes amount	Changes %
Loans to customers	307,043	314,583	-7,540	-2.4
Total assets	560,429	553,588	6,841	1.2
Direct customer deposits	322,289	310,511	11,778	3.8
Indirect customer deposits:	282,828	272,339	10,489	3.9
of which: Assets under management	*188,866*	*178,017*	*10,849*	*6.1*
Shareholders' equity	45,272	46,635	-1,363	-2.9

Figures restated on a consistent basis, where necessary and material.

31.12.2019

01.01.2019

Capital ratios (%)

Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	11.5	14.0
TIER 1 Capital / Risk-weighted assets	12.9	15.9
Total owns funds / Risk-weighted assets	15.3	18.6
Risk-weighted assets (millions of euro)	296,173	256,959

31.12.2019

31.12.2018

Profitability ratios (%)

Cost / Income	59.5	52.3
Net income / Shareholders' equity (ROE) [(a)]	5.5	9.4
Net income / Total assets (ROA) [(b)]	0.4	0.7

Figures restated on a consistent basis, where necessary and material.

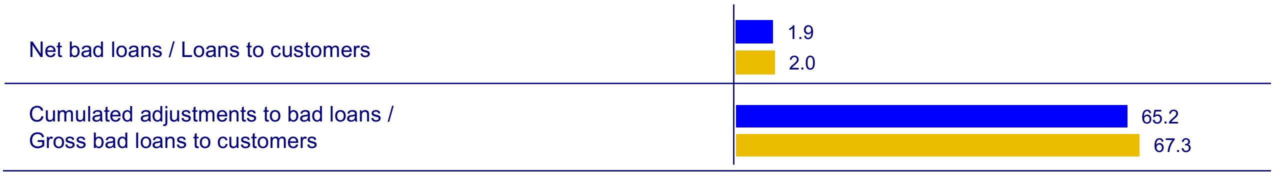
(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 equity instruments and net income for the period.

(b) Ratio of net income to total assets.

2019 (Income statement figures)
31.12.2019 (Balance sheet figures)

2018 (Income statement figures)
31.12.2018 (Balance sheet figures)

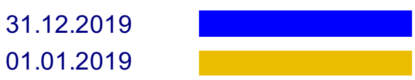
Risk ratios (%)



Operating structure	31.12.2019	31.12.2018	Changes amount
Number of employees (*)	**59,998**	**62,457**	**-2,459**
Italy	59,259	61,766	-2,507
Abroad	739	691	48
Number of branches	**3,533**	**4,006**	**-473**
Italy	3,519	3,992	-473
Abroad	14	14	-

Figures restated on a consistent basis, where necessary and material.

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



The Parent Company Intesa Sanpaolo results

Introduction

Regarding the content of the Report on operations of the Intesa Sanpaolo S.p.A. separate financial statements 2019, reference is made to the Report of the consolidated financial statements.

General aspects

The income statement and balance sheet of the Parent Company Intesa Sanpaolo as at and for the year ended 31 December 2019 are presented below. The income statement is presented in a condensed reclassified format to enable a more immediate interpretation of the results.

You are reminded that IFRS 16 entered into force from 1 January 2019. The new financial reporting standard introduced a new definition of lease based on the right of use of the leased asset, together with a different method of accounting for rental, hire, lease and loan agreements. In this regard, with respect to the comparative information, despite the Group's decision to use the modified retrospective approach for the first-time adoption of IFRS 16, which does not require the restatement of the comparative information, the income statement and balance sheet figures affected by the new standard have been restated – solely in the reclassified statements – to enable comparisons and comments on a like-for-like basis.

In addition, again for the purposes of enabling a like-for-like comparison, the figures for previous periods have been restated, where necessary, to retroactively reflect the effects of the corporate actions in 2019.
In particular, the restatements involved:
- the merger of Intesa Sanpaolo Group Services S.c.p.A. on 21 January 2019;
- the merger of Banca CR Firenze S.p.A. on 25 February 2019;
- the merger of Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. on 25 February 2019;
- the merger of Cassa di Risparmio in Bologna S.p.A. on 25 February 2019;
- the merger of Banca Apulia S.p.A. on 27 May 2019;
- the merger of Banca Prossima S.p.A. on 27 May 2019;
- the merger of Mediocredito Italiano S.p.A. on 11 November 2019.

The accounting and tax effects of all transactions indicated above began on 1 January 2019.

Lastly, the income statement presented for comparison includes the effects of the agreement with Nexi in relation to payment systems, which involves the transfer to Nexi, in 2020, of the business line connected to the acquiring operations currently carried out by ISP. In accordance with IFRS 5, in the 2019 financial statements the balance sheet captions associated with this business unit have been reclassified to "non-current assets held for sale and discontinued operations" and "liabilities associated with non-current assets held for sale and discontinued operations", and the related income statement captions have been included under the "Income (Loss) after tax from discontinued operations".

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 from equity investments, which have been reallocated to Other operating income (expenses);
- differentials on derivatives, classified to the trading book and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, Fair value adjustments in hedge accounting, and Profits (losses) on financial assets and liabilities measured at fair value through profit or loss, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on disposal or repurchase of financial liabilities, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, and Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of loans, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, and Net losses/recoveries for

credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of debt securities, which have been allocated to Other net provisions and net impairment losses on other assets;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which has been reclassified to Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows;
- Net impairment losses on equity investments in associates, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;
- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, which have been allocated to Other income (expenses);
- Realised profits (losses) on equity investments and on other investments have been allocated 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, impairment losses and effects from realisation for financial assets and property and equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
- levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
- Impairment losses on goodwill, investments in subsidiaries and impairment losses on other intangible assets, which are shown, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	2019	2018	Changes	
			amount	%
Net interest income	4,411	5,162	-751	-14.5
Net fee and commission income	4,448	4,555	-107	-2.3
Profits (Losses) on financial assets and liabilities designated at fair value	529	575	-46	-8.0
Other operating income (expenses)	2,458	3,587	-1,129	-31.5
Operating income	**11,846**	**13,879**	**-2,033**	**-14.6**
Personnel expenses	-4,447	-4,544	-97	-2.1
Other administrative expenses	-1,737	-1,849	-112	-6.1
Adjustments to property, equipment and intangible assets	-866	-870	-4	-0.5
Operating costs	**-7,050**	**-7,263**	**-213**	**-2.9**
Operating margin	**4,796**	**6,616**	**-1,820**	**-27.5**
Net adjustments to loans	-1,921	-2,221	-300	-13.5
Other net provisions and net impairment losses on other assets	-178	-119	59	49.6
Other income (expenses)	-45	419	-464	
Income (Loss) from discontinued operations	88	71	17	23.9
Gross income (loss)	**2,740**	**4,766**	**-2,026**	**-42.5**
Taxes on income	-169	-272	-103	-37.9
Charges (net of tax) for integration and exit incentives	-51	-53	-2	-3.8
Effect of purchase price allocation (net of tax)	-91	-127	-36	-28.3
Levies and other charges concerning the banking industry (net of tax)	-225	-250	-25	-10.0
Impairment (net of tax) of goodwill, other intangible assets and controlling interests	-67	-217	-150	-69.1
Net income (loss)	**2,137**	**3,847**	**-1,710**	**-44.5**

Figures restated on a consistent basis.

The income statement for the year posted net income of 2.1 billion euro compared to 3.8 billion euro in 2018.

Gross income, amounting to 2.7 billion euro, was down 2 billion euro, and reflected the reduction of around 1.1 billion euro in dividends from subsidiaries and associates and the decrease in net interest income (-751 million euro, -14.5%) and other income (expenses) (-464 million euro), only partially offset by the reduction in operating costs (-213 million euro, -2.9%) and net adjustments to loans (-300 million euro, -13.5%).

Net interest income, amounting to 4,411 million euro, was down by around 14.5%. Against a backdrop of interest rates that remained negative, the performance was conditioned by lower interest on non-performing assets due to the gradual reduction in the stock of NPLs, as well as the lower average volumes of loans and the smaller contribution from hedging of core deposits. Customer dealing contributed 4,648 million euro, down by 591 million euro on 2018. Interest on financial assets amounted to 208 million euro, a decrease of 17 million euro. The contribution of interbank transactions was negative at 382 million euro, representing a negative change of 51 million euro on December 2018. Other net interest income also fell, to -64 million euro, compared to a positive amount of 29 million euro in 2018.

Net fee and commission income amounted to 4,448 million euro, down 107 million euro from 4,555 million euro for the previous year. The reduction involved the management, dealing and financial consultancy segment (-64 million euro, or -2.8%), in particular due to a decrease in the contribution from the dealing and placement of funds (-46 million euro, or -5%, mainly as a result of lower placements by Eurizon Capital Sgr) and in the distribution of insurance products (-41 million euro, or -4.7%) and portfolio management schemes (-27 million euro, or -18%), only partially offset by higher commissions on the dealing and placement of securities and derivatives (+13 million euro, or +9.4%) and the receipt and transmission of orders (15 million euro, or +22.7%) and other management and dealing commissions (+22 million euro). There was also a decrease in the commercial banking component (-63 million euro, or -3.5%), which was affected in particular by the reduction in fees on guarantees given and received (-45 million euro, or -19.5%) and in fees on current accounts (-42 million euro, or -3.8%), which were only partially offset by the increase in fees for collection and payment services (+19 million euro, or +7%) and for ATM and credit card services (+5 million euro, or +2.6%). Lastly, other net fee and commission income was up (+20 million euro, or +4.3 %).

In 2019, the profits (losses) on financial assets and liabilities designated at fair value showed a profit of 529 million euro, down 46 million euro (-8%) on 2018. This difference was mainly due to the absence of the benefit of 258 million euro recognised in 2018 from the sale of the interest in Nuovo Trasporto Viaggiatori (NTV) and the negative effect of 127 million euro of the fair value measurement of the FVO bond issues fully subscribed by Banca IMI as part of its individual management of the volatility of the bilateral XVA, partially offset by the profits on the repurchase of its own liabilities of 220 million euro, the revaluation of instruments mandatorily measured at fair value of 70 million euro, and foreign exchange and trading operations of 60 million euro.

Other net operating income amounted to 2,458 million euro compared to 3,587 million euro in 2018. This aggregate included dividends from subsidiaries and associates of 2,093 million euro (3,233 million euro in the previous year), with the remainder comprised of other income. In terms of dividends – which were the reason for the fall in this caption – the decrease mainly related the distribution of profits by Eurizon Capital Sgr, Banca IMI and Intesa Sanpaolo Vita, in addition to other minor companies. Vice versa, the higher contributions compared to the previous year were mainly received from Intesa Sanpaolo Holding International and other minor companies. The other income and expenses included in the caption with a net positive balance of 365 million euro (compared to 354 million euro for the previous year), mainly derived from recoveries for services rendered to third parties and Group companies and rental income and income related to consumer credit and leases, net of the amortisation of leasehold improvement costs.

As a result of these changes, Operating income amounted to 11,846 million euro, a decrease of 2,033 million euro on the previous year (-14.6%).

Operating costs amounted to 7,050 million euro, down 2.9% on the previous year, due to the reduction in personnel expenses, which fell from 4,544 million euro to 4,447 million euro (-2.1%), and in other administrative expenses, which dropped from 1,849 million euro to 1,737 million euro (-6.1%). Amortisation and depreciation – which under the new IFRS 16 also includes the amount related to property and equipment and intangible assets under operating leases – was, overall, essentially in line with the same figure in 2018, down from 870 million euro to 866 million euro (-0.5%). With regard to personnel expenses, the decrease was related to the downsizing of staff, the savings from which were more than enough to offset the cost increase relating to incentives for growth.

The performance of operating income and costs illustrated above resulted in an operating margin of 4,796 million euro. On a like-for-like basis, the comparison with the 6,616 million euro in the previous year shows a decrease of 27.5%.

Net adjustments to loans totalled 1,921 million euro, down 13.5% on the previous year, mainly due to lower adjustments for stage 3 loans and for bad loans in particular, whose decrease was partly offset by higher adjustments on unlikely-to-pay loans and the “one-off” effect of the early adoption by the Group, from November 2019, of the new definition of default. This performance was also influenced by the recoveries on performing loans, which benefited from a better risk profile, also due to portfolio recomposition effects and the updating of customer ratings. With regard to the profit or loss effect for 2019, adjustments to non-performing loans during the year, totalling 2,358 million euro, consisted of 34% of adjustments to bad loans, 54% of loans classified as unlikely to pay and 12% of non-performing past-due exposures.

Other net provisions and net impairment losses on other assets amounted to -178 million euro, compared to -119 million euro for 2018. These related to provisions for legal disputes and other charges (64 million euro), net adjustments to debt securities measured at amortised cost not treated as loans and to debt securities measured at fair value through other comprehensive income (23 million euro), adjustments for credit risk on other financial instruments and on commitments and guarantees given (21 million euro), the negative result of the fair value measurement of property and equipment and other impairment losses on property, equipment and intangible assets (17 million euro), and other minor charges (60 million euro). This caption also includes recoveries on non-controlling interests of 7 million euro.

Other net expenses, amounting to 45 million euro, were offset by the income of 419 million euro as at 31 December 2018, which included the profit realised on the sale of the controlling interest in Tersia and the revaluation of the remaining minority interest.

Income (Loss) from discontinued operations amounted to 88 million euro and represented the income effects, before tax, of the business line connected to the acquiring operations currently carried out by ISP that will be transferred to Nexi in 2020 under the agreement signed with regard to payment systems. The figure as at 31 December 2018, amounting to 71 million euro, represents the corresponding contribution from the business line in the previous year.

Gross income amounted to 2,740 million euro, compared to 4,766 million euro for the previous year.

Taxes on income amounted to -169 million euro, compared to -272 million euro for the previous year. This caption was impacted by the change in relevance for tax purposes of the components of the income statement, which give rise to the difference compared to the nominal tax rates (IRES 27.5% and IRAP 5.56%). In addition, in both periods, there is a considerable difference with respect to the nominal tax rates due to the tax regime for dividends. In 2019, the effects were also recognised of the realignment of the tax values of the real estate assets to their higher book values, as required by Article 1, paragraph 948, of Law 145/2018 (“2019 Budget Act”), which also allows IAS entities to adjust the tax values of company assets (other than those for which the business is aimed at producing or trading), as well as the realignment of the non-current equity investments to their higher values recorded in the financial statements for the year ended 31 December 2017 (“realignment”). The exercise of this realignment option, subject to the payment of a substitute tax that resulted in the re-absorption of the temporary differences arising from the previous real estate revaluations, led to a net benefit for the income statement for the year of 113 million euro, plus a further one million euro arising from the realignment of intangible assets, pursuant to Article 15, paragraph 10, of Law Decree 185/2008.

Charges for integration and exit incentives, net of the tax effect of 25 million euro, amounted to -51 million euro (-53 million euro as at 31 December 2018), and included net adjustments to property, equipment and intangible assets, IT expenses and professional service fees attributable to integration projects, in addition to charges for exit incentive plans deriving from agreements signed with the trade unions.

The effects of purchase price allocation, net of tax, amounted to -91 million euro, compared to -127 million euro for 2018.

Levies and other charges concerning the banking industry amounted to -225 million euro, net of tax effects of 109 million euro, and included the contributions to the resolution and deposit guarantee funds.

The Impairment of goodwill, other intangible assets and controlling investments (net of the related tax effect), amounting to -67 million euro (-217 million euro in 2018), consisted of the impairment losses recognised on investments held in Intesa Sanpaolo Provis, Intesa Sanpaolo Re.o.co, and Risanamento.

Reclassified balance sheet

The reclassified balance sheet as at 31 December 2019 includes the results of the mergers by incorporation completed during the year, all with accounting and tax effect from 1 January 2019, of Intesa Sanpaolo Group Services S.c.p.A., Banca CR Firenze S.p.A., Cassa di Risparmio di Pistoia e della Lucchesia S.p.A., Cassa di Risparmio in Bologna S.p.A., Banca Apulia S.p.A., Banca Prossima S.p.A., and Mediocredito Italiano S.p.A.

Breakdowns of restatements, aggregations and reclassifications are provided in separate tables included in the attachments to the Parent Company's financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

The aggregations of the captions of the reclassified balance sheet related to:
– the separate presentation of financial assets constituting Due from banks and Loans to customers, including debt securities measured at amortised cost with counterparties consisting of public entities, non-financial companies and others, which are treated as loans;
– the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
– the presentation of debt securities, equities, quotas of UCI, derivatives held for trading, debt securities designated at fair value, and debt securities, equity securities and quotas of UCI mandatorily measured at fair value, in the caption Financial assets at fair value through profit or loss;
– 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 under Other assets/liabilities;
– the presentation of Property and equipment and Intangible assets in a single caption, broken down into the sub-captions Assets owned and Rights of use acquired under lease;
– the presentation of Due to customers at amortised cost and Securities issued in a single caption;
– the aggregation into one caption (Allowances for risks and charges) of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
– the reclassification of Lease payables to banks and to customers to a specific sub-caption of Other liabilities;
– the presentation of Reserves as an aggregate and net of any treasury shares.

To provide a more effective presentation of the composition of the aggregates, derivatives recorded in Financial assets/liabilities held for trading are presented on a net basis in the tables and in the related comments.

As already mentioned with regard to the income statement figures, also for the balance sheet, the entry into force, from 1 January 2019, of IFRS 16 has led to the introduction of a new definition of lease based on the right of use of the leased asset, together with a different method of accounting for rental, hire, lease and loan agreements. In this regard, to facilitate comparison on a like-for-like basis, the reclassified balance sheet presented below compares the figures for the year with the figures as at 31 December 2018 restated as at 1 January 2019 based on the provisions of IFRS 16 (First-Time Adoption).

The reclassified balance sheet as at 1 January 2019 also includes the results of the above-mentioned mergers by incorporation, which were completed during the year.

(millions of euro)

Assets	31.12.2019	01.01.2019	Changes	
			amount	%
Due from banks	122,037	114,798	7,239	6.3
Loans to customers	307,043	314,583	*-7,540*	*-2.4*
Loans to customers measured at amortised cost	*305,800*	*308,651*	*-2,851*	*-0.9*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*1,243*	*5,932*	*-4,689*	*-79.0*
Financial assets measured at amortised cost which do not constitute loans	12,103	9,078	3,025	33.3
Financial assets at fair value through profit or loss	21,963	20,117	*1,846*	*9.2*
Financial assets at fair value through other comprehensive income	33,037	31,807	1,230	3.9
Equity Investments	24,411	21,084	3,327	15.8
Property, equipment and intangible assets	11,240	11,239	1	-
Assets owned	*10,182*	*10,052*	*130*	*1.3*
Rights of use acquired under leases	*1,058*	*1,187*	*-129*	*-10.9*
Tax assets	14,017	15,855	-1,838	-11.6
Non-current assets held for sale and discontinued operations	469	879	-410	-46.6
Other assets	14,109	14,148	-39	-0.3
Total Assets	**560,429**	**553,588**	**6,841**	**1.2**

(millions of euro)

Liabilities	31.12.2019	01.01.2019	Changes	
			amount	%
Due to banks at amortised cost	152,973	158,628	-5,655	-3.6
Due to customers at amortised cost and securities issued	322,289	310,511	11,778	3.8
Financial liabilities held for trading	16,446	14,652	1,794	12.2
Financial liabilities designated at fair value	1,914	1,821	93	5.1
Tax liabilities	929	1,588	-659	-41.5
Liabilities associated with non-current assets held for sale and discontinued operations	41	-	41	-
Other liabilities	16,408	14,898	1,510	10.1
of which lease payables	*1,062*	*1,195*	*-133*	*-11.1*
Allowances for risks and charges	4,157	4,855	-698	-14.4
of which allowances for commitments and financial guarantees given	*385*	*385*	*-*	*-*
Share capital	9,086	9,085	1	-
Reserves	28,571	28,567	4	-
Valuation reserves	1,375	1,033	342	33.1
Equity instruments	4,103	4,103	-	-
Net income (loss)	2,137	3,847	-1,710	-44.5
Total liabilities and shareholders' equity	**560,429**	**553,588**	**6,841**	**1.2**

Figures restated on a consistent basis, where necessary and material.

Comments are provided below on the main balance sheet aggregates as at 31 December 2019 compared with those as at 1 January 2019 including the effects of the first-time adoption of IFRS 16.

As at 31 December 2019, loans to customers totalled around 307 billion euro, down 2.4% on the restated figure as at 1 January 2019.

With regard to loan quality, net non-performing loans, excluding those represented by securities, decreased to 12.8 billion euro compared to 15 billion euro as at 1 January 2019.
The performance of the individual components shows:

– a decrease in bad positions of 5.2% (from 6,219 million euro to 5,895 million euro);
– a reduction in loans classified as “unlikely to pay”, which fell from 8,496 million euro to 6,281 million euro, equal to 26.1%;
– an increase in past-due loans, which amounted to 660 million euro compared to 318 million euro as at 1 January 2019.

Net performing loans, excluding those represented by securities and intragroup loans, of approximately 9 billion euro, amounted to around 285 billion euro, compared to 287 billion euro as at 1 January 2019, representing a decline of 1.7 billion euro (-0.58%). The related average coverage was 0.40%.

Direct deposits, consisting of amounts due to customers at amortised cost and securities issued, amounted to 322 billion euro, up 3.8% compared to 1 January 2019, an increase attributable to around 13.4 billion euro of non-securities funding, partially offset by the decrease of 1.6 billion euro in securities funding.

Net exposure to banks, consisting of amounts due from banks at amortised cost and held for trading, net of amounts due to banks at amortised cost, amounted to -30.9 billion euro compared to -43.8 billion euro as at 1 January 2019 (-12.9 billion euro).

Financial assets at fair value through profit or loss, which included financial and credit derivatives and debt securities and equities held for trading and mandatorily measured at fair value, amounted to a total of +3.6 billion euro, net of financial liabilities held for trading and designated at fair value, and were stable compared to 1 January 2019.

Financial assets at fair value through other comprehensive income amounted to around 33 billion euro. These assets, which consisted of equity investments and private equity interests of 2.8 billion euro and debt securities of 30 billion euro, increased by around 1.2 billion euro, primarily due to the latter component.

Financial assets measured at amortised cost which do not constitute loans amounted to around 12 billion euro, up 3 billion euro compared to the previous year (+33.3%) mainly as a result of the increase in debt securities with governments, financial companies and insurance companies.

Property, equipment and intangible assets amounted to 11.2 billion euro and were stable compared to the previous year.

Equity investments, which amounted to approximately 24.4 billion euro, included controlling interests in subsidiaries, associates and companies subject to joint control, and were up 3.3 billion euro on the previous year (+15.8%).

Tax assets, net of tax liabilities, amounted to around 13.1 billion euro and were down 1.2 billion euro (-8.3%).

Allowances for risks and charges amounted to 4.2 billion euro, down 14.4% (-0.7 billion euro) compared to 1 January 2019, mainly as a result of the reduction in allowances other than the allowances for post-employment benefits and for commitments and guarantees given.

Non-current assets held for sale and discontinued operations and related liabilities contain assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At 31 December 2019, assets held for sale amounted to 469 million euro, or 428 million euro net of the associated liabilities. The caption includes the residual "high-risk" loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation, the finance leases included under the sale agreement signed with Prelios, whose transfer will be completed during 2020, as well as the interests connected to the acquiring business line, which will be transferred to Nexi in 2020, the assets and liabilities connected to the sale of the Montepegni business line, and some individual properties.

Shareholders' equity, including the net income of 2.1 billion euro, amounted to 45.3 billion euro compared to 46.6 billion euro as at 1 January 2019. During the year, the share premium reserve increased by around 307 million euro mainly due to the reclassification of the 2014-2018 LECOIP reserve, as approved by the Shareholders' Meeting.

Own funds amounted to around 45.2 billion euro. The calculation was carried out using the rules introduced, effective as of 1 January 2014, by European Regulation no. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) as part of the new regulatory framework of the European Union for banks and investment firms. Capital ratios remained high, far above the regulatory requirements. In particular, the Common Equity Tier 1 ratio was 11.5% according to the transitional rules in effect for 2019.

Other information

As provided for by article 2497 and subsequent articles of the Italian Civil Code, Intesa Sanpaolo exercises management and coordination activities for its direct and indirect subsidiaries, including companies which, on the basis of current laws, are not part of the Banking group, with the exception of Risanamento S.p.A., Autostrade Lombarde S.p.A. and their subsidiaries.

This Report on the Intesa Sanpaolo S.p.A. financial statements includes only a comment on the Bank's performance and related alternative performance measures. For all other information required by laws or regulations, reference should be made to the consolidated financial statements or the Notes to these Parent Company's financial statements and to the related Report on Operations, when illustrating specific themes.

Specifically, reference should be made to the Notes to these Parent Company's financial statements with regard to:
- information on the Bank's transactions with related parties, provided in Part H;
- information on financial and operational risks, illustrated in Part E;
- the list of subsidiaries, companies subject to joint control and companies subject to significant influence, provided in Part B;
- information on capital, provided in Part F.

Reference should instead be made to the consolidated financial statements with regard to:
- information on the main risks and uncertainties, as the same considerations as those illustrated in the corresponding paragraph of the Executive Summary of the consolidated financial statements also apply;
- risks linked to capital stability and to going concern issues, discussed in the Executive Summary of the consolidated financial statements;
- information regarding obligations pursuant to article 15 of the Consob Market Regulation, with reference to subsidiaries located in non-EU member states, provided in Part E.

Information on the Intesa Sanpaolo Corporate Governance system pursuant to Art. 123-bis is provided in the separate "Report on Corporate Governance and Ownership Structures" published together with these financial statements.

Information on remuneration as per Art. 123-ter of the Consolidated Law on Finance is briefly illustrated in the Consolidated Report on Operations and in a separate information document "Report on Remuneration" published every year.

As regards the non-financial statement required by Legislative Decree 254/2016, note that the company has prepared the non-financial statement at consolidated level pursuant to Art. 4 of said Decree. Said document is published together with the consolidated financial statements.

Lastly, for a description of the Alternative Performance Measures used in the Report on Operations, see the specific chapter of the Report on Operations in the consolidated financial statements.

Forecast for 2020

For Intesa Sanpaolo, which will absorb Banca IMI in 2020, profitability, when compared to 2019 figures restated on a like-for-like basis, is expected to be marked by a reduction in operating costs and a decrease in the cost of risk.
The net income is expected to increase compared with 2019, even when excluding the capital gain foreseen on the Nexi transaction. The dividend policy for 2020 envisages the distribution of cash dividends corresponding to a payout ratio of 75% of consolidated net income.

The Board of Directors

Turin, 25 February 2020

Proposals to the Shareholders' Meeting

(Revision of the Proposals to the Shareholders' Meeting approved by the Board of Directors on 25 February 2020, following the Recommendation of the European Central Bank of 27 March 2020 regarding dividend policies in the aftermath of the COVID-19 epidemic)

Distinguished Shareholders.

Pursuant to Article 2364 of the Italian Civil Code and Articles 7.3 and 29.3 of the Company's Articles of Association, we hereby submit for your approval the financial statements of the Parent Company Intesa Sanpaolo as at 31 December 2019 and the proposal for allocation of net income for the year.

The reclassifications made to the shareholders' equity items are described in section 12 of Part B - Liabilities of the Notes to the Financial Statements. You are also reminded that, pursuant to Article 6, paragraph 1, letter a) of Legislative Decree 38/2005 currently in force, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge and other than the net income from trading financial instruments and foreign exchange and hedging transactions, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2019, such amount was 80,974,036.49 euro.

In addition, given that over time the Bank has carried out revaluations of real estate assets in application of IAS/IFRS, the Board of Directors, at its meeting of 11 June 2019, resolved to realign the tax values of some of those real estate assets to their higher carrying amounts, in accordance with Article 1, paragraph 948 of Law 145/2018. As a result of the above realignment, a taxation constraint of 1,684,935,197.64 euro in the event of distribution, equal to the amount of the higher realigned values (1,953,845,112.69 euro) net of the substitute tax paid (268,909,915.05 euro), has been allocated to the share premium reserve, as detailed in Section 12 of Part B - Liabilities in the Notes to the 2019 Financial Statements.

On 25 February 2020, the Board of Directors of Intesa Sanpaolo resolved to submit for your approval, in accordance with the 2018-2021 Business Plan, the proposal to distribute a dividend of 0.192 euro per outstanding share for a total amount of 3,361,867,857.60 euro, from Intesa Sanpaolo's net income for 2019 of 2,031,128,497.30 and from the share premium reserve of 1,330,739,360.30 euro.

As you are no doubt aware, on 27 March 2020 the European Central Bank published a recommendation regarding dividend policies in the aftermath of the COVID-19 epidemic, recommending that distributions of dividends should not be made in view of the economic situation generated by the epidemic. The same recommendation was made by the Bank of Italy to the banks under its direct supervision.

In view of the above, we propose to follow the recommendations made by the European Central Bank and consequently to allocate the net income for the year 2019 of Intesa Sanpaolo, which amounts to 2,136,974,390.28 euro, as follows:

	(euro)
Net income	2,136,974,390.28
Assignment to the Allowance for charitable, social and cultural contributions	12,500,000.00
Assignment to the Extraordinary reserve of the residual net income	2,124,474,390.28

If this proposal is approved, the consolidated capital requirements would show a Common Equity Tier 1 ratio of 15% and a Total Capital Ratio of 18.8%, both amply meeting the requirements of the EU Bodies and the Supervisory Authority. At Parent Company level as well, the capital requirements would be well above the minimum requirements.

We are aware of the need not to alter the capital requirements in the current difficult situation, but also of our Bank's solidity and the importance of passing on the value generated by the management of our Group to our shareholders. Accordingly, we inform you that the Board of Directors will consider proposing a distribution of retained earnings reserves by the end of this year, with the calling of a specific shareholders' meeting after 1 October, if the evolution of the COVID-19 epidemic and the economic situation enables us to resume the shareholder remuneration policies adopted up to now, in compliance with the guidance from the Supervisory Authority, while continuing to guarantee our Bank's capital strength, which is equally important to all of us.

If the proposal submitted is approved by you, and taking into account the reclassification to the Extraordinary Reserve of the total net negative amount of 829,527,618.44 euro relating to the merger and exchange differences arising from the cancellation of the shares of the subsidiaries Intesa Sanpaolo Group Services S.c.p.A., Cassa di Risparmio in Bologna S.p.A., Banca CR Firenze S.p.A., Cassa di Risparmio di Pistoia e della Lucchesia S.p.A., Banca Apulia S.p.A., Banca Prossima S.p.A., Mediocredito Italiano S.p.A., Intesa Sec. 3 S.r.l. and Intesa Sec NPL S.p.A., the shareholders' equity of Intesa Sanpaolo S.p.A. will be as shown in the table below.

(millions of euro)

Shareholders' equity	Annual report 2019	Changes	Share capital and reserves of Annual Report 2019 after the Shareholders' Meeting resolutions
Share capital	**9,086**	**-**	**9,086**
Share premium reserve	25,233	-	25,233
Reserves	3,399	2,124	5,523
Valuation reserves	1,375	-	1,375
Equity instruments	4,103	-	4,103
Treasury shares	-61	-	-61
Total reserves	**34,049**	**2,124**	**36,173**
TOTAL	**43,135**	**2,124**	**45,259**

The Board of Directors

Torino, 31 March 2020

Parent Company's financial statements

Financial statements

Balance sheet

(euro)

Assets		31.12.2019	31.12.2018	Changes amount	Changes %
10.	Cash and cash equivalents	6,013,356,038	7,363,132,608	-1,349,776,570	-18.3
20.	Financial assets measured at fair value through profit or loss	22,973,103,973	25,878,591,115	-2,905,487,142	-11.2
	a) financial assets held for trading	*19,871,692,215*	*18,020,440,604*	*1,851,251,611*	*10.3*
	b) financial assets designated at fair value	*195,028,564*	*197,753,361*	*-2,724,797*	*-1.4*
	c) other financial assets mandatorily measured at fair value	*2,906,383,194*	*7,660,397,150*	*-4,754,013,956*	*-62.1*
30.	Financial assets measured at fair value through other comprehensive income	33,276,643,885	31,135,690,799	2,140,953,086	6.9
40.	Financial assets measured at amortised cost	439,932,789,628	409,602,431,307	30,330,358,321	7.4
	a) due from banks	*122,454,605,998*	*154,590,837,735*	*-32,136,231,737*	*-20.8*
	b) loans to customers	*317,478,183,630*	*255,011,593,572*	*62,466,590,058*	*24.5*
50.	Hedging derivatives	2,830,373,955	2,877,547,472	-47,173,517	-1.6
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,525,813,562	77,275,285	1,448,538,277	
70.	Equity investments	24,410,762,610	26,257,677,770	-1,846,915,160	-7.0
80.	Property and equipment	6,688,430,072	4,598,266,116	2,090,163,956	45.5
90.	Intangible assets	4,551,602,210	2,767,601,935	1,784,000,275	64.5
	of which:				
	- goodwill	*1,242,487,402*	*1,160,336,910*	*82,150,492*	*7.1*
100.	Tax assets	14,016,892,094	14,334,819,665	-317,927,571	-2.2
	a) current	*1,480,236,864*	*2,996,573,278*	*-1,516,336,414*	*-50.6*
	b) deferred	*12,536,655,230*	*11,338,246,387*	*1,198,408,843*	*10.6*
110.	Non-current assets held for sale and discontinued operations	469,027,127	672,258,249	-203,231,122	-30.2
120.	Other assets	3,739,834,486	2,987,801,986	752,032,500	25.2
Total assets		**560,428,629,640**	**528,553,094,307**	**31,875,535,333**	**6.0**

Balance sheet

(euro)

Liabilities and Shareholders' Equity		31.12.2019	31.12.2018	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	476,324,527,437	447,143,398,340	29,181,129,097	6.5
	a) due to banks	*152,978,451,667*	*161,719,030,885*	*-8,740,579,218*	*-5.4*
	b) due to customers	*247,937,370,294*	*208,532,094,893*	*39,405,275,401*	*18.9*
	c) securities issued	*75,408,705,476*	*76,892,272,562*	*-1,483,567,086*	*-1.9*
20.	Financial liabilities held for trading	16,446,060,192	14,559,502,621	1,886,557,571	13.0
30.	Financial liabilities designated at fair value	1,914,031,202	1,821,039,982	92,991,220	5.1
40.	Hedging derivatives	7,323,119,194	5,357,675,339	1,965,443,855	36.7
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	521,940,321	381,865,835	140,074,486	36.7
60.	Tax liabilities	928,948,213	1,446,555,316	-517,607,103	-35.8
	a) current	*23,592,680*	*75,887,346*	*-52,294,666*	*-68.9*
	b) deferred	*905,355,533*	*1,370,667,970*	*-465,312,437*	*-33.9*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41,034,565	-	41,034,565	-
80.	Other liabilities	7,500,204,651	6,352,470,569	1,147,734,082	18.1
90.	Employee termination indemnities	1,057,087,202	845,215,781	211,871,421	25.1
100.	Allowances for risks and charges	3,099,839,100	3,434,676,119	-334,837,019	-9.7
	a) commitments and guarantees given	*384,991,008*	*350,010,141*	*34,980,867*	*10.0*
	b) post-employment benefits	*205,670,392*	*223,290,421*	*-17,620,029*	*-7.9*
	c) other allowances for risks and charges	*2,509,177,700*	*2,861,375,557*	*-352,197,857*	*-12.3*
110.	Valuation reserves	1,374,623,166	1,080,919,802	293,703,364	27.2
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	4,102,664,631	4,102,664,631	-	-
140.	Reserves	3,399,458,545	4,369,749,752	-970,291,207	-22.2
150.	Share premium reserve	25,233,266,887	24,925,954,843	307,312,044	1.2
160.	Share capital	9,085,663,010	9,085,469,852	193,158	-
170.	Treasury shares (-)	-60,813,066	-39,659,294	21,153,772	53.3
180.	Net income (loss) (+/-)	2,136,974,390	3,685,594,819	-1,548,620,429	-42.0
Total liabilities and shareholders' equity		**560,428,629,640**	**528,553,094,307**	**31,875,535,333**	**6.0**

Income statement

(euro)

		2019	2018	Changes	
				amount	%
10.	Interest and similar income	7,282,086,219	7,036,468,661	245,617,558	3.5
	of which: interest income calculated using the effective interest rate method	*7,568,715,562*	*7,245,312,697*	*323,402,865*	*4.5*
20.	Interest and similar expense	-2,874,258,933	-2,785,287,693	88,971,240	3.2
30.	**Interest margin**	**4,407,827,286**	**4,251,180,968**	**156,646,318**	**3.7**
40.	Fee and commission income	5,097,939,877	4,566,781,542	531,158,335	11.6
50.	Fee and commission expense	-609,465,768	-627,795,460	-18,329,692	-2.9
60.	**Net fee and commission income**	**4,488,474,109**	**3,938,986,082**	**549,488,027**	**13.9**
70.	Dividend and similar income	2,144,099,724	3,491,677,892	-1,347,578,168	-38.6
80.	Profits (Losses) on trading	38,655,668	-76,830,248	115,485,916	
90.	Fair value adjustments in hedge accounting	-36,699,444	-22,244,300	14,455,144	65.0
100.	Profits (Losses) on disposal or repurchase of:	357,904,493	100,711,617	257,192,876	
	a) financial assets measured at amortised cost	*-25,917,941*	*-64,232,505*	*-38,314,564*	*-59.6*
	b) financial assets measured at fair value through other comprehensive income	*214,497,933*	*214,993,962*	*-496,029*	*-0.2*
	c) financial liabilities	*169,324,501*	*-50,049,840*	*219,374,341*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	17,662,586	280,721,335	-263,058,749	-93.7
	a) financial assets and liabilities designated at fair value	*-95,452,555*	*29,612,955*	*-125,065,510*	
	b) other financial assets mandatorily measured at fair value	*113,115,141*	*251,108,380*	*-137,993,239*	*-55.0*
120.	**Net interest and other banking income**	**11,417,924,422**	**11,964,203,346**	**-546,278,924**	**-4.6**
130.	Net losses/recoveries for credit risks associated with:	-1,965,432,618	-1,820,970,596	144,462,022	7.9
	a) financial assets measured at amortised cost	*-1,953,858,693*	*-1,821,932,128*	*131,926,565*	*7.2*
	b) financial assets measured at fair value through other comprehensive income	*-11,573,925*	*961,532*	*-12,535,457*	
140.	Profits (Losses) on changes in contracts without derecognition	-5,072,667	-16,347,123	-11,274,456	-69.0
150.	**Net income from banking activities**	**9,447,419,137**	**10,126,885,627**	**-679,466,490**	**-6.7**
160.	Administrative expenses:	-7,155,003,404	-7,014,160,148	140,843,256	2.0
	a) personnel expenses	*-4,498,946,183*	*-3,669,654,828*	*829,291,355*	*22.6*
	b) other administrative expenses	*-2,656,057,221*	*-3,344,505,320*	*-688,448,099*	*-20.6*
170.	Net provisions for risks and charges	-65,645,408	-39,701,232	25,944,176	65.3
	a) commitments and guarantees given	*-863,098*	*9,969,715*	*-10,832,813*	
	b) other net provisions	*-64,782,310*	*-49,670,947*	*15,111,363*	*30.4*
180.	Net adjustments to / recoveries on property and equipment	-391,583,737	-125,285,249	266,298,488	
190.	Net adjustments to / recoveries on intangible assets	-536,880,647	-14,591,319	522,289,328	
200.	Other operating expenses (income)	807,164,212	518,187,937	288,976,275	55.8
210.	**Operating expenses**	**-7,341,948,984**	**-6,675,550,011**	**666,398,973**	**10.0**
220.	Profits (Losses) on equity investments	-56,028,166	127,339,460	-183,367,626	
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-10,204,141	-5,806,488	4,397,653	75.7
240.	Goodwill impairment	-	-	-	-
250.	Profits (Losses) on disposal of investments	-111,598	805,923	-917,521	
260.	**Income (Loss) before tax from continuing operations**	**2,039,126,248**	**3,573,674,511**	**-1,534,548,263**	**-42.9**
270.	Taxes on income from continuing operations	34,130,294	64,177,552	-30,047,258	-46.8
280.	**Income (Loss) after tax from continuing operations**	**2,073,256,542**	**3,637,852,063**	**-1,564,595,521**	**-43.0**
290.	Income (Loss) after tax from discontinued operations	63,717,848	47,742,756	15,975,092	33.5
300.	**Net income (loss)**	**2,136,974,390**	**3,685,594,819**	**-1,548,620,429**	**-42.0**

Statement of comprehensive income

(euro)

		2019	2018	Changes amount	%
10.	**NET INCOME (LOSS)**	**2,136,974,390**	**3,685,594,819**	**-1,548,620,429**	**-42.0**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**185,090,204**	**352,332,260**	**-167,242,056**	**-47.5**
20.	Equity instruments designated at fair value through other comprehensive income	-42,656,869	93,023,800	-135,680,669	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-	-	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	243,806,202	2,365,450	241,440,752	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	-16,059,129	256,943,010	-273,002,139	
80.	Non current assets classified as held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**127,327,803**	**-122,722,843**	**250,050,646**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-	-	-	
120.	Cash flow hedges	-32,963,321	90,890,788	-123,854,109	
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	160,291,124	-213,613,631	373,904,755	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	-	-	-	
170.	**Total other comprehensive income (net of tax)**	**312,418,007**	**229,609,417**	**82,808,590**	**36.1**
180.	**TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)**	**2,449,392,397**	**3,915,204,236**	**-1,465,811,839**	**-37.4**

Changes in shareholders' equity as at 31 December 2019

(euro)

	31.12.2019									
	Share capital		**Share premium reserve**	**Reserves**		**Valuation reserves**	**Equity instruments**	**Treasury shares**	**Net income (loss)**	**Shareholders' equity**
	ordinary shares	other shares		retained earnings	other					
AMOUNTS AS AT 31.12.2018	**9,085,469,852**	**-**	**24,925,954,843**	**3,789,063,006**	**580,686,746**	**1,080,919,802**	**4,102,664,631**	**-39,659,294**	**3,685,594,819**	**47,210,694,405**
Changes in opening balances	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
AMOUNTS AS AT 1.1.2019	**9,085,469,852**	**-**	**24,925,954,843**	**3,789,063,006**	**580,686,746**	**1,080,919,802**	**4,102,664,631**	**-39,659,294**	**3,685,594,819**	**47,210,694,405**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)										
Reserves				**222,727,057**					**-222,727,057**	**-**
Dividends and other allocations									**-3,462,867,762**	**-3,462,867,762**
CHANGES IN THE PERIOD										
Changes in reserves			**307,312,044**	**-1,391,758,672**	**198,740,408**	**-18,714,643**				**-904,420,863**
Operations on shareholders' equity										
Issue of new shares	193,158							9,184,010		9,377,168
Purchase of treasury shares								-30,337,782		-30,337,782
Dividends										-
Changes in equity instruments										-
Derivatives on treasury shares										-
Stock options										-
Total comprehensive income for the period						**312,418,007**			**2,136,974,390**	**2,449,392,397**
SHAREHOLDERS' EQUITY AS AT 31.12.2019	**9,085,663,010**	**-**	**25,233,266,887**	**2,620,031,391**	**779,427,154**	**1,374,623,166**	**4,102,664,631**	**-60,813,066**	**2,136,974,390**	**45,271,837,563**

(a) Includes dividends and amounts allocated to the charity fund of the Parent Company.

Changes in shareholders' equity as at 31 December 2018

(euro)

	31.12.2018									
	Share capital		**Share premium reserve**	**Reserves**		**Valuation reserves**	**Equity instruments**	**Treasury shares**	**Net income (loss)**	**Shareholders' equity**
	ordinary shares	other shares		retained earnings	other					
AMOUNTS AS AT 1.1.2017	**8,247,089,025**	**484,895,091**	**26,164,131,214**	**3,264,996,415**	**578,198,274**	**773,748,333**	**4,102,750,714**	**-25,863,278**	**4,882,289,326**	**48,472,235,114**
Changes in opening balances (FTA IFRS9)	-	-	-	-2,277,349,892	-	85,709,389	-	-	-	-2,191,640,503
AMOUNTS AS AT 1.1.2018	**8,247,089,025**	**484,895,091**	**26,164,131,214**	**987,646,523**	**578,198,274**	**859,457,722**	**4,102,750,714**	**-25,863,278**	**4,882,289,326**	**46,280,594,611**
ALLOCATION OF NET INCOME										
OF THE PREVIOUS YEAR (a)										
Reserves				**3,517,649,758**					**-3,517,649,758**	**-**
Dividends and other allocations									**-1,364,639,568**	**-1,364,639,568**
CHANGES IN THE PERIOD										
Changes in reserves				**-628,273,367**	**2,488,472**	**-8,147,337**				**-633,932,232**
Operations on shareholders' equity										
Issue of new shares	838,380,827		827,273,718	-87,959,908				7,875,191		1,585,569,828
Purchase of treasury shares		-484,895,091						-21,671,207		-506,566,298
Dividends			-2,065,450,089							-2,065,450,089
Changes in equity instruments										-86,083
Derivatives on treasury shares										-
Stock options										-
Total comprehensive income for the period						**229,609,417**			**3,685,594,819**	**3,915,204,236**
SHAREHOLDERS' EQUITY AS AT 31.12.2018	**9,085,469,852**	**-**	**24,925,954,843**	**3,789,063,006**	**580,686,746**	**1,080,919,802**	**4,102,664,631**	**-39,659,294**	**3,685,594,819**	**47,210,694,405**

(a) Includes dividends and amounts allocated to the charity fund of the Parent Company.

Statement of cash flows

(euro)

	2019	2018
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**4,284,196,502**	**2,972,628,078**
Net income (loss) (+/-)	2,136,974,390	3,685,594,819
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	430,144,514	-230,392,908
Gains/losses on hedging activities (-/+)	36,699,444	22,244,300
Net losses/recoveries for credit risk (+/-)	2,290,736,569	2,441,780,376
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	928,464,384	140,362,674
Net provisions for risks and charges and other costs/revenues (+/-)	349,860,084	461,255,673
Taxes, duties and tax credits to be paid/collected (+/-)	-103,632,907	-55,850,015
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	580,265	-
Other adjustments (+/-)	-1,785,630,241	-3,492,366,841
2. Cash flow from / used in financial assets	**-8,733,476,554**	**12,974,122,781**
Financial assets held for trading	-2,234,701,675	593,797,334
Financial assets designated at fair value	-92,727,758	154,148,092
Other financial assets mandatorily measured at fair value	2,011,123,391	-7,458,457,072
Financial assets measured at fair value through other comprehensive income	-1,334,227,853	6,593,845,107
Financial assets measured at amortised cost	-9,278,921,460	11,520,803,803
Other assets	2,195,978,801	1,569,985,517
3. Cash flow from / used in financial liabilities (*)	**6,466,091,485**	**-14,318,507,758**
Financial liabilities measured at amortised cost	7,189,107,970	-13,163,709,620
Financial liabilities held for trading	1,785,194,860	-168,736,942
Financial liabilities designated at fair value	92,991,220	1,811,906,910
Other liabilities	-2,601,202,565	-2,797,968,106
Net cash flow from (used in) operating activities	**2,016,811,433**	**1,628,243,101**
B. INVESTING ACTIVITIES		
1. Cash flow from	**2,117,346,687**	**3,585,034,179**
Sales of investments in associates and companies subject to joint control	10,744,005	133,629,994
Dividends collected on investments in associates and companies subject to joint control	2,093,438,488	3,441,863,501
Sales of property and equipment	13,164,194	9,144,143
Sales of intangible assets	-	396,541
Sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-1,768,795,669**	**-1,052,751,580**
Purchases of investments in associates and companies subject to joint control	-574,612,952	-867,032,845
Purchases of property and equipment	-386,334,765	-159,236,164
Purchases of intangible assets	-807,847,952	-26,482,571
Purchases of subsidiaries and business branches	-	-
Net cash flow from (used in) investing activities	**348,551,018**	**2,532,282,599**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	-21,153,772	1,079,003,530
Share capital increases	-233,386,742	-198,376,766
Dividend distribution and other	-3,462,867,762	-3,430,089,657
Net cash flow from (used in) financing activities	**-3,717,408,276**	**-2,549,462,893**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-1,352,045,825**	**1,611,062,807**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	7,363,132,608	5,749,702,612
Net increase (decrease) in cash and cash equivalents	-1,352,045,825	1,611,062,807
Cash and cash equivalents: foreign exchange effect	2,269,255	2,367,189
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,013,356,038**	**7,363,132,608**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to +6.5 billion euro (cash flow from) and comprise +7.2 billion euro in cash flows, +1.9 billion euro in fair value changes and -2.6 billion euro in other changes.

Notes to the Parent Company's financial statements

Part A – Accounting policies

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo's financial statements have been prepared in compliance with 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 EC Regulation 1606 of 19 July 2002.
The financial statements as at 31 December 2019 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015[*], with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, 22 December 2017 and 30 November 2018.
These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.
The Parent Company's financial statements have been prepared using the IAS/IFRS in force as at 31 December 2019 (including the SIC and IFRIC interpretation documents) as listed in the attachments to the consolidated financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2019.

(*) Art. 43 of Legislative Decree 136/2015 confirmed to the Bank of Italy the powers concerning the layouts of financial statements already previously attributed to the same Authority by Legislative Decree 38/2005.

IFRS endorsed as at 31.12.2019 in force since 2019

Regulation endorsement	Title	Effective date
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
498/2018	IFRS 9 Financial instruments	01/01/2019 First financial year starting on or after 01/01/2019
1595/2018	IFRIC 23 Uncertainty over income tax treatments	01/01/2019 First financial year starting on or after 01/01/2019
237/2019	Amendments to IAS 28 Investments in associates and Joint ventures	01/01/2019 First financial year starting on or after 01/01/2019
402/2019	Amendments to IAS 19 Employee Benefits	01/01/2019 First financial year starting on or after 01/01/2019
412/2019	Amendments to IAS 12 Income Taxes	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IAS 23 Borrowing Costs	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 3 Business Combinations	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 11 Joint Arrangements	01/01/2019 First financial year starting on or after 01/01/2019
34/2020	Amendments to IFRS 9 Financial Instruments (*)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 39 Financial Instruments: Recognition and Measurement (*)	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IFRS 7 Financial Instruments: Disclosures (*)	01/01/2020 First financial year starting on or after 01/01/2020

(*) Regulation n. 34/2020, approved on 15 January 2020, application of which is compulsory from 1 January 2020, with an option of early adoption that the Intesa Sanpaolo decided to use.

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2019 consist primarily of IFRS 16 "Leases". The new financial reporting standard IFRS 16 "Leases" came into force on 1 January 2019, replacing IAS 17 and IFRIC 4. IFRS 16 affects the method of accounting for leases, as well as rental, hire, letting and loan for use agreements, introducing a new definition of "lease" based on the transfer of the "right of use" of the asset leased.
For a detailed description of IFRS 16 and the impacts of first-time adoption, see the section below “Transition to IFRS 16”.

The Bank has also exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement[38] and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

These changes are part of the project to analyse the accounting effects of the Interest Rate Benchmark Reform or IBOR Reform. This relates to recent developments concerning the revision or replacement of certain interest rate benchmarks used to set interest rates in various jurisdictions, such as LIBOR, TIBOR and, in Europe, EONIA and Euribor, based on the indications from the G20 and the Financial Stability Board.
The IASB is working on the possible accounting impacts of the IBOR Reform through a project divided into two phases: the first phase focuses on the possible accounting impacts in the period prior to the replacement of the existing benchmark rates with new rates (pre-replacement issues); and the second phase of the project, still under way, involves the analysis of the possible accounting impacts deriving from the application of the new rates and other less urgent issues (replacement issues).
Phase 1 of the project, which ended with the publication of the above-mentioned Regulation 34/2020, introduced several changes to prevent the discontinuation of existing hedges. The IASB considers that, in this scenario, the discontinuation of hedges solely due to the effect of uncertainty does not provide useful information for the readers of financial statements and has therefore decided to make some temporary exceptions to the existing regulations to prevent these distortions, which can be applied until the reform of the interest rate benchmarks has been completed.

[38] The amendments also concern IAS 39 due to the possibility of exercising the option to continue applying the previous standard for hedge accounting instead of implementing the new provisions of IFRS 9. The Intesa Sanpaolo Group has adopted this option (so-called opt-out).

In this regard, the IASB has identified the following hedge accounting provisions that may be affected by the interest rate benchmark reform in the pre-replacement phase:

1) *Highly probable requirement:* IAS 39 and IFRS 9 require that forecast transactions must meet the highly probable requirement in order to be designated as the hedged item.
2) *Prospective* and *retrospective assessment of hedge effectiveness* concerning the passing of the effectiveness tests required by IFRS 9 and IAS 39 to allow the application of hedge accounting.
3) *Designation of risk components*: IFRS 9 and IAS 39 allow the designation of a non-contractually specified risk component when it can be separately identified and reliably measured.

For each of these provisions, the IASB has introduced a simplification, which assumes that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the interbank rate reform.
The amendments are applicable on a mandatory basis from 1 January 2020, with the option of early application, which the Bank has exercised.

In addition, and as shown in the above table, the accounting standards applicable on a mandatory basis for the first time starting in 2019 include the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" and several amendments which have been made to the existing standards – none of which is particularly significant for Intesa Sanpaolo – and were endorsed by the European Commission in 2018 and 2019.
A summary of the Endorsement Regulations is provided below:

- Regulation 498/2018: this regulation endorsed on 22 March 2018 adopted several amendments to IFRS 9 "Prepayment features with negative compensation" regarding the classification of financial instruments with particular prepayment features. This amendment establishes that, for the purposes of passing the SPPI test, the prepayment features can establish that reasonable compensation for prepayment can both be paid and received (and not, as in the past, only received by the lender/investor).
- Regulation 1595/2018: this regulation endorsed on 23 October 2018 adopted the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", which clarifies how to apply the recognition and measurement requirements of IAS 12 Income Taxes (for current and deferred tax assets and liabilities), when there is uncertainty over the income tax treatment. According to the interpretation, an entity must assess whether the tax authority is likely to accept an uncertain tax treatment. If this is the case, it must determine its value and, if not, it must use either the most likely amount method or the expected value method to determine the taxable profit (tax losses) and other tax bases.
  This interpretation has provided better clarification of the treatment of uncertainty, but has not led to substantial changes with respect to the approach adopted by Intesa Sanpaolo.
- Regulation 237/2019: this regulation of 8 February 2019 adopted several amendments to IAS 28 "Investments in Associates and Joint Ventures". The update "Long-term Interests in Associates and joint ventures", which is part of the ordinary rationalisation and clarification of the IAS/IFRS, clarified that an entity shall apply IFRS 9, including the provisions on impairment, also to long-term interests representing financial instruments in associates or joint ventures for which the equity method is not used. These amendments do not introduce new concepts but are intended to provide guidance concerning the interaction between IFRS 9 and IAS 28.
- Regulation 402/2019: this regulation of 13 March 2019 made several amendments to IAS 19 "Employee Benefits" to clarify that, after the amendment, curtailment or settlement of a defined benefit plan, an entity shall apply the updated assumptions from the remeasurement of its net defined benefit liability (asset) for the remainder of the reporting period. Given the variety of practices adopted by companies, the regulation specifies that a company is required to update the actuarial assumptions following the amendment/curtailment of the plan, using the most recent information available.
- Regulation 412/2019: this regulation of 14 March 2019, which is part of the ordinary rationalisation and streamlining of the IAS/IFRS, adopted the changes introduced by the IASB within the Annual Improvements to IFRS Standards 2015-2017 Cycle, published on 12 December 2017. These changes include amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".

Finally, due to its importance for the classification of non-performing exposures, the Group has adopted the New Definition of Default for accounting purposes from November 2019, resulting from the implementation of the "RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (Delegated Regulation (EU) 2018/171)" and the related "EBA Guidelines on the application of the definition of default under Article 178 of the CRR".
The new regulations – while still confirming the concepts of late payment and unlikely-to-pay status of the debtor as the basis for default – have also made several significant changes relating to materiality thresholds, netting rules, and criteria for return to performing status. For more details, see Part E – Section 3 - Non-performing credit exposures of the Consolidated financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2020 – for financial statements reflecting the calendar year – or after this date, and for which Intesa Sanpaolo has not exercised the option of early adoption.

IFRS endorsed as at 31.12.2019 applicable subsequent to 31.12.2019

Regulation endorsement	Title	Effective date
2075/2019	Amendments to References to the Conceptual framework in IFRS Standards (*)	01/01/2020 First financial year starting on or after 01/01/2020
2014/2019	Amendments to IAS 1 Presentation of Financial Statements	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	01/01/2020 First financial year starting on or after 01/01/2020

(*) The document amends references to Conceptual Framework in: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32.

A summary of the above-mentioned Endorsement Regulations is provided below:

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

The table below shows the new international financial reporting standards or amendments to existing standards that have not yet been endorsed by the European Commission.

IFRS not endorsed as at 31.12.2019

Standard/ Interpretation	Title	Date of issue
IFRS 17	Insurance Contracts	18/05/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IFRS 3	Business Combination	22/10/2018

SECTION 2 – GENERAL PREPARATION PRINCIPLES

The financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the financial statements and the related comparative information; the Report on operations prepared by the Directors, on the economic results achieved and on Intesa Sanpaolo's balance sheet and financial position has also been included. For information to be included in the Report on operations as required by regulatory provisions, reference should be made to the Consolidated Report on Operations. In compliance with the provisions of Article 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.
The amounts indicated in the Parent Company's financial statements are expressed in euro, while figures in the Notes to the Parent Company's financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.
The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific financial reporting standards endorsed by the European Commission and illustrated in Part A.2 of these Notes to the Parent Company's financial statements, as well as in compliance with the general assumptions set forth by the Conceptual Framework for the preparation and presentation of Financial Statements issued by IASB.
No exceptions to the application of IAS/IFRS have been made.
The Report on operations and the Notes to the Parent Company's financial statements contain all information required by international accounting standards, by current regulations, by the Bank of Italy and by Consob (Italian Securities and

Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Bank's situation.

In accordance with IFRS 5, the balance sheet and the relevant disclosures in the Notes include among the components relating discontinued operations, in addition to various real properties, the portfolio of bad loans/unlikely-to-pay loans set to be disposed of and the residual so-called "high-risk" loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation. Assets and liabilities attributable to business lines to be disposed of, relating to pledge lending activity and acquiring activity within the context of the payment systems contributed to Nexi under the agreement entered into in December 2019, have also been included.
Since this latter transaction qualifies as a discontinued operation in accordance with IFRS 5, the related income and expenses have also been presented in summary form in the specific caption of the income statement and the related disclosures in the Notes.

The financial statement forms and the Notes to the Parent Company's financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2018. With regard to the first-time adoption (FTA) of IFRS 16, the Bank has chosen to adopt the modified retrospective approach, which provides the option, established by the standard, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the financial statement figures for 2019 and the related explanatory notes are not comparable with the previous year with regard to the valuation of the rights of use and the corresponding lease liability, as well as the related income statement items. In the Report on Operations, the income statement and balance sheet figures affected by the standard have been restated to enable like-for-like comparison.
The comparative figures in the income statement and the related explanatory notes have been restated in accordance with IFRS 5 to take into account the profit or loss effects from the business line transferred to Nexi, under the agreement signed in December 2019.
The comparative figures in the balance sheet and the related explanatory notes have been amended in accordance with IFRS 3 to take account of the final purchase price allocation for Autostrade Lombarde.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2018 financial statements, together with specific reconciliations between the 2018 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

Contents of financial statement forms

Balance sheet and income statement

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions). For the purposes of completeness with respect to the compulsory forms defined by the Bank of Italy, captions which do not have amounts for the reporting year and the previous year have also been shown. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

Statement of comprehensive income

The statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.
Comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reporting year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

The statement of changes in shareholders' equity presents shareholders' equity accounts and changes which occurred in the reference year and in the previous year, broken down in share capital, reserves, reserves from retained earnings, valuation reserves and net income. Treasury shares are deducted from shareholders' equity. The table is presented by inverting the rows and the columns with respect to the same form provided for by the updating of Bank of Italy Circular 262/2005.

Statement of cash flows

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.
Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.
In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

Contents of the Notes to the Parent Company's financial statements

The Notes to the Parent Company's financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.

Transition to IFRS 16

Introduction

The explanation of the new standard and how it is being applied by the Intesa Sanpaolo Group, together with a description of the related impacts, have been provided in the Accounting Policies of the Consolidated financial statements. The effects of first-time adoption of IFRS 16 on Intesa Sanpaolo and the companies merged in 2019 with accounting and tax effect from 1 January 2019 are presented below.

The effects of first-time adoption (FTA) of IFRS 16

The adjustment of the opening balance sheet following the adoption of IFRS 16 using the modified retrospective approach has resulted in an increase in assets following the recognition of the new rights of use of 1,195 million euro and in the financial liabilities (payable to the lessor) of the same amount. There have therefore been no impacts on shareholders' equity from the first-time adoption of the standard, because, as a result of the decision to adopt the modified approach (option B), upon first-time adoption the values of the assets and liabilities are the same, net of the reclassification of accruals and deferrals and the presentation of leases previously classified as finance leases under IAS 17.

At the time of the transition, IFRS 16 allows a company to choose whether to apply the new definition of lease contract to all contracts or whether to use a "practical expedient" whereby the company may continue to regard as valid the assessment of the contracts previously identified as leases under IAS 17 and IFRIC 4 (paragraph C3 of IFRS 16).

Specifically, the Bank has used the practical expedient provided for in paragraph C3 above for the FTA. In particular, for all operating leases already covered by IAS 17, it has recognised the liability determined as the discounted future lease payments and the right of use of the same amount (so-called modified B).

For leases that were classified as finance leases applying IAS 17, the Bank, again in its capacity as the lessee, has decided, as envisaged by paragraph C11 of IFRS 16, to establish that the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17, namely the carrying amount as at 31 December 2018.

To provide a better representation of the differences between the scope of IAS 17 and the new standard, the table below shows the reconciliation between the two scopes (as required by paragraph C12 of IFRS 16), detailing in particular:

- the commitments arising from operating leases disclosed in accordance with IAS 17 as at 31 December 2018;
- the effect of the discounting of the operating leases using the incremental borrowing rate as at the date of initial application; and
- the lease liabilities recognised in the balance sheet as at the date of initial application.

For the purpose of reconciling the lease payables as at 1 January 2019, leases previously classified as finance leases, accounted for in accordance with IAS 17 and carried forward, have also been included.

Reconciliation between Commitments for IAS 17 operating leases as at 31 December 2018 and Liabilities for IFRS 16 leases as at 1 January 2019

(millions of euro)

Reconciliation of lease liabilities	**01.01.2019**
Commitments for undiscounted operating leases applying IAS 17 as at 31.12.2018	1,412
Exceptions to recognition pursuant to IFRS 16	-15
- short-term leases	*-10*
- leases of low value	*-5*
Other changes	-62
Undiscounted operating lease liabilities to be recognised in the balance sheet as at 01.01.2019	1,335
Discounting effect on operating lease liabilities	-140
Lease Liabilities for leases applying IFRS 16 as at 01.01.2019	**1,195**
Lease Liabilities for finance leases applying IAS 17 as at 01.01.2019	6
Total Lease Liabilities applying IFRS 16 as at 01.01.2019	**1,201**

The lease liabilities have been discounted at the rate of 1 January 2019, which refers to the expiry dates of the individual contracts.

The weighted average incremental borrowing rate for the lessee applied to the lease liabilities recognised in the balance sheet at the date of initial application is 1.61%.

With regard to the property and equipment, the table below shows the breakdown of the categories of rights of use identified, of which 21 million euro relating to finance leases. Specifically, the rights of use acquired through leases relating to real estate contracts are shown under sub-caption “b) buildings”; those relating to contracts for cars and other vehicles are shown under sub-caption “f) other”; and those relating to hardware are shown under sub-caption “e) electronic equipment”.

(millions of euro)

Rights of use acquired through the lease	**01.01.2019**
Property and equipment used in operations:	**1,203**
a) land	5
b) buildings	1,186
c) furniture	-
d) valuable art assets and furniture	-
e) electronic equipment	1
f) other	11
Investment property:	**5**
a) land	2
b) buildings	3
Total	**1,208**

Assets, Liabilities and shareholders’ equity as at 1 January 2019

The tables below show the breakdown of the figures as at 1 January 2019 relating to the impacts on the balance sheet captions, together with the various categories of rights of use identified.

Assets

(millions of euro)

	Assets	**31.12.2018 Published**	**Effect of transition to IFRS 16 Intesa Sanpaolo**	**Effect of transition to IFRS 16 Merged companies**	**01.01.2019 IFRS 16**
10.	Cash and cash equivalents	7,363	-	-	7,363
20.	Financial assets measured at fair value through profit or loss	25,878	-	-	25,878
30.	Financial assets measured at fair value through other comprehensive income	31,136	-	-	31,136
40.	Financial assets measured at amortised cost	409,602	-	-	409,602
50.	Hedging derivatives	2,878	-	-	2,878
60.	Fair value change of financial assets in hedged portfolios (+/-)	77	-	-	77
70.	Equity investments	26,258	-	-	26,258
80.	Property and equipment	4,598	957	230	5,785
90.	Intangible assets	2,768	-	-	2,768
100.	Tax assets	14,335	-	-	14,335
110.	Non-current assets held for sale and discontinued operations	672	-	-	672
120.	Other assets	2,988	7	1	2,996
Total assets		**528,553**	**964**	**231**	**529,748**

The amount of 5,785 million euro for property and equipment includes a total of 1,208 million euro of rights of use, of which 21 million euro relating to finance leases already recognised in the financial statements as at 31 December 2018.
The rights of use have also been adjusted to take account of accruals and deferrals, as well as finance leases.

Liabilities and shareholders' equity

(millions of euro)

	Liabilities and Shareholders' Equity	**31.12.2018 Published**	**Effect of transition to IFRS 16 Intesa Sanpaolo**	**Effect of transition to IFRS 16 Merged companies**	**01.01.2019 IFRS 16**
10.	Financial liabilities measured at amortised cost	447,143	964	231	448,338
	a) due to banks	*161,719*	-	-	*161,719*
	b) due to customers	*208,532*	*964*	*231*	*209,727*
	c) securities issued	*76,892*	-	-	*76,892*
20.	Financial liabilities held for trading	14,560	-	-	14,560
30.	Financial liabilities designated at fair value	1,821	-	-	1,821
40.	Hedging derivatives	5,358	-	-	5,358
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	382	-	-	382
60.	Tax liabilities	1,447	-	-	1,447
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80.	Other liabilities	6,352	-	-	6,352
90.	Employee termination indemnities	845	-	-	845
100.	Allowances for risks and charges	3,434	-	-	3,434
110.	Valuation reserves	1,081	-	-	1,081
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	4,103	-	-	4,103
140.	Reserves	4,370	-	-	4,370
150.	Share premium reserve	24,926	-	-	24,926
160.	Share capital	9,085	-	-	9,085
170.	Treasury shares (-)	-40	-	-	-40
180.	Net income (loss) (+/-)	3,686	-	-	3,686
	Total liabilities and shareholders' equity	**528,553**	**964**	**231**	**529,748**

Lease payables, amounting to a total of 1,201 million euro, have been shown in the table above entitled "Reconciliation of lease liabilities". The caption Financial liabilities measured at amortised cost already included the Payables for finance leases of 3 million euro.

Impacts on Own Funds

The increase in RWAs resulting from the recognition of the total rights of use, weighted at 100%, results in an impact on the CET 1 of -6 bps.

SECTION 3 – SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Reference is made to the similar section of the Consolidated financial statements.

SECTION 4 - OTHER ASPECTS

Option for the national fiscal consolidation provisions

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

Set up of a VAT Group

Intesa Sanpaolo and all of the Italian companies in the Group that meet the requirements for participation opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.
This option takes effect from 1 January 2019 and has a duration of three years, automatically renewed each year, unless revoked.
As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties, with a few exceptions. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group.

"Cooperative compliance" regime

Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the "cooperative compliance" regime set out in Legislative Decree 128/2015.
The admission is effective from the tax period 2017.
The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.
Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness.
The gradual adoption of this regime by the main Italian subsidiaries is now also under way.
Fideuram applied for and was granted admission with effect from 2018.
Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura and Fideuram Vita, together with Eurizon SGR and Epsilon SGR, applied for admission, which will presumably be granted in 2020 with effect from 2019.
Accordingly, all the major Italian companies in the Intesa Sanpaolo Group will be authorised to apply the regime in question.

Certification pursuant to Article 154 bis of the Consolidated Law on Finance and non-EU subsidiaries

Please refer to Part E of the Notes to the consolidated financial statements for information on the disclosure about the Certification pursuant to Article 154 bis of the Consolidated Law on Finance and subsidiaries based in non-European countries that are considered significant on the basis of the Consob regulations.

Auditing

KPMG S.p.A. audited Intesa Sanpaolo's financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

Other aspects

A reformulation of the rules on the transparency of government grants laid down in Article 1, paragraphs 125-129 of Law No. 124/2017 has been introduced in Article 35 of Decree Law 34/2019 (the "Growth Decree"), converted by Law 58/2019. This reformulation indicates that the scope of transparency obligations applies to information regarding grants, subsidies, advantages, contributions or aid, in cash or in kind, "not of a general character and which do not represent consideration, remuneration or compensation" effectively disbursed by public authorities and the entities indicated in Article 2-*bis* of Legislative Decree 33/2013.
In the light of this reformulation, additional interpretative clarification provided in Assonime Circular No. 32 of 23 December 2019 has confirmed that the transparency obligation applies to awards of economic benefits arising from a bilateral relationship between a public entity and a specific beneficiary. Sums received by a company as consideration for a service rendered, as remuneration for an assignment received or as compensation for damages are expressly excluded. Economic advantages received in application of a general regime, such as tax or contribution relief accessible to all parties who meet certain conditions, are also excluded.
In consideration of the above, there were no cases to report in 2019 for Intesa Sanpaolo.
In the interest of completeness, reference should also be made to the National State Aid Registry, available for public consultation on the relevant website, in which aid measures and the related individual aid packages granted and recorded in the system by the managing entities are published, although, given the foregoing, for Intesa Sanpaolo the circumstances indicated therein for the year 2019 are not subject to financial statement transparency obligations pursuant to paragraphs 125 and 125-bis.

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

To ensure uniformity in the accounting policies used for the financial statements, the Intesa Sanpaolo Group has adopted an internal set of rules and policies for the various operational and organisational areas.

The methodological document used for the application of the accounting standards is the Group Accounting Rules, which describes the application models adopted by the Group, within the framework of the standards and the legislation applicable to the various companies/subsidiaries, and sets out the choices made when the regulations envisage alternative or optional accounting treatments.

With regard to the valuation processes, the Group, in the document “Guidelines for the valuation of Balance Sheet Items”, has drawn up the principles and regulatory framework for the valuation of the balance sheet items and the roles and responsibilities of the Corporate Bodies, the Manager responsible for preparing the Company’s financial reports and the Parent Company’s corporate functions involved in the valuation process; the prerequisites for the existing valuation processes and the control system necessary to ensure proper valuation; the general valuation processes based on accounting standards specific to the various categories of balance sheet items being measured (assets and liabilities); and the rules for guidance and coordination of Group Companies on the valuation of balance sheet items.

The guidelines and policies also include the Business Model Rules, the Rules on the measurement of expected credit loss in accordance with IFRS 9 (Impairment Policy), and the Fair Value Policy, in addition to more specific documents relating to non-performing loans, equity investments, and the management of hedging financial instruments.

Finally, with regard to prudential supervision, the Group has drawn up a specific document called Harmonised Prudential Supervision Rules.

In general, these documents are approved by the competent Corporate Bodies. They are updated by the management structures in response to needs arising both from external factors (e.g. changes in regulations) and from internal factors within the Group (e.g. new operations and products) and are subject to a specific approval process, based on the significance and scope of the changes made.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria
This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:
- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:
- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model;
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:
- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other

comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria
This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.
Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.
Equity instruments are not subject to the impairment process.
See the paragraph below "Impairment of financial assets" for more details.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

3. Financial assets measured at amortised cost

Classification criteria
This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:
- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.
In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along with the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Measurement criteria
After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.
The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.
The measurement criteria, as described in more detail in the paragraph "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.
With regard to the accounting representation of the above measurement effects, the adjustments for this type of asset are recognised in profit or loss:
- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or "tranches" of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.
If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "non-performing", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph "Impairment of financial assets", takes account of forward-looking information and possible alternative recovery scenarios.
Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.
The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.
The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment with time value effects are recognised in net interest income.
In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.
The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

4. Hedging transactions
Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

Classification criteria: type of hedge
Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.
The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Bank may qualify for hedge accounting.
The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

Recognition criteria
Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria
Hedging derivatives are measured at fair value. In particular:
- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. "Fair value change of financial assets in hedged portfolios" or under caption 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction.
A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:
- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. "Fair value change of financial liabilities in hedged portfolios" are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

5. Equity investments

Classification criteria
The caption includes investments in subsidiaries, companies subject to joint control and associates.
Entities are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entities in question.
Entities are considered to be companies subject to joint control (joint ventures), if control is contractually shared by Intesa Sanpaolo with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.
Companies are considered subject to significant influence (associates), when Intesa Sanpaolo holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.
Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

Recognition criteria
Equity investments are recognised at settlement date. On initial recognition equity investments are recorded at cost.

Measurement criteria
Equity investments are measured at cost, which may be adjusted if impairment losses are deemed to have occurred. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.
If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria
Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

6. Property and equipment

Classification criteria
Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.
Property and equipment held for use in the production or supply of goods and services are classified as "Property and equipment used in operations", in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as "Investment property" based on IAS 40.
This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories.
Lastly, they include the rights of use acquired under a lease and relating to the use of an item of property and equipment (for lessees) and assets leased under an operating lease (for lessors).

Recognition criteria
Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.
According to IFRS 16, leases are accounted for on the basis of the right of use model, where, at the initial date, the lessee has a financial obligation to make payments due to the lessor to compensate for its right of use of the underlying asset during the lease term.
When the asset is made available to the lessee for use (initial date), the lessee recognises both the liability and the asset consisting of the right of use.
In particular, the right of use acquired with a lease is measured as the sum of the present value of the future payments over the term of the contract, the lease payments made at or before the commencement date, the lease incentives received, if any, the initial direct costs and any estimated costs of dismantling or restoring the underlying asset.

Measurement criteria
Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.
The investment properties are measured with the fair value method.
For the property and equipment subject to assessment according to the revaluation model:
- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in the Statement of comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; conversely, in the case where an impairment loss on the same asset recognised previously in the income statement is recovered, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in the Statement of comprehensive income to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise, this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Bank's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:
- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.
If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.
With regard to the asset consisting of the right of use, recognised in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and subject to an impairment test if there are indicators of impairment.

Derecognition criteria
Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

7. Intangible assets

Classification criteria
Intangible assets consist of goodwill and other intangible assets governed by IAS 38. They may include the rights of use acquired under a lease and relating to the use of an intangible asset (for lessees) and assets leased under an operating lease (for lessors).
Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

Recognition and measurement criteria
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.
If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:
- technology-related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;
- customer-related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the fair value of shareholders' equity acquired and the purchase price of the equity investment is representative of the future income-generation potential of the equity investment.
If this difference is negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.
Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. The business operations carried out directly by the Parent Company falls under the Cash-generating units corresponding to Banca dei Territori and Corporate and Investment Banking. Therefore, goodwill is allocated to such divisions.

Derecognition criteria
Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

8. Other assets
Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

9. Non-current assets held for sale and discontinued operations and related liabilities
Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

10. Current and deferred tax
Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accrual's basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Bank due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which the Bank has requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.

Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Bank and those originated by other Group companies are managed separately from an administrative standpoint.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.
Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.
Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).
No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

11. Allowances for risks and charges

Allowances for risks and charges for commitments and guarantees given

This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.
This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

Post-employment benefits

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Other allowances

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.
Consequently, a provision is recognised when, and only when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

12. Financial liabilities measured at amortised cost

Classification criteria

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the Bank in the capacity of lessee in lease transactions.

Recognition criteria

Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.
Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.
Lease payables are recognised at the present value of the future lease payments, discounted using the implicit interest rate of the transaction or, where it cannot be determined, the marginal financing rate.

Measurement criteria

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method. An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.
Lease payables are remeasured when there is a lease modification (e.g. a change in the contract which is not accounted for/considered as a separate contract); the effect of the remeasurement will be a corresponding adjustment to the right-of-use asset.

Derecognition criteria
Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.
Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

13. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value separated from liabilities measured at amortised cost.
It also includes liabilities determined by short selling generated by securities trading activities.

Measurement criteria
All financial liabilities held for trading are measured at fair value through profit or loss.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

14. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

Recognition criteria
These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

Measurement criteria
These liabilities are measured at fair value according to the following rules established by IFRS 9:
- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

Derecognition criteria
The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

15. Foreign currency transactions

Initial recognition
Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

Subsequent measurement
At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

16. Other information

Own shares
Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Accruals, prepayments and deferrals
Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

Employee termination indemnities
Employee termination indemnities qualify as a “post-employment benefit” classified as:
- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan” to the extent of the portions of employee termination indemnities accrued until 31 December 2006. These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.
The plan’s costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments
Share-based payments are recorded in the income statement, with a corresponding increase in shareholders’ equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.
In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.
The combination of the two values supplies the fair value of the assigned instrument.
Any decrease in the number of financial instruments granted is accounted for as a cancellation of a portion of such instruments.

Employee benefits
Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:
- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and “extraordinary” benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Recognition of revenues and costs
Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:
- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;

- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:
- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:
- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  a) hedging interest-generating assets and liabilities;
  b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement when their distribution is approved, unless this date is not known or the information is not immediately available, in which case they may be recognised when they are collected;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

Use of estimates and assumptions in preparing financial reports

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.

The main cases for which subjective evaluations are required to be made by corporate management include:
- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;

For some of the types listed above, the main factors subject to estimates by the Bank and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:
- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:

   - o the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
   - o the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
   - o the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising Intesa Sanpaolo, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. The cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising Intesa Sanpaolo, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

The classification drivers for financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.

The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from

the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.
The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, Intesa Sanpaolo uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).
For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Intesa Sanpaolo Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

Business model
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:
- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Other/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.
In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.
In this regard, and in relation to the business models under which the financial assets are held, a specific set of "Business Model Rules" (approved by the competent levels of governance) has been drafted for the Parent Company and Banking Group Companies. It defines and sets out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of Intesa Sanpaolo's business structures. The initial structure of the document was approved by the Board of Directors, with a favourable opinion from the Risk Committee. In further detail, the mapping of the business model adopted by the various structures through which the Bank operates, with regard to both loans and receivables and debt securities, takes account of the structure of the division model and the Corporate Centre; this structure has been identified as the relevant level for formulating and representing the various business models applied by Intesa Sanpaolo's risk-taking centres.
Within the Chief Risk Officer Area, the Financial and Market Risks Head Office Department of the Bank provides high-level supervision of the procedure required for determining the business model within which a given set of assets is held and verifies the need for any updates (to be incorporated, at least annually, in the Business Model Rules document).

Monitoring of the business model
The monitoring of the reference business model of the various structures through which Intesa Sanpaolo operates is performed by the Financial and Market Risks Head Office Department, which uses indicators intended to verify the consistency of the declared strategy with that pursued within the business models; these indicators, differentiated for the various business models, have been developed in accordance with IFRS 9 and corporate rules and procedures.

For the Hold to Collect portfolios, Intesa Sanpaolo has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.
More specifically, within an HTC business model, sales are allowed:
- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold over the observation period and the average of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the average nominal value of the instruments held in the portfolio over the period considered, using a method, solely for the debt securities, that gives a higher weight to the sales of the most recently acquired positions.

If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).
In general, the criteria for the admissibility of sales of HTC portfolios are to be understood as applicable where not in conflict with what has been established at the level of the Risk Appetite Framework.

With regard to the determination of the "Risks" and the "Reporting" for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter and of internal policies in the area of market risk controls apply in principle, and measures are concurrently established for monitoring the consistency of the HTCS and Other/Trading business models.
With regard to the HTCS business model, IFRS 9 does not provide for the need for limits on the frequency or the value of the sales. However, Intesa Sanpaolo has established indicators for debt securities only in order to ensure that they are properly assigned to the chosen business model over time. These indicators are:
- The holding period, which measures the time for which a certain instrument has been held in portfolio;
- Turnover rate, which measures the speed with which positions in portfolio turn over during a predefined period of time.

Within the framework of the monitoring of the indicators set out above, limits and early-warning thresholds apply according to the overall strategies pursued by the HTCS portfolio.

Finally, with regard to debt or equity securities held for trading, a measure of the consistency of inclusion in the chosen business model applies, represented by the indicator of "expected average permanence" (so-called Vintage) which measures the observed holding period of all securities in portfolio..

The monitoring measures relating to the various business models are subject to regular reporting through technical committees.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.
The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or floating rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or floating) over the life of the loan. For financial assets/liabilities with a floating rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate, the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).
With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.
For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous recognition in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

Impairment of assets

Impairment of financial assets

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.

In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):

- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: which comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.
  The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.
  For details of the significance of the above for the classification of non-performing exposures, see Part A – Accounting Policies (General criteria) regarding the early adoption of the New Definition of Default, and Part E – Section 3 - Non-performing credit exposures in the Consolidated financial statements.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of “significantly increased” credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has “significantly increased” – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the “significant increase” in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) 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 forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those 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 are also considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk (“SICR”) is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.

The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.

The above-mentioned “relative” change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered “significant” (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (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.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.
The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In Intesa Sanpaolo, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional conservative margin specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 Intesa Sanpaolo refers to the plans at amortised cost for both loans and receivables and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, Intesa Sanpaolo has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.
In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;

- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.
The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.
In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:

- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.
Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.
The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the historical series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.
To capture the uncertainty in the estimation models and to prudently compensate for any potential lower explanatory power of some macroeconomic variables, when there are significant (best-case) deviations in the forecasts with respect to the TTC situation, a management overlay is applied, determined based on a process involving the Credit Risk and Pillar 2 Models Committee.
Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets
Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.

Non-performing loans classified as bad loans are subject to the following measurement methods:

- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular

information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:

- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the "probation period"). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the "NPL Plan", and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.

  For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

  In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.

  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not

reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;

- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

  Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the specific analytical measurements and based on a specific Add-On for statistical analytical measurements, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.
In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.

Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.
In compliance with the “NPL Guidance” the business strategies regarding NPL reduction are illustrated in the “NPL plan”, a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.
Where the “NPL plan” specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the “NPL plan” identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.

In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by Intesa Sanpaolo for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that Intesa Sanpaolo uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:
- uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- disposal of the loan;
- waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its Net Book Value.

Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs:
- when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in “bad loan” status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
- they have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of non-performing loans made by the Group.

Impairment of equity investments
At each balance sheet date the equity investments are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.
The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.
Qualitative indicators include:
- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:
- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.
The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.
For an illustration of the valuation techniques used to determine fair value, see Section A.4 – Information on fair value.
Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.
Value in use is determined by discounting future cash flows.

For controlling investments in subsidiaries, the single equity investments are not individually significant for the purposes of the impairment test in the Parent Company's financial statements, instead they are included in the impairment test of the Cash-Generating Units (CGU) conducted at consolidated level. The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. When an equity investment does not produce cash flows that are largely independent of the cash flows from other assets the impairment tests are conducted at CGU level, rather than at the individual investment level. Consequently, when the assets attributable to a subsidiary are included in a CGU that is broader than the equity investment itself, as described in more detail in the following chapter, the impairment test can only be conducted at this level and not at the level of individual subsidiary for which the accurate estimation of a value in use is not possible.

Impairment of non-financial assets
Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.
For property and equipment other than real estate and valuable art assets and intangible assets (other than those recognised following business combinations) it is assumed that the carrying amount normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.
As clarified in the discussion of "Property and equipment and intangible assets", Intesa Sanpaolo measures owner-occupied properties and valuable art assets according to the revaluation model; in this case, any impairment loss on a revalued asset must be treated as a decrease in the revaluation up to the relevant amount, after which any difference is taken to the income statement.
As described in Part A.4 Information on fair value - Fair value of real estate and valuable art assets, for owner-occupied properties each year a scenario analysis is conducted on trends in the real-estate market to assess whether there are any significant deviations in the value of the assets. If significant changes are identified (+ or - 10%), an updated appraisal is prepared to adjust the fair value of the asset to the valuations of the real estate market. If there are no significant differences, the value is redetermined through a new expert appraisal every two years for "trophy assets" (i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities) and every three years for other owner-occupied properties.
For the valuable art assets, the revaluation is carried out by means of a new expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation. If the annual monitoring identifies a possible positive or negative value deviation of more than 15% for individual works of artists in the bank's collections and comparable on the basis of objective criteria (size, technique, period of production, etc.), new appraisals are commissioned.

Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each reporting date to assess whether there is objective evidence that the asset may have been impaired.
Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.
Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.

The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. As stated, as these are the same CGUs identified at consolidated level, the assessment of the retention of goodwill and other assets with an indefinite life recorded in the Intesa Sanpaolo Group's financial statements is also valid with reference to the values recorded in the Parent Company's financial statements. Therefore, the assessment conducted at consolidated level with reference to the individual CGUs is used, after comparing the book value of the assets in the Parent Company's financial statements, without conducting, if the result is positive, a new test in the Parent Company's financial statements.
If, at consolidated financial statement level, an impairment loss needs to be recognised for a particular CGU, this write-down must be assigned to the assets that make up the CGU starting with goodwill. If the need to record an adjustment relates to a CGU that does not coincide with the associated legal entity, the write-down is assigned to the banking subsidiaries, after the elimination of the goodwill pertaining to the CGU recorded in the Parent Company's financial statements under a specific caption, on the basis of the respective fair values.
For a description of the criteria for the determination of the recoverable amount of the CGUs see the contents of Part A - Accounting policies, of the consolidated financial statements.

Business combinations

Business combinations are governed by IFRS 3.
The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.
To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.
IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.
The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.
The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.
In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see Section A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.
Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.
Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.
Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.
Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.
Moreover, as specifically required by IFRS 3, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.
If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.
Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.

The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.
The following are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business or transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the transactions (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.
Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.
Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.
According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, book value and interest income
No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income
No disclosure is required since no transfers were carried out between portfolios of financial assets in 2019.

A.3.3 Reclassified financial assets: change in business model and effective interest rate
No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.4 – INFORMATION ON FAIR VALUE

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

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

General fair value principles

The Bank governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, drawn up by the Financial and Market Risks Head Office Department.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The "Rules for the Measurement of Equity Investments", drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying. In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as 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.
The 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 Bank considers the principal market of a financial asset or liability to be the market in which the Bank generally operates.

The Bank 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.

In specific cases, regulated by the Fair Value Policy, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

General independent price verification principles

The Bank governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.

The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Art. 4, par. 1.70 and Art. 105, par. 8, the Bank governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.

The Bank has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

Within the IPV, the level I, II and III control functions have the following main responsibilities:
- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Bank level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:
- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities measured at fair value.

If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use valuation techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:
reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.
The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable.
Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

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 valuation techniques rather than the valuation techniques themselves.
The attachment “Fair Value Hierarchy” of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

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

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

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

- equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

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

With regard to the change in fair value level of financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo adopts the following guidelines.
For debt securities, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reporting date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reporting date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reporting date, some of the significant parameters used in determining fair value are not directly observable on the market. The transition from level 2 to level 1 occurs when, as at the reporting date, the presence of an active market, as defined by IFRS 13, has been identified. The transition from level 1 to level 2 occurs when the presence of an active market, as defined by IFRS 13, has not been successfully identified and the significant parameters used as inputs for the measurement technique are not directly observable on the market, as at the reporting date.
For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk-free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;

when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

Valuation of financial instruments

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 valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

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, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. This market data may be both elementary and derived data. In particular, the Fair Value Policy establishes the cut-off procedures and the collection of the contribution sources deemed adequate for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements 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.
The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Head Office 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.

Model Validation - Certification of valuation models

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.

The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:
- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring - Monitoring consistency of models over time

The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:
- repricing of contributed elementary instruments: verifying the model’s ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank’s Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.

The Independent Price Verification (IPV) process supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments

As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as “fair value adjustments”, which constitute an integral part of the fair value. These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They 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 particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Risk Management function. The introduction and release of the fair value adjustments depends on the factors described above. 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 the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company’s financial reports.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

- Valuation of non-contributed debt securities

  The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:
  - contributed and liquid debt securities of the same issuer;
  - credit default swaps on the same reference entity;
  - contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

  In any case, the different seniority of the security to be priced is considered with regard to the issuer’s debt structure.
  In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
  When applying the spread for the pricing of the non-contributed instrument, if the estimated ‘fair’ credit curve does not respect the same characteristics of the instrument, correction factors are considered.
  Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the “fair” credit spread component, to take account of the higher premium demanded by the

market compared to similar contributed securities.
Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, Intesa Sanpaolo's credit spread for the Bank's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

II· Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.
Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

III· Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".
b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Fair value adjustments").

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value, the Bank also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

IV. Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).
In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.
After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.

V. Valuation of non-contributed equities

Level 2 equities include:
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the “relative” models described above are not applicable in significant terms, and, therefore, “absolute” valuation models are used, include:
- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;

- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.
This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

VI. The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via a MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via a MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. The valuation of closed-end private equity and real estate funds

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:

- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund’s historical return; (iv) the fund’s return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund’s resulting risk profile, distinguishing between core, value added and opportunistic funds.

Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:

- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and Loans	Discounting Cash Flows	Credit Spread	-12	21	%	4,598	-3,891
ABSs	Discounting Cash Flows	Credit Spread	-7	20	%	3,137	-4,434
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-8,236	3,294
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,628	-2,901
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of Default (PD) based on counterparty's internal rating	B	BBB	internal rating	12	-14

A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

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

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-173	1 bp
FVTPL and FVTOCI securities and loans	Recovery rate	-329	-1%

A.4.3. Fair value hierarchy (Transfers between the different levels)

A description of the policy for determining when transfers occur between the different levels of fair value hierarchy (see IFRS 13, par. 95) is provided above.

A.4.4. Other information

In calculating the bCVA, the Bank considers the net positions in derivatives of each counterparty (see paragraph A.4.1 above for further details on the measurement of derivatives). For other cases, the Bank does not make use of the option provided in paragraph 48 of IFRS 13, which permits an entity “to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions”.

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Bank governs and defines the prudent value measurement of financial instruments through the Group’s Prudent Valuation Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The “Guidelines on Prudent Valuation of Financial Instruments”, once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The “Rules on Prudent Valuation of Financial Instruments” are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation means the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The Bank, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions designated at fair value. In particular the following AVAs are considered:
- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The “Rules on Prudent Valuation of Financial Instruments” outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation model as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

Measurement of real estate assets

The revaluation method applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.
For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

Valuation approach

IFRS 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.
The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of 3 main groups:

– “trophy assets”, i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
– “owner-occupied properties”;
– “investment properties”.

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.
The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards[39] which guarantee:

– determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
– compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.

– The Discounted Cash Flow Method: the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
– Comparative or Market Method: the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-core assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
– Direct capitalisation income approach: the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
– Investment Value (Worth): the Investment Value (Worth) is defined by the IVS as “the value of an asset to a particular owner or prospective owner for individual investment or operational objectives”. This definition is consistent with the provisions of the latest edition of the “RICS Valuation - Global Standards 2017” of the Royal Institution of Chartered Surveyors of the United Kingdom, where the Investment Value is defined as “the value of an asset to the owner or a prospective owner for individual investment or operational objectives”.
  The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.
  The Investment Value of these properties is determined on the basis of a 12+6 year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

Frequency of valuation

Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

[39] Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document “RICS Valuation – Global Standard 2017” (also known as the “Red Book”).

Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.
The following distinction is made for owner-occupied properties:

- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+/- 10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.
For investment properties, the value is determined on the basis of new appraisals each year.

Scenario analysis
As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period. In particular, for real estate located in Italy, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.
Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.

Real estate located abroad is grouped, for each country, into different clusters based on location and asset class. Specific market analyses are conducted based on local and national knowledge of the particular target real estate market.
The market study also takes account of the following macroeconomic drivers:

- analysis of economic data (unemployment rate, GDP per capita, inflation and consumer price index); these macroeconomic factors constitute the first economic analysis, supporting the real estate market forecasts;
- movement in average yield;
- movement in market rents;
- range of movement in unit values.

The above-mentioned market survey, together with a qualitative weighting of the macroeconomic key drivers is used to determine a range of percentage deviation from the last assessment carried out, which is compared with the target threshold set, identifying a synthetic percentage factor for each individual property, included in a single worksheet.

This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within a threshold and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.
The permitted variation threshold is +/-10%.
If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

Fair value of valuable art assets
The bank’s valuable art assets are also valued using the revaluation method, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.
Works of art included in the asset class “valuable art assets” are works of particular importance, recognised for their historic and artistic value by experts and in line with the ministerial guidelines, and particularly those set out in Ministerial Decree 537 of 6 December 2017 on the exportation of works of art, such as: the state of preservation, the historical importance of the artist, the importance of the work in terms of art criticism/history, illustrious origin, certain quality and attribution and the declaration of interest by the Italian government.

Valuation approach
The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts.

These values are obtained from online databases such as Artnet and Artprice, which list over 100 million works of art and monitor the results of leading Italian and international auction houses like Christie’s, Sotheby’s, Phillips, Dorotheum, Pandolfini, Wannenes, Il Ponte, and Finarte. These are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring galleries and art fairs.

More specifically, the following factors are significant for determining fair value.

The factors considered include historical-critical-artistic value, state of preservation and economic relevance are considered, as well as other factors (which may change over time, depending on the evolution and tastes of the market), such as the reputation of the museum hosting the artist’s work, the reputation of fairs/exhibitions/galleries/auction houses, the reputation of critics and collectors, and the quality of the communications concerning the artist’s work.

Once these factors have been identified, the fair value is determined comparing them firstly with artworks similar to those examined (in terms of technique, size, type of subject and state of preservation) by the same artist and from the same period, if available (this is more feasible for modern and contemporary works) and, secondly, with works by artists or schools and areas that are close in style, philosophy and importance in the same historical period. Where several similar artworks are available, average values are used to take account of price volatility.

In addition to considering the trends in auction trading, starting from the most recent trading, including an analysis of unsold transactions (which is a possible indicator of the loss of market value for the work/artist), the valuation also considers the interest measured by recent high-prestige exhibitions in internationally renowned museum facilities accompanied by specific publications.

In the area of ancient art, account is also taken of the declaration of interest (so-called "notification") which ties most of the ancient artworks in the collection to Italy and reduces their price with respect to the international market.

The pricing is also influenced by the importance of the buyers/sellers (e.g. prices paid by collectors or known investors may be more significant).

The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined and uses three methodological principles:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the half year: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

Frequency of valuation
For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

Scenario analysis
In order to identify and determine the changes in the market of the artworks being valued, market trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.
Scenario analyses are pivotal for monitoring the market trends for artworks similar to those owned by Intesa Sanpaolo, since there have been significant increases in the art market in recent years.
These developments are partly due to the global growth of new museum, corporate and individual collections (particularly in the Middle East, the Gulf states, China, South East Asia, the United States, and Europe), as well as the presence of a large group of buyers increasingly interested in art as an alternative form of investment.
With respect to the parameters used for valuation purposes, the growth and evolution of the market has aspects of interest that have a direct impact on the scenario analyses that are conducted regularly to monitor the trends.
In view of the above, a scenario analysis of the art market is conducted annually, based on an examination of the sector publications and the most authoritative annual reports produced by leading consulting firms (Deloitte Luxembourg & ArtTactic, Art & Finance Report) or other accredited banking groups (The Art Market 2019. An Art Basel & UBS Report). The analysis is assigned to experts with proven reliability, independence and professional expertise.

The "valuable art assets" are subject to monitoring of the prices of all the assets within this class.
This monitoring is carried out on a two-fold basis:

I· Monitoring of the market prices of the top artworks in terms of value held in ISP's collections, which represent 75% of the total value of the artworks included in the "valuable art assets" class, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the main world databases (Artprice, Artnet), whose analytics provide useful tools for monitoring prices;

II· Monitoring the performance of the art market in general, to identify trends and changes with respect to ISP's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the two main world databases (Artprice and Artnet); since the works of many artists in the ISP's collection very rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

The monitoring is carried out throughout the year and the related database is updated twice a year (May/June and October/November). The trend data is entered into the Artistic Heritage Management System of the Art, Culture and Historical Heritage Head Office Department.

If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% (for individual artworks or inventory items of artists in the ISP collections and comparable on the basis of objective criteria, such as size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

Quantitative information

A.4.5. Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: fair value by level

(millions of euro)

Assets / liabilities at fair value	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	3,730	16,881	2,362	3,127	15,468	7,283
a) Financial assets held for trading	*3,715*	*16,001*	*156*	*3,095*	*14,723*	*202*
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*18*	-	*24*	*5*	-	*47*
b) Financial assets designated at fair value	-	*195*	-	-	*198*	-
c) Other financial assets mandatorily designated at fair value	*15*	*685*	*2,206*	*32*	*547*	*7,081*
of which: Equities	-	*92*	*139*	-	*94*	*135*
of which: quotas of UCI	*15*	-	*959*	*12*	-	*920*
2. Financial assets designated at fair value through other comprehensive income	29,971	3,034	272	28,725	2,093	318
of which: Equities	*522*	*2,000*	*269*	*557*	*1,451*	*312*
3. Hedging derivatives	-	2,817	13	-	2,868	10
4. Property and equipment	-	-	4,963	-	-	4,419
5. Intangible assets	-	-	-	-	-	-
Total	**33,701**	**22,732**	**7,610**	**31,852**	**20,429**	**12,030**
1. Financial liabilities held for trading	433	15,942	71	599	13,864	97
2. Financial liabilities designated at fair value	-	1,914	-	-	1,821	-
3. Hedging derivatives	-	7,319	4	-	5,353	5
Total	**433**	**25,175**	**75**	**599**	**21,038**	**102**

In 2019 the transfers of liabilities between level 1 and level 2 pursuant to IFRS 13, par. 93, letter c) were not significant.

As at 31 December 2019, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of financial and credit derivative contracts amounted to a reduction of 161 million euro in positive fair value and a reduction of 21 million euro in negative fair value.

The aggregate of “Financial assets mandatorily measured at fair value” includes level 3 quotas of UCI of 352 million euro in interests held by the Bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

The aggregation of “Property and equipment” of 4,963 million euro relates to the criterion of revaluation of owner-occupied properties and valuable art assets and the fair value measurement of investment property.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**7,283**	**202**	**-**	**7,081**	**318**	**10**	**4,419**	**-**
2. Increases	**370**	**29**	**-**	**341**	**72**	**3**	**696**	**-**
2.1 Purchases	58	6	-	52	2	-	607	-
2.2 Gains recognised in:	136	14	-	122	46	3	24	-
2.2.1 Income statement	136	14	-	122	-	3	1	-
- of which capital gains	*127*	*14*	*-*	*113*	*-*	*4*	*1*	*-*
2.2.2 Shareholders' equity	-	X	X	X	46	-	23	-
2.3 Transfers from other levels	66	5	-	61	-	-	-	-
2.4 Other increases	110	4	-	106	24	-	65	-
3. Decreases	**-5,291**	**-75**	**-**	**-5,216**	**-118**	**-**	**-152**	**-**
3.1 Sales	-20	-13	-	-7	-6	-	-3	-
3.2 Reimbursements	-2,044	-	-	-2,044	-	-	-	-
3.3 Losses recognized in:	-38	-6	-	-32	-11	-	-26	-
3.3.1 Income statement	-38	-6	-	-32	-	-	-11	-
- of which capital losses	*-36*	*-6*	*-*	*-30*	*-*	*-*	*-11*	*-*
3.3.2 Shareholders' equity	-	X	X	X	-11	-	-15	-
3.4 Transfers to other levels	-37	-14	-	-23	-79	-	-	-
3.5 Other decreases	-3,152	-42	-	-3,110	-22	-	-123	-
4. Final amount	**2,362**	**156**	**-**	**2,206**	**272**	**13**	**4,963**	**-**

The captions of transfers between levels of “Financial assets measured at fair value through profit or loss” refer to transfers from level 3 for a total of 37 million euro and to level 3 for a total of 66 million euro.
The former are transfers of “Financial assets held for trading” from level 3 to level 1 involving quotas of UCI for 13 million euro and from level 3 to level 2 involving financial derivatives for 1 million euro, in addition to “Financial assets mandatorily measured at fair value” from level 3 to level 2 involving loans for 23 million euro.
The latter are transfers from level 2 to level 3 of “Financial assets mandatorily measured at fair value” involving loans for 61 million euro and “Financial assets held for trading” involving financial derivatives for 5 million euro.

The transfers of the quotas of UCI from level 3 to level 1 were undertaken due to the prevalence, in terms of percentage of NAV, of level 1 assets in a mix of investments by funds in which level 3 financial instruments do not exceed 40%; the transfers from level 3 to level 2 of loans and derivatives are to be attributed to the use of observable market parameters in measurement at fair value at 31 December 2019.
For derivative contracts, the transfers between levels are due to the changes in counterparty risk, considering that derivatives with non-performing counterparties are classified in level 3 of the fair value hierarchy, whereas for loans the classification is due to the use of unobservable market parameters in fair value measurement.

"Transfers to other levels" of “Financial assets measured at fair value through other comprehensive income” refer to transfers from level 3 to level 2 of equities held by the bank for 76 million euro and of loans for 3 million euro due to the effect of the use of parameters observable on the market in fair value measurement.

Transfers between fair value levels were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

The captions “Other decreases” and “Reimbursements” of “Financial assets mandatorily measured at fair value” are mainly attributable to the extinguishment of the Mandatory Redeemable Preferred Shares (MRPS) of Intesa Sanpaolo Holding International SA held by the Parent Company. Since the MRPS are not considered equity instruments in view of their mandatory redeemability, they had been classified among loans mandatorily measured at fair value. The MRPS were extinguished in 2019 by converting them into ordinary shares of Intesa Sanpaolo Holding International SA for 2.9 billion euro and by redeeming them for 2 billion euro.

The caption “Purchases” of “Property and equipment” primarily refers to increases relating to the business combinations undertaken during the year.

A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**97**	**-**	**5**
2. Increases	**4**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	1	-	-
2.2.1 Income statement	1	-	-
- of which capital losses	*1*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	2	-	-
2.4 Other increases	1	-	-
3. Decreases	**-30**	**-**	**-1**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-29	-	-1
3.3.1 Income statement	-29	-	-1
- of which capital gains	*-29*	-	*-1*
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-1	-	-
3.5 Other decreases	-	-	-
4. Final amount	**71**	**-**	**4**

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

A.4.5.4 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	31.12.2019				31.12.2018			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	439,933	739	342,015	106,057	409,602	1,040	291,640	118,518
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	469	-	58	411	672	-	-	672
Total	**440,402**	**739**	**342,073**	**106,468**	**410,274**	**1,040**	**291,640**	**119,190**
1. Financial liabilities measured at amortised cost	476,325	40,918	369,133	68,320	447,143	41,782	341,346	61,820
2. Liabilities associated with non-current assets	41	-	-	41	-	-	-	-
Total	**476,366**	**40,918**	**369,133**	**68,361**	**447,143**	**41,782**	**341,346**	**61,820**

Financial assets and liabilities

For assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Bank measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

– interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
– credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
– the cost of liquidity connected to credit.

For fixed-rate instruments, the cash flows are those envisaged by the contracts. For floating-rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.
The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.
The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or shorter than 12 months and residual maturity equal to or shorter than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - non-performing assets which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.
The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is usually intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy.
Also, in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.
Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with.
For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).
This difference shall be recognised in the income statement only when it arises from changes to the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of “on the book” transactions falling under the Bank's 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 bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.
In 2019 there were no significant amounts deferred in the balance sheet which are not attributable to risk factors or commercial margins.

Part B – Information on the Parent Company's balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

1.1 Cash and cash equivalents: breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
a) Cash	2,918	2,506
b) On demand deposits with Central Banks	3,095	4,857
Total	**6,013**	**7,363**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	3,697	373	2	3,090	1,353	4
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*3,697*	*373*	*2*	*3,090*	*1,353*	*4*
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	18	-	24	5	-	47
4. Loans	-	8	-	-	4	9
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	*8*	-	-	*4*	*9*
Total (A)	**3,715**	**381**	**26**	**3,095**	**1,357**	**60**
B. Derivatives						
1. Financial derivatives	-	15,217	130	-	13,243	142
1.1 trading	-	*15,217*	*130*	-	*13,243*	*142*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	403	-	-	123	-
2.1 trading	-	*403*	-	-	*123*	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**15,620**	**130**	**-**	**13,366**	**142**
Total (A+B)	**3,715**	**16,001**	**156**	**3,095**	**14,723**	**202**

The caption above includes the debt securities connected with securitisations for a total amount of approximately 188 million euro, relating to senior notes.

2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Cash Assets		
1. Debt securities	**4,072**	**4,447**
a) Central Banks	9	10
b) Public administration	2,334	2,228
c) Banks	1,194	1,279
d) Other financial companies	418	632
of which: insurance companies	-	-
e) Non financial companies	117	298
2. Equities	**-**	**-**
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non financial companies	-	-
d) Other issuers	-	-
3. Quotas of UCI	**42**	**52**
4. Loans	**8**	**13**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	9
of which: insurance companies	-	-
e) Non financial companies	8	4
f) Households	-	-
Total A	**4,122**	**4,512**
B. Derivatives		
a) Central counterparties	-	-
b) Other	15,750	13,508
Total B	**15,750**	**13,508**
TOTAL (A+B)	**19,872**	**18,020**

Amounts referring to "Quotas of UCI" mainly regard hedge fund positions.

2.3 Financial assets designated at fair value: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**-**	**195**	**-**	**-**	**198**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	195	-	-	198	-
2. Loans	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	-	-
2.2 Others	-	-	-	-	-	-
Total	**-**	**195**	**-**	**-**	**198**	**-**

The Bank has included in this category debt securities linked to financial instruments measured at fair value through profit and loss, such as financial derivatives. On the basis of the debt securities, no hedges were arranged through credit derivatives or similar instruments to mitigate the relevant credit risk.

The fair value measurement attributable to the measurement of credit risk of financial assets designated at fair value was a positive 2 million euro during the year and a cumulative 11 million euro.

2.4 Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**195**	**198**
a) Central Banks	-	-
b) Public administration	1	1
c) Banks	194	197
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
2. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**195**	**198**

2.5 Other financial assets mandatorily measured at fair value: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**288**	**411**	**-**	**291**	**408**
1.1 Structured securities	-	-	6	-	-	4
1.2 Other debt securities	-	288	405	-	291	404
2. Equities	**-**	**92**	**139**	**-**	**94**	**135**
3. Quotas of UCI	**15**	**-**	**959**	**12**	**-**	**920**
4. Loans	**-**	**305**	**697**	**20**	**162**	**5,618**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	305	697	20	162	5,618
Total	**15**	**685**	**2,206**	**32**	**547**	**7,081**

Debt securities include the securities connected with securitisation transactions for a total amount of approximately 617 million euro, of which 46 million euro is senior, 252 million euro is mezzanine and 319 million euro is junior.

The annual change in "Loans - Other" relates to the liquidation of the Mandatory Redeemable Preferred Shares (MRPS) of Intesa Sanpaolo Holding International SA held by the Parent Company, which were not considered equity instruments in view of their mandatory redeemability and were therefore classified as loans mandatorily measured at fair value. The MRPS were liquidated in 2019, partly through their conversion into ordinary shares of Intesa Sanpaolo Holding International SA and partly through their redemption.

2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Equities	**231**	**229**
of which: banks	-	-
of which: other financial companies	*3*	*4*
of which: non financial companies	*228*	*225*
2. Debt securities	**699**	**699**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	677	684
of which: insurance companies	*54*	*48*
e) Non financial companies	22	15
3. Quotas of UCI	**974**	**932**
4. Loans	**1,002**	**5,800**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	7	2
d) Other financial companies	432	5,385
of which: insurance companies	*25*	*24*
e) Non financial companies	558	408
f) Households	5	5
Total	**2,906**	**7,660**

The aggregate of quotas of UCI includes 352 million euro in interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

The aggregate of Loans includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Captions	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**29,449**	**795**	**3**	**28,168**	**627**	**2**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	29,449	795	3	28,168	627	2
2. Equities	**522**	**2,000**	**269**	**557**	**1,451**	**312**
3. Loans	**-**	**239**	**-**	**-**	**15**	**4**
Total	**29,971**	**3,034**	**272**	**28,725**	**2,093**	**318**

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

Debt securities include the securities connected with securitisation transactions for a total amount of approximately 58 million euro, of which 55 million euro is senior and 3 million euro is mezzanine.

Financial assets measured at fair value through other comprehensive income (sub-caption "Equities – Level 2) include the stakes in the capital of the Bank of Italy. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases made starting from 2015 and continuing in subsequent years, including 2019. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. In addition, the value of the investment was also supported by the use of an alternative method based on the discounting of future dividends deriving from the investment (DDM – "Dividend Discount Model"). Following the approach taken in the previous year, the use of level 2 inputs (direct transaction price) as the reference for determining fair value for the 2019 financial statements also resulted in the confirmation of level 2 in the fair value hierarchy.

The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 60 million euro.

3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Debt securities	**30,247**	**28,797**
a) Central Banks	-	-
b) Public administration	27,421	26,851
c) Banks	2,176	1,398
d) Other financial companies	467	460
of which: insurance companies	-	-
e) Non financial companies	183	88
2. Equities	**2,791**	**2,320**
a) Banks	2,169	1,816
b) Other issuers:	622	504
- other financial companies	186	108
of which: insurance companies	*3*	*5*
- non financial companies	436	396
- other	-	-
3. Loans	**239**	**19**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	239	19
f) Household	-	-
Total	**33,277**	**31,136**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	28,592	*5,404*	1,670	36	-9	-7	-35	-
Loans	237	-	2	-	-	-	-	-
Total 31.12.2019	**28,829**	***5,404***	**1,672**	**36**	**-9**	**-7**	**-35**	**-**
Total 31.12.2018	**28,791**	***8,818***	**32**	**35**	**-7**	**-**	**-35**	**-**
of which: purchased or originated credit-impaired financial assets	*X*	*X*	-	-	*X*	-	-	-

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

(millions of euro)

Items	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
A. Due from Central Banks	**10,456**	**-**	**-**	**-**	**10,456**	**-**	**32,111**	**-**	**-**	**-**	**32,111**	**-**
1. Time deposits	85	-	-	X	X	X	1	-	-	X	X	X
2. Compulsory reserve	10,370	-	-	X	X	X	32,109	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	1	-	-	X	X	X
4. Other	1	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**111,917**	**82**	**-**	**138**	**92,446**	**19,631**	**122,480**	**-**	**-**	**14**	**93,233**	**28,848**
1. Loans	111,492	82	-	-	92,168	19,631	122,178	-	-	-	92,967	28,848
1.1 Current accounts and on demand deposits	8,785	-	-	X	X	X	7,446	-	-	X	X	X
1.2. Time deposits	68,053	-	-	X	X	X	79,085	-	-	X	X	X
1.3 Other loans:	34,654	82	-	X	X	X	35,647	-	-	X	X	X
- Reverse repurchase agreements	*23,523*	-	-	*X*	*X*	*X*	*7,072*	-	-	*X*	*X*	*X*
- Finance leases	*5*	-	-	*X*	*X*	*X*	-	-	-	*X*	*X*	*X*
- Other	*11,126*	*82*	-	*X*	*X*	*X*	*28,575*	-	-	*X*	*X*	*X*
2. Debt securities	425	-	-	138	278	-	302	-	-	14	266	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	425	-	-	138	278	-	302	-	-	14	266	-
Total	**122,373**	**82**	**-**	**138**	**102,902**	**19,631**	**154,591**	**-**	**-**	**14**	**125,344**	**28,848**

The sub-caption "Other loans" includes operating loans, i.e. loans for operations connected to the provision of activities and financial services, with no credit facilities, for an amount of 43 million euro (32 million euro as at 31 December 2018). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	31.12.2019						31.12.2018					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
1. Loans	**288,318**	**12,836**	***312***	**-**	**227,534**	**83,486**	**230,123**	**11,048**	***506***	**-**	**156,848**	**87,880**
1.1.Current accounts	11,287	1,682	*1*	X	X	X	12,754	1,651	-	X	X	X
1.2. Reverse repurchase agreements	15,294	-	-	X	X	X	16,306	-	-	X	X	X
1.3. Mortgages	162,724	7,429	*309*	X	X	X	133,232	7,201	*506*	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	13,785	399	-	X	X	X	11,991	236	-	X	X	X
1.5. Finance leases	9,575	1,459	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	9,933	51	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	65,720	1,816	*2*	X	X	X	55,840	1,960	-	X	X	X
2. Debt securities	**16,283**	**41**	**-**	**601**	**11,579**	**2,940**	**13,796**	**44**	**-**	**1,026**	**9,448**	**1,790**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	16,283	41	-	601	11,579	2,940	13,796	44	-	1,026	9,448	1,790
Total	**304,601**	**12,877**	***312***	**601**	**239,113**	**86,426**	**243,919**	**11,092**	***506***	**1,026**	**166,296**	**89,670**

Loans to customers include loans disbursed on public funds under administration for which the Bank holds the risk in the amount of 74 million euro.

Debt securities include the securities connected with securitisations for a total amount of 1,731 million euro, of which 1,719 million euro is senior and 12 million euro is mezzanine. The senior notes included 1,255 million euro relating to the vehicle Kerma SPV S.r.l., to which a portfolio of loans classified as unlikely to pay (UTP) was sold pursuant to Law 130/99

under the partnership with Prelios entered into during the year. They also include debt securities of 5,886 million euro, connected with the securitisation of the vehicle Romulus Funding Corporation, included in the Group's scope of consolidation.
Credit-impaired financial assets mainly relate to positions included in securitisations deriving from the former Venetian banks.
During the year, as part of business combinations under common control, non-performing loans of 4,173 million euro were acquired, not recognised under "*of which: purchased or originated credit-impaired*".

The sub-caption "Other loans" includes operating loans, i.e. loans for operations connected to the provision of activities and financial services, with no credit facilities, for an amount of 576 million euro (468 million euro as at 31 December 2018). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Items	31.12.2019			31.12.2018		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*
1. Debt securities	**16,283**	**41**	**-**	***13,796***	***44***	***-***
a) Public administration	5,546	27	-	*5,667*	*25*	*-*
b) Other financial companies	9,727	-	-	*7,189*	*5*	*-*
of which: insurance companies	-	-	-	-	-	-
c) Non financial companies	1,010	14	-	*940*	*14*	*-*
2. Loans:	**288,318**	**12,836**	***312***	***230,123***	***11,048***	***506***
a) Public administration	13,044	237	-	*10,812*	*249*	*-*
b) Other financial companies	34,534	272	*5*	*32,430*	*239*	*8*
of which: insurance companies	*958*	-	-	*913*	-	-
c) Non financial companies	127,019	9,270	*169*	*87,960*	*7,917*	*352*
d) Households	113,721	3,057	*138*	*98,921*	*2,643*	*146*
TOTAL	**304,601**	**12,877**	***312***	***243,919***	***11,092***	***506***

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	11,634	*5,886*	5,142	100	-8	-60	-59	**-**
Loans	377,126	*104,092*	34,358	27,834	-438	-780	-14,916	**7,742**
Total 31.12.2019	**388,760**	***109,978***	**39,500**	**27,934**	**-446**	**-840**	**-14,975**	**7,742**
Total 31.12.2018	**369,292**	***120,252***	**30,496**	**24,469**	**-474**	**-804**	**-13,377**	**3,825**
of which: purchased or originated credit-impaired financial assets	*X*	*X*	*17*	*521*	*X*	*-1*	*-225*	**-**

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

SECTION 5 - HEDGING DERIVATIVES – CAPTION 50

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.
Derivatives are considered to be of fair value level 1 only if traded on organised markets.

5.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2019			Notional amount 31.12.2019	Fair value 31.12.2018			Notional amount 31.12.2018
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives								
1. Fair Value	-	2,817	13	61,296	-	2,868	10	52,051
2. Cash flows	-	-	-	100	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**2,817**	**13**	**61,396**	**-**	**2,868**	**10**	**52,051**

The fair values of the cash flow hedging derivatives are not material.

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions / Type of hedge	Fair Value							Cash-flow hedges		Foreign investm
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	65	-	1	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	19	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	11	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**84**	**-**	**1**	**-**	**-**	**-**	**11**	**-**	**-**	**-**
1. Financial liabilities	1,794	X	378	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	562	X	-	X
Total liabilities	**1,794**	**-**	**378**	**-**	**-**	**-**	**562**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to micro fair value hedges of liabilities issued, as well as macro fair value hedges of demand positions under liabilities (core deposits).

SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

6.1 Fair value change of hedged assets: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged assets / Amount	31.12.2019	31.12.2018
1. Positive fair value change	**1,526**	**77**
1.1 of specific portfolios:	1,526	77
a) financial assets measured at amortised cost	*1,526*	*77*
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative fair value change	**-**	**-**
2.1 of specific portfolios:	-	-
a) financial assets measured at amortised cost	-	-
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**1,526**	**77**

The balance of the changes in value of assets subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

The annual change in the positive adjustment of financial assets measured at amortised cost was due to the reduction in the benchmark rates used to determine the fair value of the assets hedged for interest rate risk.

SECTION 7 – EQUITY INVESTMENTS – CAPTION 70

7.1 Equity investments: information on equity interests

	Companies	Registered office	Place of business	% held	% votes available (a)
A. WHOLLY-OWNED SUBSIDIARIES					
1	AUTOSTRADE LOMBARDE S.p.A. (b)	Brescia	Brescia	55.78	
2	BANCA 5 S.p.A.	Milano	Milano	100.00	
3	BANCA COMERCIALA EXIMBANK S.A.	Chişinău	Chişinău	100.00	
4	BANCA IMI S.p.A.	Milano	Milano	100.00	
5	BANK OF ALEXANDRIA (c)	Cairo	Cairo	80.00	70.25
6	BANKA INTESA SANPAOLO D.D. (d)	Koper	Koper	48.13	
7	CIB BANK LTD	Budapest	Budapest	100.00	
8	CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Roma	Roma	72.50	
9	EURIZON CAPITAL SGR S.P.A.	Milano	Milano	100.00	
10	EXETRA S.P.A.	Milano	Milano	85.00	
11	FIDEURAM - INTESA SANPAOLO PRIVATE BANKING S.P.A.	Torino	Roma	100.00	
12	FIDEURAM VITA S.P.A.	Roma	Roma	80.01	
13	IMI FONDI CHIUSI SGR S.P.A.	Bologna	Bologna	100.00	
14	IMMIT - IMMOBILI ITALIANI S.R.L.	Torino	Torino	100.00	
15	IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Milano	Milano	100.00	
16	INTESA SANPAOLO AGENTS4YOU S.P.A.	Torino	Vicenza	100.00	
17	INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	Tirana	100.00	
18	INTESA SANPAOLO BANK IRELAND PLC	Dublin	Dublin	100.00	
19	INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Sao Paulo	Sao Paulo	99.90	
20	INTESA SANPAOLO CASA S.P.A	Milano	Milano	100.00	
21	INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Milano	Milano	100.00	
22	INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Milano	Milano	100.00	
23	INTESA SANPAOLO FORVALUE S.P.A	Milano	Milano	100.00	
24	INTESA SANPAOLO FUNDING LLC	Wilmington	New York	100.00	
25	INTESA SANPAOLO HIGHLINE S.R.L.	Torino	Torino	100.00	
26	INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	Luxembourg	Luxembourg	100.00	
27	INTESA SANPAOLO INNOVATION CENTER S.P.A.	Torino	Vicenza	99.98	
28	INTESA SANPAOLO PROVIS S.P.A.	Milano	Milano	100.00	
29	INTESA SANPAOLO RE.O.CO. S.P.A.	Milano	Milano	100.00	
30	INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Bucharest	Bucharest	99.73	
31	INTESA SANPAOLO SEC SA EN LIQUIDATION	Luxembourg	Luxembourg	100.00	
32	INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Sao Paulo	Sao Paulo	100.00	
33	INTESA SANPAOLO SMART CARE S.R.L.	Torino	Torino	51.01	
34	INTESA SANPAOLO VITA S.P.A.	Torino	Milano	99.99	
35	INTESA SEC S.R.L.	Milano	Milano	100.00	
36	ISP CB IPOTECARIO S.R.L.	Milano	Milano	60.00	
37	ISP CB PUBBLICO S.R.L.	Milano	Milano	60.00	
38	ISP OBG S.R.L.	Milano	Milano	60.00	
39	JOINT STOCK COMPANY BANCA INTESA (e)	Moscow	Moscow	46.98	
40	OOO INTESA REALTY RUSSIA	Moscow	Moscow	100.00	
41	PRAVEX BANK JOINT-STOCK COMPANY	Kiev	Kiev	100.00	
42	PRIVATE EQUITY INTERNATIONAL S.A.(f)	Luxembourg	Luxembourg	94.39	100.00
43	QINGDAO YICAI FUND DISTRIBUTION CO. LTD.	Qingdao	Qingdao	100.00	
44	RISANAMENTO S.P.A. (b) (e)	Milano	Milano	48.88	
45	SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.P.A. (b) (e)	Brescia	Brescia	0.05	
46	SRM STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	Napoli	60.00	25.00
B. COMPANIES SUBJECT TO JOINT CONTROL					
1	AUGUSTO S.R.L.	Milano	Milano	5.00	
2	COLOMBO S.R.L.	Milano	Milano	5.00	
3	DIOCLEZIANO S.R.L.	Milano	Milano	5.00	
4	IMMOBILIARE NOVOLI S.P.A.	Firenze	Firenze	50.00	

	Companies	Registered office	Place of business	% held	% votes available (a)
	C. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE				
1	ADRIANO LEASE SEC S.R.L. (g)	Conegliano	Conegliano	5.00	
2	AM INVESTCO ITALY S.P.A. (h)	Milano	Taranto	5.56	
3	APULIA FINANCE N. 4 S.R.L (g)	Conegliano	Conegliano	10.00	
4	AUTOSTRADA PEDEMONTANA LOMBARDA S.P.A.	Assago	Assago	17.37	
5	AUTOSTRADE BERGAMASCHE S.P.A.	Bergamo	Bergamo	7.31	
6	BANCOMAT S.P.A.	Roma	Roma	20.28	
7	BERICA ABS 3 S.R.L. (g)	Vicenza	Vicenza	5.00	
8	BRERA SEC S.R.L. (g)	Conegliano	Conegliano	5.00	
9	CAMFIN S.P.A.	Milano	Milano	6.85	10.70
10	CASSA DI RISPARMIO DI FERMO S.P.A.	Fermo	Fermo	33.33	
11	CLARIS FINANCE 2005 S.R.L. (g)	Roma	Roma	5.00	
12	COMPAGNIA AEREA ITALIANA S.P.A.	Roma	Fiumicino	27.49	
13	DESTINATION ITALIA S.P.A.	Milano	Milano	20.07	
14	EQUITER S.P.A.	Torino	Torino	32.88	
15	EUROMILANO S.P.A.	Milano	Milano	43.43	
16	EUSEBI HOLDINGS B.V.	Amsterdam	Amsterdam	47.00	
17	EXPERIENTIA GLOBAL S.A.	Lausanne	Basel	20.00	
18	FI.NAV. COMPARTO A - CREDITI	Roma	Roma	28.28	
19	FOCUS INVESTMENTS S.P.A.	Milano	Milano	8.33	25.00
20	FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L. (i)	Palermo	Torino	100.00	
21	FONDO PER LA RICERCA E L'INNOVAZIONE S.R.L. (i)	Torino	Torino	100.00	
22	FONDO SARDEGNA ENERGIA S.R.L. (i)	Cagliari	Cagliari	100.00	
23	INDACO VENTURE PARTNERS SGR S.P.A.	Milano	Milano	24.50	
24	INTRUM ITALY S.P.A.	Milano	Milano	49.00	
25	ISM INVESTIMENTI S.P.A.	Mantova	Mantova	27.36	
26	ITALCONSULT S.P.A.	Roma	Roma	10.00	
27	LEONARDO TECHNOLOGY S.R.L.	Milano	Milano	26.60	
28	MARKETWALL S.R.L.	Milano	Milano	33.00	
29	NETWORK IMPRESA S.P.A UNDER ARRANGEMENT WITH CREDITORS	Limena	Limena	28.95	
30	PIETRA S.R.L.	Milano	Milano	22.22	
31	PORTOCITTA' S.R.L.	Trieste	Trieste	25.00	
32	RAINBOW	Verona	Verona	43.20	
33	RCN FINANZIARIA S.P.A.	Mantova	Mantova	23.96	
34	SICILY INVESTMENTS S.A.R.L.	Luxembourg	Luxembourg	25.20	
35	SOLAR EXPRESS S.R.L.	Firenze	Firenze	40.00	
36	TRINACRIA CAPITAL S.A.R.L.	Luxembourg	Luxembourg	25.20	
37	BERICA 10 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
38	BERICA 5 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
39	BERICA 6 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
40	BERICA 8 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
41	BERICA 9 RESIDENTIAL MBS SRL IN LIQUIDATION	Vicenza	Vicenza	5.00	
42	BERICA ABS 2 S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
43	BERICA ABS S.R.L. IN LIQUIDATION (g)	Vicenza	Vicenza	5.00	
44	CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDATION)	Roma	Roma	38.49	
45	EUROPROGETTI & FINANZA S.R.L. IN LIQUIDATION	Roma	Roma	15.97	
46	INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDATION	Arquà Polesine	Arquà Polesine	20.00	
47	SVILUPPO INDUSTRIALE S.P.A. IN LIQUIDATION	Pistoia	Pistoia	28.27	

(a) 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.

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

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

(d) Minority shareholders are subject to a legal commitment to purchase the remaining 0.7% of share capital.

(e) Company included among significant equity investments as, in total, the Group holds a controlling share, or when the other requirements set forth by IFRS 10 occur.

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

(g) These are vehicles used for securitisation transactions within the Group.

(h) Intesa Sanpaolo enjoys veto rights in the shareholders' meetings and in board of directors' meetings on specific issues, including the dividend policy.

(i) Jessica Funds: the economic effects of the investments in equity and loans underlying the fund's operations will be borne in full by the EIB.

The illustration of the criteria and the methods for the definition of the scope of consolidation and the motivations which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

The fair value as at 31 December 2019 of the only listed equity investment, Risanamento S.p.A, amounted to 33 million euro.

7.2 Individually material equity investments: book value, fair value and dividends received

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.3 Individually material equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.4 Individually immaterial equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.5 Equity investments: annual changes

(millions of euro)

	31.12.2019	31.12.2018
A. Initial amount	**26,258**	**30,558**
B. Increases	**3,953**	**1,141**
B.1 purchases	953	670
of which business combinations	*344*	*60*
B.2 write-backs	18	-
B.3 revaluations	-	225
B.4 other changes	2,982	246
C. Decreases	**-5,800**	**-5,441**
C.1 sales	-5,715	-5,126
of which business combinations	-5,714	-4,816
C.2 impairment losses	-79	-296
C.3 write-downs	-	-
C.4 other changes	-6	-19
D. Final amount	**24,411**	**26,258**
E. Total revaluations	**251**	**251**
F. Total impairment losses	**-8,091**	**-11,353**

Sub-caption B.1 "Purchases" primarily includes the following transactions:

- subscription of a new issue of AT1 instruments by Banca IMI for 400 million euro;
- acquisition, as part of the merger of Cassa di Risparmio di Firenze S.p.A., of 75% of Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. for 223 million euro (which was in turn merged during the year);
- subscription of a share capital increase of Intesa Sanpaolo Provis S.p.A. for 90 million euro;
- increase in the equity investment in Intrum Italy S.p.A. for 67 million euro as a result of the merger of Caf S.p.A. and Gextra S.r.l. into that company;
- increase in the investment in the fund FI.NAV. Sub-fund A - Loans for 41 million euro, due to the offsetting of the sale price of a loan portfolio against the subscription price for units in the fund, for the same value. There was also a further increase in the equity investment of 29 million euro related to the shares acquired through the merger of Cassa di Risparmio in Bologna S.p.A. and Mediocredito Italiano S.p.A.;
- dedicated capital increase of 40 million euro, with the acquisition of 24,548,369 class A shares of Camfin S.p.A;
- purchase of shares in Qingdao Yicai Fund Distribution co. Ltd from Fideuram - Intesa Sanpaolo Private Banking S.p.A. and Eurizon Capital SGR for a total price of 22 million euro.

Sub-caption B.2 "Recoveries" relates almost entirely to Consorzio Bancario Sir S.p.A. (in liquidation). The recovery, justified by the elimination of the circumstances that had resulted in the impairment of the equity investment, realigns the value of the investment with the share of the company's shareholders' equity and its value in the Group's consolidated financial statements.

Sub-caption B.4 "Other changes" includes 2,946 million euro due to the conversion of the preference shares of Intesa Sanpaolo Holding International SA into ordinary shares. The preference shares were previously classed as a subordinated financial liability, shown under subordinated loans.

Sub-caption C.1 "Sales" essentially includes the following mergers finalised during the year:
- Mediocredito Italiano S.p.A. for 2,335 million euro;
- Cassa di Risparmio di Firenze S.p.A. for 1,196 million euro;
- Cassa di Risparmio in Bologna S.p.A. for 877 million euro;
- Intesa Sanpaolo Group Services S.c.p.A. for 508 million euro;
- Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. for 338 million euro;
- Banca Apulia S.p.A. for 212 million euro;
- Banca Prossima S.p.A. for 176 million euro;
- Caf S.p.A. for 65 million euro (merged into Intrum Italy S.p.A.).

Sub-caption C.2. "Impairment losses" refers to the impairment losses on the equity investments in Intesa Sanpaolo Provis S.p.A. for 57 million euro, Rainbow for 10 million euro, Risanamento S.p.A. for 6 million euro, Intesa Sanpaolo RE.O.CO. S.p.A. for 4 million euro and other minority equity investments for 2 million euro.

7.6 Commitments referred to investments in companies subject to joint control
For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.7 Commitments referred to investments in companies subject to significant influence
For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.8 Significant restrictions
For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.9 Other information
For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

Impairment tests of equity investments
As required under IAS/IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.
With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected, the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.
In particular, where impairment indicators were recorded with respect to investments in associates or companies subject to joint control, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively "fundamental" analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the need to recognise an impairment loss on the investment in the Rainbow Fund of around 10 million euro. In addition, a recovery of around 18 million euro was recognised for the investment in Consorzio Bancario Sir S.p.A. (in liquidation). The recovery, justified by the elimination of the circumstances which had led to the impairment of the equity investment in the past for much higher amounts, led to the realignment of the value of the investment with the share of the company's shareholders' equity, considered to be in line with its recoverable amount.
Individual investments in subsidiaries, while material as individual assets from an accounting standpoint, do not present independent cash flow generation and governance capacity, given the organisational model, which calls for CGUs larger than the individual legal entities. Accordingly, investments in subsidiaries are not individually material for the purposes of conducting impairment tests in the financial statements of the Parent Company, but rather are aggregated (along with the operating activities conducted directly by the Parent Company) into CGUs consistent with those identified at the level of the consolidated financial statements. This approach is tied to the organisational model applied by the Group. According to that

model, individual investments belonging to a given CGU are not capable of generating cash flows independently from the other investments. Therefore, their recoverable amounts cannot be calculated individually, as required by IAS 36.
In view of the consistency that must be preserved between the impairment tests conducted in the consolidated financial statements and the Parent Company's financial statements, in addition to the homogeneity of the composition of CGUs, the correlation between the items tested in the two sets of financial statements must be carefully considered: the goodwill attributed to the various CGUs in the consolidated financial statements and the Parent Company's financial statements partly reflects the goodwill associated solely with the Parent Company and partly the carrying amounts of investments in subsidiaries. The goodwill associated with the latter is implicit in the carrying amounts of the equity investments in the financial statements of the Parent Company and emerges in the consolidated financial statements following the consolidation process on the basis of the values determined during the purchase process pursuant to IFRS 3.
If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests on Cash Generating Units did not lead to the need to recognise in the consolidated financial statements impairment of goodwill. Accordingly, no impairment losses were recognised in relation to investments in subsidiaries.
Companies that did not present goodwill values in the consolidated financial statements but that closed 2019 with a loss were treated differently. For such companies, it was prudentially verified that the latter result was due to contingent or structural factors; from this analysis the need emerged to make some adjustments, aligning the carrying amount of the investment to the proportional share of equity of the subsidiaries. The impairment related to the equity investments held in Intesa Sanpaolo Provis (57 million euro), Intesa Sanpaolo Re.O.Co. (4 million euro) and Risanamento (6 million euro).

SECTION 8 – PROPERTY AND EQUIPMENT – CAPTION 80

(millions of euro)

Assets/Amounts	31.12.2019	31.12.2018
1. Property and equipment used in operations measured at cost	1,646	179
Of which – Property and equipment used in operations – Rights of use acquired under leases	*1,058*	-
2. Investment property measured at cost	-	-
3. Property and equipment used in operations, revalued	4,753	4,273
Of which – Property and equipment used in operations, revalued – Rights of use acquired under leases	-	*13*
4. Investment property measured at fair value	210	146
Of which – Investment property – Rights of use acquired under leases	-	*2*
5. Inventories of property and equipment governed by IAS 2	79	-
Total Property and equipment – Caption 80	**6,688**	**4,598**

8.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

Assets/Amounts	31.12.2019	31.12.2018
1. Property and equipment owned	**588**	**179**
a) land	-	-
b) buildings	-	-
c) furniture	144	122
d) electronic equipment	439	51
e) other	5	6
2. Rights of use acquired through the lease	**1,058**	**-**
a) land	-	-
b) buildings	1,043	-
c) furniture	-	-
d) electronic equipment	2	-
e) other	13	-
Total	**1,646**	**179**
of which: resulting from the enforcement of guarantees	-	-

Sub-caption 2. includes the rights of use acquired through leases following the entry into force of the new IFRS 16 from 1 January 2019.

8.2 Investment property: breakdown of assets measured at cost

There was no investment property measured at cost.

8.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

Assets/Amounts	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**4,753**	**-**	**-**	**4,260**
a) land	-	-	2,033	-	-	1,840
b) buildings	-	-	2,433	-	-	2,158
c) valuable art assets	-	-	287	-	-	262
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Rights of use acquired through the lease	**-**	**-**	**-**	**-**	**-**	**13**
a) land	-	-	-	-	-	4
b) buildings	-	-	-	-	-	9
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**4,753**	**-**	**-**	**4,273**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-

8.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

Assets/Amounts	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**210**	**-**	**-**	**144**
a) land	-	-	70	-	-	42
b) buildings	-	-	140	-	-	102
2. Rights of use acquired through the lease	**-**	**-**	**-**	**-**	**-**	**2**
a) land	-	-	-	-	-	1
b) buildings	-	-	-	-	-	1
Total	**-**	**-**	**210**	**-**	**-**	**146**
of which: resulting from the enforcement of guarantees	*-*	*-*	*6*	*-*	*-*	*-*

With regard to the provisions of IAS 40, paragraph 75, letters c), g) and h), there was no information worth mentioning.

8.5 Inventories of property and equipment governed by IAS 2: breakdown

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Inventories of property and equipment resulting from the enforcement of guarantees	**67**	**-**
a) land	-	-
b) buildings	67	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
2. Other inventories of property and equipment	**12**	**-**
Total	**79**	**-**
of which: measured at fair value less cost to sell	*-*	*-*

8.6 Property and equipment used in operations: annual changes

(millions of euro)

Captions	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount as at 31 December 2018	**1,844**	**2,263**	**1,268**	**1,837**	**262**	**61**	**7,535**
A.1 Total net adjustments	-	-96	-1,146	-1,786	-	-55	-3,083
A.2 Net carrying amount as at 31 December 2018	**1,844**	**2,167**	**122**	**51**	**262**	**6**	**4,452**
A.3 Changes in opening balances (FTA IFRS16)	-	957	-	-	-	-	957
A.4 Net carrying amount	1,844	3,124	122	51	262	6	5,409
B. Increases:	**213**	**744**	**50**	**543**	**26**	**20**	**1,596**
B.1 Purchases	204	670	50	541	25	20	1,510
of which: business combinations	*204*	*563*	*21*	*407*	*8*	*11*	*1,214*
B.2 Capitalised improvement costs	-	39	-	-	-	-	39
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	3	20	-	-	1	-	24
a) net equity	*3*	*19*	-	-	*1*	-	*23*
b) income statement	-	*1*	-	-	-	-	*1*
B.5 Positive foreign exchange differences	-	1	-	-	-	-	1
B.6 Transfer from investment property	1	7	X	X	X	X	8
B.7 Other changes	5	7	-	2	-	-	14
C. Decreases:	**-24**	**-392**	**-28**	**-153**	**-1**	**-8**	**-606**
C.1 Sales	-1	-1	-	-	-	-	-2
of which: business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-223	-23	-133	-	-8	-387
C.3 Impairment losses recognised in	-	-	-2	-	-	-	-2
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	*-2*	-	-	-	*-2*
C.4 Negative fair value differences recognised in	-4	-15	-	-	-1	-	-20
a) shareholders' equity	*-3*	*-11*	-	-	*-1*	-	*-15*
b) income statement	*-1*	*-4*	-	-	-	-	*-5*
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to:	-14	-23	-	-	-	-	-37
a) investment property	*-14*	*-22*	X	X	X	X	*-36*
b) non-current assets held for sale and discontinued operations	-	*-1*	-	-	-	-	*-1*
C.7 Other changes	-5	-130	-3	-20	-	-	-158
D. Net final carrying amount	**2,033**	**3,476**	**144**	**441**	**287**	**18**	**6,399**
D.1 Total net adjustments	-	-284	-1,285	-4,769	-	-64	**-6,402**
D.2 Gross final carrying amount	**2,033**	**3,760**	**1,429**	**5,210**	**287**	**82**	**12,801**
E. Measurement at cost	**1,236**	**1,639**	**-**	**-**	**79**	**-**	**2,954**

For the "Land", "Buildings" and "Valuable art assets" classed as used in operations, the Bank applies the revaluation model, whereas for the remaining property and equipment, it applies the cost method.

Sub-caption C.7 "Other changes" mainly consists of the early termination of lease contracts and the depreciation recorded during the year relating to the merger of the former Venetian banks, covered by the allowance for risks and charges set aside for this purpose.

Sub-caption "E - Measurement at cost" only contains property and equipment measured according to the revaluation model, in compliance with the instructions set out in Circular 262 of the Bank of Italy.

8.6 bis Of which - Property and equipment used in operations - Rights of use acquired under leases: annual changes

(millions of euro)

Captions	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount as at 31 December 2018	4	45	-	1	-	-	50
A.1 Total net adjustments	-	-36	-	-1	-	-	-37
A.2 Net carrying amount as at 31 December 2018	**4**	**9**	**-**	**-**	**-**	**-**	**13**
A.3 Changes in opening balances (FTA IFRS16)	-	957	-	-	-	-	957
A.4 Net carrying amount	4	966	-	-	-	-	970
B. Increases:	**1**	**328**	**-**	**3**	**-**	**19**	**351**
B.1 Purchases	1	327	-	2	-	19	349
of which: business combinations	*1*	*220*	-	*2*	-	*10*	*233*
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	1	-	-	-	-	1
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	-	-	-	1	-	-	1
C. Decreases:	**-5**	**-251**	**-**	**-1**	**-**	**-6**	**-263**
C.1 Sales	-	-	-	-	-	-	-
of which: business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-144	-	-1	-	-6	-151
C.3 Impairment losses recognised in	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to:	-	-1	-	-	-	-	-1
a) investment property	-	-	X	X	X	X	-
b) non-current assets held for sale and discontinued operations	-	*-1*	-	-	-	-	*-1*
C.7 Other changes	-5	-106	-	-	-	-	-111
D. Net final carrying amount	**-**	**1,043**	**-**	**2**	**-**	**13**	**1,058**
D.1 Total net adjustments	-	-135	-	-1	-	-6	**-142**
D.2 Gross final carrying amount	**-**	**1,178**	**-**	**3**	**-**	**19**	**1,200**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**

8.7 Investment property: annual changes

Captions	Lands	Buildings
A. Initial carrying amount as at 31.12.2018	**43**	**103**
A.3 Changes in opening balances (FTA IFRS16)	-	1
A.4. Initial carrying amount	43	104
B. Increases	**30**	**54**
B.1 Purchases	12	22
of which: business combinations	*12*	*22*
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	14	22
B.7 Other changes	4	10
C. Decreases	**-3**	**-18**
C.1 Sales	-	-1
of which: business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-6
C.4 Impairment losses	-	-
C5 Negative foreign exchange differences	-	-
C.6 Transfer to:	-1	-7
a) property used in operations	*-1*	*-7*
b) non-current assets held for sale and discontinued operations	-	-
C.7 Other changes	-2	-4
D. Final amount	**70**	**140**
E. Fair value measurement	**-**	**-**

Investment property is measured at fair value, in compliance with IAS 40.

8.7 bis Of which - Investment property - Rights of use acquired under leases: annual changes

(millions of euro)

Captions	Lands	Buildings
A. Initial carrying amount as at 31.12.2018	**1**	**1**
A.3 Changes in opening balances (FTA IFRS16)	**-**	**1**
A.4 Initial carrying amount	**1**	**2**
B. Increases	**1**	**2**
B.1 Purchases	1	2
of which business combinations	*1*	*2*
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from investment property	-	-
B.7 Other changes	-	-
C. Decreases	**-2**	**-4**
C.1 Sales	-	-
of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to:	-	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	-	-
C.7 Other changes	-2	-4
D. Final carrying amount	**-**	**-**
E. Fair value measurement	**-**	**-**

8.8 Inventories of property and equipment governed by IAS 2: annual changes

(millions of euro)

Captions	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	Total
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Initial carrying amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Increases	**-**	**72**	**-**	**-**	**-**	**13**	**85**
B.1 Purchases	-	48	-	-	-	13	61
- of which: business combinations	*-*	*48*	*-*	*-*	*-*	*8*	*56*
B.2 Recoveries	-	-	-	-	-	-	-
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	-	24	-	-	-	-	24
C. Decreases	**-**	**-5**	**-**	**-**	**-**	**-1**	**-6**
C.1 Sales	-	-3	-	-	-	-	-3
C.2 Impairment losses	-	-1	-	-	-	-1	-2
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-1	-	-	-	-	-1
D. Final amount	**-**	**67**	**-**	**-**	**-**	**12**	**79**

8.9 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2019 amounted to approximately 4 million euro.

SECTION 9 - INTANGIBLE ASSETS - CAPTION 90

9.1 Intangible assets: breakdown by type of asset

(millions of euro)

Captions	31.12.2019		31.12.2018	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**1,242**	**X**	**1,160**
A.2 Other intangible assets	**1,803**	**1,507**	**101**	**1,507**
A.2.1 Assets measured at cost	1,803	1,507	101	1,507
a) internally generated intangible assets	*1,603*	*-*	*-*	*-*
b) other assets	*200*	*1,507*	*101*	*1,507*
A.2.2 Assets measured at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**1,803**	**2,749**	**101**	**2,667**

Other intangible assets and goodwill with an indefinite useful life essentially reflect components from the purchase price allocation process, as per IFRS 3, as part of the merger by incorporation of Sanpaolo IMI into Banca Intesa finalised on 1 January 2007 and the subsequent business combinations under common control.

The sub-caption relating to internally generated Other Intangible Assets with a finite useful life refers to software licenses developed internally, mainly deriving from the merger of Intesa Sanpaolo Group Service S.c.p.A. into the Parent Company, as well as digital training. The sub-caption "other assets", on the other hand, comprises the software licenses purchased from external suppliers, in addition to the intangible assets identified under the purchase price allocation of the price paid for business combinations. IFRS 3 requires that an acquisition that is part of a business combination must be recognised using the purchase method and that the price paid must be allocated to the assets acquired and the liabilities assumed, measured at their respective fair values. The "intangibles" identified, which express the value of the relationships acquired, are amortised over the estimated duration of their benefit.

9.2 Intangible assets: annual changes

(millions of euro)

Captions	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Initial carrying amount	**7,247**	**-**	**-**	**1,789**	**2,009**	**11,045**
A.1 Total net adjustments	-6,087	-	-	-1,688	-502	-8,277
A.2 Net initial carrying amount	**1,160**	**-**	**-**	**101**	**1,507**	**2,768**
B. Increases	**141**	**2,097**	**-**	**175**	**-**	**2,413**
B.1 Purchases	141	1,344	-	175	-	1,660
- of which: business combinations	*141*	*1,344*	-	*121*	-	*1,606*
B.2 Increases of internally generated intangible assets	X	753	-	-	-	753
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	*X*	-	-	-	-	-
- income statement	*X*	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-59**	**-494**	**-**	**-76**	**-**	**-629**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-487	-	-50	-	-537
- Amortisation	*X*	*-485*	-	*-49*	-	*-534*
- Write-downs recognised in	-	*-2*	-	*-1*	-	*-3*
+ shareholders' equity	*X*	-	-	-	-	-
+ income statement	-	*-2*	-	*-1*	-	*-3*
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	*X*	-	-	-	-	-
- income statement	*X*	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-59	-1	-	-20	-	-80
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-6	-	-6	-	-12
D. Net final carrying amount	**1,242**	**1,603**	**-**	**200**	**1,507**	**4,552**
D.1 Total net adjustments	6,384	4,654	-	2,455	502	13,995
E. Gross final carrying amount	**7,626**	**6,257**	**-**	**2,655**	**2,009**	**18,547**
F. Measurement at cost	-	-	-	-	-	-

9.3 Intangible assets: other information

As at 31 December 2019, the commitments relating to investments in intangible assets, primarily software, amounted to around 27 million euro.

Information on intangible assets and goodwill

Intangible assets and goodwill recognised into the Intesa Sanpaolo balance sheet derive mainly from the merger between Banca Intesa and Sanpaolo IMI completed on 1 January 2007.
As illustrated in the consolidated report, on 19 December 2019, Intesa Sanpaolo also signed a strategic agreement in respect of payment systems, which provides for the transfer to Nexi, through the contribution to a Nexi subsidiary, for a value of 1,000 million euro, of the business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. Based on the provisions of IFRS 5, the goodwill attributable to the business line, as well as the specific intangible assets recognised in 2018, deriving from the acquisition from Nexi of acquiring contracts with customers of the former Venetian banks, were reclassified to discontinued operations. The goodwill attributable to the business line, estimated at around 59 million euro, was calculated, as envisaged by IAS 36, based on the proportion of the value of the business line that will be transferred out of the value of the CGU it is part of, in this case, Banca dei Territori.
In November 2019, the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo was also finalised, as envisaged by the 2018-2021 Business Plan. Following this operation, Leasing and Factoring operations for customers already classified as corporate customers were transferred from the Banca dei Territori CGU to the Corporate and Investment Banking CGU. Since the operation was an "internal" reorganisation, it did not change the overall value of the intangible assets recognised in the separate financial statements and had no effects in the income statement: the change simply led to a different attribution of the value of goodwill among the CGUs.
Please note that the goodwill associated with the acquiring business line, as well as that referring to leasing and factoring operations transferred to the Corporate and Investment Banking CGU differs in amount in the Consolidated Financial Statements and the Separate Financial Statements of Intesa Sanpaolo, considering the fact that in the Banca dei Territori CGU, the original CGU for both cases, the goodwill originally allocated differed between the two sets of financial statements.
Intangible assets include customer-related intangible assets, represented by the value of the insurance portfolio (for the value component attributable to distribution), whose value increased over the year, due to the merger by incorporation of Cassa di Risparmio in Bologna, in an amount of less than 1 million euro.
Intangible assets relating to asset management accounts (for the value components attributable to distribution), increased in 2019, due to the merger by incorporation of Banca Apulia.
Lastly, the value of goodwill also increased due to the mergers by incorporation, in 2019, of Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia and Cassa di Risparmio in Bologna.

Reference should be made to Part B – Information on the consolidated balance sheet – Assets of the consolidated financial statements for further details of the various components and measurement criteria.
The following table summarises the different values recorded for changes occurring during 2019.

(millions of euro)

	Financial statements as at 31.12.2018	Amortisation	Other changes (1)	Transfer of leasing and factoring business Mediocredito to Corporate and Investment Banking	Reclassification of the acquiring business line under discontinued operations	Financial statements as at 31.12.2019
BANCA DEI TERRITORI DIVISION						
- Asset management intangible assets-distribution	66	-6	5	-	-	65
- Insurance intangible assets - distribution	14	-3	-	-	-	11
- Brand name intangible	1,507	-	-	-	-	1,507
- Customer-related intangible	21	-1	-	-	-20	-
- Goodwill	1,160	-	141	-67	-59	1,175
CORPORATE AND INVESTMENT BANKING						
- Intangible brand name	-	-	-	-	-	-
- Goodwill	-	-	-	67	-	67
TOTAL	**2,768**	**-10**	**146**	**-**	**-79**	**2,825**
- Asset management intangible assets	66	-6	5	-	-	65
- Insurance intangible assets	14	-3	-	-	-	11
- Brand name intangible	1,507	-	-	-	-	1,507
- Customer-related intangible	21	-1	-	-	-20	-
- Goodwill	1,160	-	141	-	-59	1,242
DISCONTINUED OPERATIONS - ACQUIRING BUSINESS LINE	**-**	**-**	**-**	**-**	**79**	**79**
- Customer-related intangible	-	-	-	-	20	20
- Goodwill	-	-	-	-	59	59

(1) Other changes refer to:

- Insurance intangible: includes an amount below 1 million euro arising from the merger of Cassa di Risparmio in Bologna into Intesa Sanpaolo

- Asset management intangible: amount arising from the merger of Banca Apulia

- Goodwill: amount arising from the mergers of Cassa di Risparmio di Firenze and Cassa di Risparmio di Pistoia e della Lucchesia and Cassa di Risparmio in Bologna

The intangible assets with a finite life are originally measured by discounting the income margin cash flows over a period representing the residual life, contractual and estimated, of relationships existing at the time of the business combination. The brand name, an intangible asset linked to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.
For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under "190. Net adjustments to/recoveries on intangible assets") for a total of 10 million euro.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. For intangible assets with a finite useful life, impairment must be calculated each time there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.

Lastly, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows for the intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those deriving from later changes, improvements or developments since its acquisition. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others. This concept can also be applied in impairment testing of goodwill to calculate the value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3. As in previous financial statements, given the instability of the financial markets and the available market values for calculation of the recoverable amount, which generally remain depressed, values in use were used in the impairment tests for the 2019 financial statements.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2019.

Impairment testing of intangibles

Insurance portfolio

For the 2019 financial statements, the amortisation of the asset for the year was recognised to the income statement.
The amortisation for the year, which for the insurance portfolio is calculated on a variable basis corresponding to the residual lives of the policies, came to 3 million euro gross of the tax effect, equal to about 21% of the value of the asset recognised at the end of 2018.
The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since in 2019 the performance of the insurance business did not present any particular critical issues or indicators of impairment deriving from the performances of the various variables subject to constant monitoring on a periodic basis.

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation, in 2017 the intangible assets linked to Assets Under Management (AUM) deriving from the acquired Aggregate Set were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. Those intangible assets increased in 2019, following the merger by incorporation of Banca Apulia.
For the purpose of the impairment test as at 31 December 2019, no specific problems arose in relation to the strength of the value recorded, taking account of the fact, also specified above, that the valuation for the purpose of impairment testing should not be limited only to the cash flows deriving from the asset acquired, but should also take account of all the cash flows linked to the assets of the specific CGU, which were significantly higher than the new assets acquired.

Other intangible assets with a finite life

As part of the acquiring of payment card transactions connected to international networks (VISA and Mastercard), carried out by Nexi (former ICBPI Group) in favour of customers of the former Venetian banks, now customers of Intesa Sanpaolo, in 2018 the specific intangible asset attributable to the relationship with the customers was valued at an amount of 21 million euro, fully allocated to the Banca dei Territori CGU.
Considering the operation entailing the transfer to Nexi in 2020 of a larger business unit relating to all the acquisitions carried out by Intesa Sanpaolo, including those for customers of the customers of the former Venetian banks, the book value of the intangible assets was reclassified among discontinued operations pursuant to IFRS 5 and the strength of that value was verified for the purposes of impairment testing, based on the total price offered by Nexi, which broadly supports the carrying amount.
For more details, reference is made to Part B - Information on the Consolidated balance sheet – Assets.

Brand name

IFRS 3 considers the "brand name" a potential, marketing-related intangible asset, which may be recorded in the purchase price allocation process for business combinations.
For this purpose, please note that the term "brand" is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.
The value recorded in the Intesa Sanpaolo financial statements refers to the Sanpaolo IMI brand recognised at the time of the Banca Intesa-Sanpaolo IMI merger.
As this intangible asset has no independent cash flows, for impairment testing purposes for the 2019 financial statements, similarly to previous financial statements, it was included in the verification of the retention of goodwill for the various CGUs. No need for impairment was identified on the basis of the verification conducted.

Impairment testing of CGUs and goodwill

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them. In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs).
Specifically, the allocation of goodwill as at the date of the business combination takes into account the benefits produced by the synergies expected from the combination.
At the Intesa Sanpaolo Group level, the following CGUs have been identified:

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

For a description of the criteria relating to the definition of the Group's CGUs reference is made to Part B - Information on the Consolidated balance sheet – Assets. More specifically, goodwill recognised to the Intesa Sanpaolo financial statements has been allocated to the Banca dei Territori CGU and the Corporate and Investment Banking CGU.
As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.
Furthermore, as illustrated in the Accounting Policies, investments in subsidiaries are not treated, for impairment test purposes, as single assets to be individually subjected to testing. Considering the organisational model adopted by Intesa Sanpaolo, CGUs are defined without regard to the structure of legal entities, inasmuch as investments are aggregated, along with the operating activities performed directly by the Parent Company, into CGUs of greater size or different structure. Accordingly, the impairment test performed at the consolidated level is also relevant at the Parent Company's financial statements level.
For an illustration of impairment tests for this caption, reference should be made to Part B - Information on the consolidated balance sheet - Assets.
If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, no value adjustments were identified at the CGU level in the consolidated financial statements. Therefore, on the basis of the results of the impairment test conducted at the level of the consolidated financial statements, there was no need for adjustments recognised in the Parent Company's financial statements.

SECTION 10 – TAX ASSETS AND LIABILITIES – CAPTION 100 OF ASSETS AND CAPTION 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

(millions of euro)

	31.12.2019		31.12.2018	
Corresponding caption in income statement	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
A. Temporary deductible differences				
Adjustment to/Impairment of loans deductible in future years	4,010	523	3,130	403
of which pertaining to countries of foreign branches	*12*	-	*9*	-
Provisions for future charges	495	65	497	66
Higher tax value of equity investments, securities and other assets	129	57	142	61
Extraordinary charges for incentive-driven exit plans	261	51	242	47
Goodwill, trademarks and other intangible assets	4,045	799	3,979	786
Other	1,530	15	1,459	12
of which pertaining to countries of foreign branches	*4*	-	*4*	-
B. Taxable temporary differences				
Costs deducted off balance sheet	-	-	-	-
Capital gains in instalments	-	-	-	-
Lower tax value of equity investments, securities and other assets	49	2	51	5
Other	-	-	15	2
TOTAL (A-B)	**10,421**	**1,508**	**9,383**	**1,368**
Corresponding caption in Shareholders' equity	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
Cash flow hedge	347	68	316	62
Recognition of actuarial gains/losses	141	8	105	-
Financial assets measured at fair value	20	4	86	18
Property and equipment	17	3	-	-
TOTAL	**525**	**83**	**507**	**80**
Total deferred tax assets	**10,946**	**1,591**	**9,890**	**1,448**

Deductible temporary differences - "Other" include losses carried forward of 1,460 million euro.

10.2 Deferred tax liabilities: breakdown

(millions of euro)

	31.12.2019		31.12.2018	
Corresponding caption in income statement	**IRES (27,5%)**	**IRAP (5,56%)**	**IRES (27,5%)**	**IRAP (5,56%)**
A. Taxable temporary differences				
Costs deducted off balance sheet	473	88	401	73
Lower tax value of securities and other assets	151	13	284	35
of which pertaining to countries of foreign branches	-	-	-	-
Other	-	-	4	-
B. Temporary deductible differences				
Adjustment to/Impairment of loans deductible in future years	-	-	-	-
Higher tax value of securities and other assets	-	-	-	-
Other	-	-	-	-
TOTAL (A-B)	**624**	**101**	**689**	**108**
Corresponding caption in Shareholders' equity	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
Cash flow hedge	-	-	-	-
Recognition of actuarial gains/losses	-	-	-	-
Financial assets measured at fair value	15	5	31	12
Property and equipment	130	30	450	81
TOTAL	**145**	**35**	**481**	**93**
Total deferred tax liabilities	**769**	**136**	**1,170**	**201**

10.3 Changes in deferred tax assets (through profit or loss)

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Initial amount	**10,751**	**9,419**
2. Increases	**1,584**	**2,394**
2.1 Deferred tax assets recognised in the period	196	298
a) related to previous years	*20*	*7*
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	*176*	*291*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	100	1,204
2.4 Business combinations	1,288	892
3. Decreases	**-406**	**-1,062**
3.1 Deferred tax assets eliminated in the period	-302	-462
a) reversals	*-288*	*-440*
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) other	*-14*	*-22*
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-104	-600
a) changes into tax credits pursuant to Law no. 214/2011	-	*-397*
b) other	*-104*	*-203*
3.4 Business combinations	-	-
4. Final amount	**11,929**	**10,751**

Increases d) other refers to deductible temporary differences arising during the year, mainly connected to provisions for risks and charges.
Other increases refer to write-off of netting against deferred tax liabilities, applied as at 31 December 2018, amounting to 73 million euro.
Decreases a) reversals mainly refer to the elimination of deferred tax assets previously recorded in relation to provisions for risks and charges, as a result of their use during the year.
Other decreases b) other include 51 million euro attributable to the netting against deferred tax liabilities for the year.

10.3.1 Changes in deferred tax assets pursuant to Law 214/2011

(millions of euro)

Items	31.12.2019	31.12.2018
1. Initial amount	**7,437**	**7,172**
2. Increases	**830**	**662**
- of which: business combinations	830	662
3. Decreases	**-21**	**-397**
3.1 Reversals	-	-
3.2 Changes into tax credits	-	-397
a) from losses for the year	-	-
b) from fiscal losses	-	-397
3.3 Other decreases	-21	-
4. Final amount	**8,246**	**7,437**

10.4 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

Items	31.12.2019	31.12.2018
1. Initial amount	**797**	**619**
2. Increases	**187**	**493**
2.1 Deferred tax liabilities recognised in the period	75	83
a) related to previous years	*2*	*-*
b) due to changes in accounting criteria	*-*	*-*
c) other	*73*	*83*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	84	364
2.4 Business combinations	28	46
3. Decreases	**-259**	**-315**
3.1 Deferred tax liabilities eliminated in the period	-199	-34
a) reversals	*-2*	*-12*
b) due to changes in accounting criteria	*-*	*-*
c) other	*-197*	*-22*
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-60	-281
3.4 Business combinations	-	-
4. Final amount	**725**	**797**

Increases c) other refers to taxable temporary differences arising during the year, mainly relating to trademarks, goodwill and positive valuations of loans and receivables measured at fair value.
Other increases refer to write-off of netting against deferred tax assets applied as at 31 December 2018, amounting to 73 million euro.

Decreases c) other includes the release of 179 million euro of deferred tax liabilities previously recorded on the higher book values of real estate following the option to realign the related tax values, exercised by the Bank in compliance with the provisions of Art. 1, paragraph 948 of Law no. 145/2018 ("2019 Budget Act").
Other decreases include 51 million euro attributable to the netting against deferred tax assets for the year.

10.5 Changes in deferred tax assets (recorded in equity)

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Initial amount	**587**	**644**
2. Increases	**168**	**137**
2.1 Deferred tax assets recognised in the period	119	108
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*119*	*108*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
2.4 Business combinations	49	29
3. Decreases	**-147**	**-194**
3.1 Deferred tax assets eliminated in the period	-131	-156
a) reversals	*-131*	-156
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-16	-38
3.4 Business combinations	-	-
4. Final amount	**608**	**587**

Increases c) other refers to deductible temporary differences arising during the year, mainly connected with the results of measuring CFH derivatives and financial assets measured at fair value through other comprehensive income, as well as allocations to employee termination indemnity.
Decreases a) reversals mainly refer to the elimination of deferred tax assets previously recorded in relation to the fair value measurement of cash flow hedging derivatives (CFH) and financial assets measured at fair value through other comprehensive income following the adjustment of the valuation effects or the related realisation during the year.

10.6 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

Captions	31.12.2019	31.12.2018
1. Initial amount	**574**	**563**
2. Increases	**122**	**152**
2.1 Deferred tax liabilities recognised in the period	76	116
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*76*	*116*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
2.4 Business combinations	46	36
3. Decreases	**-516**	**-141**
3.1 Deferred tax liabilities eliminated in the period	-487	-85
a) reversals	*-86*	*-85*
b) due to changes in accounting criteria	-	-
c) other	*-401*	-
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-29	-56
3.4 Business combinations	-	-
4. Final amount	**180**	**574**

Increases c) other mainly refers to taxable temporary differences arising during the year connected with the measurement of financial assets measured at fair value through other comprehensive income.
Decreases c) other includes the release of deferred tax liabilities previously recorded on the higher book values of real estate following the option to realign the related tax values, exercised by the Bank in compliance with the provisions of Art. 1, paragraph 948 of Law no. 145/2018 ("2019 Budget Act").
As indicated in the accounting policies, with regard to current and deferred taxation, no provision is made in the financial statements for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.

Probability test on deferred taxation

For information concerning the probability test on deferred taxation, refer to the contents of Part B – Assets of the Notes to the consolidated financial statements.
The test performed at individual company and Group level showed a taxable base that was sufficient and adequate to allow recovery of the deferred taxes carried in the financial statements as at 31 December 2019.

10.7 Other information

There is no other information to be provided in addition to that already contained in this Section.

SECTION 11 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 110 OF ASSETS AND CAPTION 70 OF LIABILITIES

11.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Non-current assets held for sale		
A.1 Financial assets	325	658
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	11	14
of which: resulting from the enforcement of guarantees	-	-
A.4 Intangible assets	-	-
A.5 Other	-	-
Total A	**336**	**672**
of which measured at cost	336	14
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	658
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	49	-
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
of which: resulting from the enforcement of guarantees	-	-
B.6 Intangible assets	80	-
B.7 Other assets	4	-
Total B	**133**	**-**
of which measured at cost	133	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-
C. Liabilities associated with non-current assets held for sale		
C.1 Debts	-4	-
C.2 Securities	-	-
C.3 Other	-2	-
Total C	**-6**	**-**
of which measured at cost	-6	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-1	-
D.5 Other	-34	-
Total D	**-35**	**-**
of which measured at cost	-35	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-

As regards "Assets held for sale", the caption "Financial assets" includes the residual "high-risk" loans originating from the Aggregate Set of the former Venetian banks, reclassified as bad loans or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (for an amount of 140 million euro), the non-performing finance leases included under the sale agreement signed with Prelios, whose transfer will be completed during 2020 (for an amount of 127 million euro), and the receivables pertaining to the Montepegni business line (for an amount of 58 million euro), whose sale is planned by the end of the first quarter 2020.

"Property and equipment" included under "Assets held for sale", is mainly composed of single properties for which a preliminary sales agreement has been signed.

Liabilities associated with assets held for sale are comprised of liabilities linked to the sale of the Montepegni business line.

Discontinued operations and the related associated liabilities comprise the equity investments pertaining to the acquiring business line, which will be transferred to Nexi during 2020.

11.2 Other information

There is no other significant information to note as at 31 December 2019.

SECTION 12 – OTHER ASSETS – CAPTION 120

12.1 Other assets: breakdown

(millions of euro)

Captions	
Due from Group companies on fiscal consolidation	978
Amounts to be credited and items under processing	677
Invoices to be issued	630
Bank cheques drawn on third parties to be settled	345
Amounts to tax authorities	136
Accruals, prepayments and deferrals to be allocated	134
Cheques and other instruments held	121
Leasehold improvements	77
Other	642
TOTAL 31.12.2019	**3,740**
TOTAL 31.12.2018	**2,988**

As required by paragraph 116 *et. seq.* of IFRS 15, assets arising from contracts with customers, which are included under the sub-caption "Other" and "Invoices to be issued" amounted to 457 million euro (143 million euro at the end of 2018).

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

(millions of euro)

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**49,834**	**X**	**X**	**X**	**62,178**	**X**	**X**	**X**
2. Due to banks	**103,145**	**X**	**X**	**X**	**99,541**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	14,697	X	X	X	19,919	X	X	X
2.2 Time deposits	64,431	X	X	X	60,893	X	X	X
2.3 Loans	22,624	X	X	X	17,453	X	X	X
2.3.1 Repurchase agreements	*16,470*	*X*	*X*	*X*	*14,659*	*X*	*X*	*X*
2.3.2 Other	*6,154*	*X*	*X*	*X*	*2,794*	*X*	*X*	*X*
2.4 Debts for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	7	X	X	X	-	X	X	X
2.6 Other debts	1,386	X	X	X	1,276	X	X	X
Total	**152,979**	**-**	**91,216**	**62,056**	**161,719**	**-**	**104,683**	**56,116**

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Parent Company's financial statements.

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

(millions of euro)

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	**232,262**	**X**	**X**	**X**	**189,644**	**X**	**X**	**X**
2. Time deposits	**6,664**	**X**	**X**	**X**	**7,872**	**X**	**X**	**X**
3. Loans	**2,815**	**X**	**X**	**X**	**6,089**	**X**	**X**	**X**
3.1 Repurchase agreements	*1,495*	*X*	*X*	*X*	*4,783*	*X*	*X*	*X*
3.2 Other	*1,320*	*X*	*X*	*X*	*1,306*	*X*	*X*	*X*
4. Debts for commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
5. Lease liabilities	**1,057**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
6. Other debts	**5,139**	**X**	**X**	**X**	**4,927**	**X**	**X**	**X**
Total	**247,937**	**-**	**241,767**	**6,224**	**208,532**	**-**	**202,819**	**5,657**

Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Parent Company's financial statements.
Other debts include 398 million euro regarding the Claris, Berica and Apulia Finance securitisations and those that are part of the K-Equity programme.
For additional details, see Part E - Section C of the Notes to the Parent Company's financial statements.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

(millions of euro)

Transaction type/Amount	31.12.2019				31.12.2018			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	73,653	40,918	34,398	37	74,246	41,782	31,202	43
1.1 structured	*442*	-	*399*	*37*	*636*	-	*569*	*43*
1.2 other	*73,211*	*40,918*	*33,999*	-	*73,610*	*41,782*	*30,633*	-
2. other	1,756	-	1,752	3	2,646	-	2,642	4
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*1,756*	-	*1,752*	*3*	*2,646*	-	*2,642*	*4*
Total	**75,409**	**40,918**	**36,150**	**40**	**76,892**	**41,782**	**33,844**	**47**

1.4 Details of subordinated debts/securities

At the reporting date, Intesa Sanpaolo has subordinated securities issued of 9,386 million euro, while it has no subordinated debts to banks.

1.5 Details of structured debts

At the reporting date, Intesa Sanpaolo has structured debts totalling 220 million euro.

1.6 Lease payables

As at 31 December 2019, Intesa Sanpaolo has lease payables of 1,064 million euro, of which 152 million euro maturing within one year, 463 million euro maturing within 1 to 5 years and 449 million euro maturing in over 5 years.

Lease payables comprise 7 million euro referring to bank counterparties and 1,057 million euro to customer counterparties. These derive from the application of the new financial reporting standard IFRS 16 relating to "Leases", with effect from 1 January 2019.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

2.1 Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019					31.12.2018				
	Nominal or notional amount	Fair value			Fair Value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Due to customers	**429**	**433**	**-**	**-**	**433**	**595**	**599**	**-**	**-**	**599**
3. Debt securities	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**X**
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 Other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.2.2 Other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	**429**	**433**	**-**	**-**	**433**	**595**	**599**	**-**	**-**	**599**
B. Derivatives										
1. Financial derivatives	**X**	**-**	**15,507**	**71**	**X**	**X**	**-**	**13,736**	**97**	**X**
1.1 Trading	X	-	15,421	1	X	X	-	13,638	3	X
1.2 Fair value option	X	-	4	-	X	X	-	8	-	X
1.3 Other	X	-	82	70	X	X	-	90	94	X
2. Credit derivatives	**X**	**-**	**435**	**-**	**X**	**X**	**-**	**128**	**-**	**X**
2.1 Trading	X	-	435	-	X	X	-	128	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**15,942**	**71**	**X**	**X**	**-**	**13,864**	**97**	**X**
Total (A+B)	**429**	**433**	**15,942**	**71**	**X**	**595**	**599**	**13,864**	**97**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The changes in fair value recorded during the year due to the change in its own credit rating were negative by 32 million euro and related entirely to derivatives.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities held for trading.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

Intesa Sanpaolo has no structured debts classified under Financial liabilities held for trading.

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30

3.1 Financial liabilities designated at fair value: breakdown

(millions of euro)

Transaction type/Amount	31.12.2019					31.12.2018				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**1**	**-**	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	1	-	1	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
2. Due to customers	**4**	**-**	**4**	**-**	**4**	**5**	**-**	**5**	**-**	**5**
2.1 Structured	4	-	4	-	X	5	-	5	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
3. Debt securities	**1,850**	**-**	**1,909**	**-**	**1,850**	**1,850**	**-**	**1,816**	**-**	**1,850**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	1,850	-	1,909	-	X	1,850	-	1,816	-	X
Total	**1,855**	**-**	**1,914**	**-**	**1,855**	**1,855**	**-**	**1,821**	**-**	**1,855**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date

The Bank has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies under amounts "due to customers" and "due to banks", and life policies connected to social initiatives, managed by the Bank based on fair value, under amounts "due to customers".
"Debt securities" reported under "Other" refer to bond issues of the Bank fully subscribed by the subsidiary Banca IMI, which are part of operations relating to financial instruments among financial income statement measured at fair value through profit and loss, and specifically, to the reduction of volatility in the income statement deriving from measurement of the Funding Value Adjustment (FVA) included in the fair value measurement of derivative contracts. Considering the described accounting mismatch, the gains and losses referring to the measurement of their own credit rating included in the fair value measurement of the bond issues in question are recognised through profit and loss, not in equity.
The fair value changes attributable to the change in its own credit rating during the year were a negative 93 million euro, and are attributable to the aggregate of debt securities.

3.2 Breakdown of "Financial liabilities designated at fair value": subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities designated at fair value.

SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

4.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

Captions	Fair value 31.12.2019			Notional value	Fair value 31.12.2018			Notional value
	Level 1	Level 2	Level 3	31.12.2019	Level 1	Level 2	Level 3	31.12.2018
A) Financial derivatives	**-**	**7,319**	**4**	**111,035**	**-**	**5,353**	**5**	**102,980**
1) Fair value	-	5,775	4	105,391	-	3,906	5	96,208
2) Cash flows	-	1,544	-	5,644	-	1,447	-	6,772
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**7,319**	**4**	**111,035**	**-**	**5,353**	**5**	**102,980**

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions/Type of hedge	Fair Value							Cash flow		Foreign invest.
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	Foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	386	-	26	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	2,557	X	264	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	2,319	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**2,943**	**-**	**290**	**-**	**-**	**-**	**2,319**	**-**	**-**	**-**
1. Financial liabilities	131	X	71	-	-	-	X	12	X	X
2. Portfolio	X	X	X	X	X	X	25	X	1,532	X
Total liabilities	**131**	**-**	**71**	**-**	**-**	**-**	**25**	**12**	**1,532**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to macrohedging of fair value of loans disbursed and microhedging of fair value of loans and debt securities, as well as macrohedging of cash flow derivatives of portfolios of liabilities. These cash flow hedges refer to floating-rate securities used to fund fixed-rate investments.

SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50

5.1. Fair value change of financial liabilities in hedged portfolios: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged liabilities/Group members	31.12.2019	31.12.2018
1. Positive fair value change of financial liabilities	522	382
2. Negative fair value change of financial liabilities	-	-
Total	**522**	**382**

The balance of the changes in value of liabilities subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

SECTION 6 – TAX LIABILITIES – CAPTION 60

For information on this section, see Section 10 of Assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70

For information on this section, see Section 11 of Assets.

SECTION 8 – OTHER LIABILITIES – CAPTION 80

8.1 Other liabilities: breakdown

(millions of euro)

Captions	
Amounts to be credited and items under processing	2,606
Amounts to be credited and items under processing	1,530
Due to suppliers	1,097
Due to tax authorities	1,007
Amounts due to third parties	278
Due to social security entities	169
Accruals, prepayments and deferrals not allocated	165
Personnel charges	90
Due to Group companies on fiscal consolidation	39
Other	519
TOTAL 31.12.2019	**7,500**
TOTAL 31.12.2018	**6,352**

As required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers, which are included under the sub-caption "Accruals, prepayments and deferrals not allocated", amounted to 92 million euro, while at the end of 2018 they amounted to 87 million euro.

SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90

9.1 Employee termination indemnities: annual changes

(millions of euro)

Captions	31.12.2019	31.12.2018
A. Initial amount	**845**	**767**
B. Increases	**569**	**427**
B.1 Provisions in the year	13	12
B.2 Other	556	415
- of which business combinations	*269*	*231*
C. Decreases	**-357**	**-349**
C.1 Benefits paid	-136	-128
C.2 Other	-221	-221
- of which business combinations	-	-
D. Final amount	**1,057**	**845**
Total	**1,057**	**845**

C.1 refers to benefits paid during the year.

For greater detail on actuarial calculations, see Section 10.5 – Post employment defined benefit plans.

9.2 Other information

There is no information further to that already provided in the previous sections.

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100

10.1 Allowances for risks and charges: breakdown

(millions of euro)

Captions/Components	31.12.2019	31.12.2018
1. Allowances for credit risk associated with commitments and financial guarantees given	**385**	**350**
2. Allowances on other commitments and other guarantees given	**-**	**-**
3. Post-employment benefits	**206**	**223**
4. Other allowances for risks and charges	**2,509**	**2,861**
4.1 legal disputes	616	608
4.2 personnel charges	1,437	1,358
4.3 other	456	895
Total	**3,100**	**3,434**

The contents of 4 – Other allowances for risks and charges are illustrated in point 10.6 below.

10.2 Allowances for risks and charges: annual changes

(millions of euro)

Captions	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
A. Initial amount	**350**	**223**	**2,861**	**3,434**
B. Increases	**114**	**46**	**911**	**1,071**
B.1 Provisions in the year	79	5	466	550
B.2 Time value changes	-	3	6	9
B.3 Changes due to discount rate variations	-	-	4	4
B.4 Other	35	38	435	508
- of which business combinations	*35*	*19*	*429*	*483*
C. Decreases	**-79**	**-63**	**-1,263**	**-1,405**
C.1 Uses in the year	-79	-63	-1,042	-1,184
C.2 Changes due to discount rate variations	-	-	-	-
C.3 Other	-	-	-221	-221
- of which business combinations	-	-	-	-
D. Final amount	**385**	**206**	**2,509**	**3,100**

Other allowances for risks and charges include net provisions of 65 million euro to caption 170, letter b) of the income statement and net provisions to other income statement captions, for the residual amount.

10.3 Allowances for credit risk associated with commitments and financial guarantees given

(millions of euro)

Captions	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	**Total**
1. Commitments to disburse funds	40	32	48	120
2. Financial guarantees given	23	30	212	265
Total	**63**	**62**	**260**	**385**

10.4 Allowances on other commitments and other guarantees given

This caption is not filled in.

10.5 Post-employment defined benefit plans

1. Illustration of the characteristics of the funds and related risks

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 "Employee Benefits", is determined via the "projected unit credit method" by an independent actuary.

The defined benefit plans, in which Intesa Sanpaolo S.p.A. is jointly responsible, can be distinguished in:

- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:

- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service.

External funds include:

- the Intesa Sanpaolo Group Defined-Benefit Pension Fund "Fondo Pensione a Prestazione definita del Gruppo Intesa Sanpaolo", the new name given to the former Supplementary Pension Fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", identified as a collector of other "defined benefit" forms under the reorganisation and rationalisation of the existing pension schemes within the Intesa Sanpaolo Group, with protection of the rights of the (active and retired) subscribers. To this end, the "Fund" – in the virtually separated sections within Section A – has been assigned the asset captions contained in the financial statements of the pre-existing pension schemes, in order to ensure full coverage of the supplementary benefits. The Fund, an entity with legal status and independent asset management, includes several separate management assets and Intesa Sanpaolo is jointly responsible for: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the Sanpaolo IMI internal fund; current and retired employees of the Cassa di Risparmio di Bologna, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Complementary pension fund for the employees of the Banco di Napoli in 2004; current and retired employees of the Banca Popolare dell'Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell'Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of the former Carive internal Fund, transferred to the Fund on 1 January 2008; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A.; retired employees formerly enrolled in the Pension Fund for Key Managers, former Key Managers and entitled parties of former Comit; retired employees formerly enrolled in the "Casse del Centro" Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016; retired employees formerly enrolled in the Company Supplementary pension funds for Employees of the former Cassa di Risparmio di Prato, transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the Defined benefit plan of the former Cassa di Risparmio di Fabriano e Cupramontana, transferred to the Fund in question on 1 May 2018; employees and retired employees from the Supplementary pension fund for Employees of Istituto Bancario Sanpaolo di Torino, transferred to the Fund in question on 1 January 2019; and employees and retired employees from the Pension fund for Employees of Cassa di Risparmio di Padova e Rovigo, transferred to the Fund in question on 1 July 2019.

  It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;
- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank's employees in service as at 31 December 1990 and already enrolled in the former "contracted-out" fund.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was carried out in the second half of 2018 and continued during 2019: the subscriptions received in the current year led to a decrease in the obligation of around 39 million euro, partly covered by the Fund's assets (around 20 million euro) and partly through the use of Funds set up specifically for this purpose by the Bank, under the guarantee given (around 19 million euro).

On 26 July 2018, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Cariparo Pension Fund into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Turin) with effect from 1 July 2019. This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was completed in the first half of 2019 for an amount of 29 million euro, partly covered by the Fund's assets (around 9 million euro) and partly through the use of Funds set up specifically for this purpose by the co-obligated banks, under the guarantee given (around 20 million euro). Based on Article 4 of the Agreement, with effect from 1 July 2019, the capital amount of 17 million euro, including the reserves set aside by Intesa Sanpaolo, relating to the "beneficiaries" of the benefits of the Section for Retired Employees who did not accept the offer, was transferred to the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo a Prestazione Definita del Gruppo Intesa Sanpaolo".

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined, in order to satisfy the pension and profitability objectives as adequately as possible.

2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2019			31.12.2018		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**845**	**138**	**1,718**	**767**	**153**	**3,495**
Current service costs	1	2	4	3	2	4
Recognised past service costs	-	-	-	-	1	-
Interest expense	12	4	21	9	4	23
Actuarial losses due to changes in financial assumptions	53	21	118	-	-	14
Actuarial losses due to changes in demographic assumptions	1	-	35	2	-	-
Actuarial losses based on past experience	-	-	-	-	-	18
Positive exchange differences	-	7	-	-	-	1
Increases - business combinations	269	-	-	231	-	44
Participants' contributions	X	-	-	X	-	-
Actuarial profits due to changes in financial assumptions	-	-	-	-16	-9	-8
Actuarial profits due to changes in demographic assumptions	-	-	-	-	-	-35
Actuarial profits based on past experience	-	-	-30	-8	-	-22
Negative exchange differences	-	-	-	-	-1	-
Benefits paid	-136	-3	-122	-128	-6	-146
Decreases - business combinations	-	-	-	-	-	-
Curtailments of the fund	X	-	-78	X	-	-1,676
Settlements of the fund	X	-	-	X	-6	-
Other increases	233	-	1	182	-	6
Other decreases	-221	-	-	-197	-	-
Final amount	**1,057**	**169**	**1,667**	**845**	**138**	**1,718**

Liabilities of the defined benefit obligations pension plan	31.12.2019			31.12.2018		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	1,057	-	-	845	-	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	169	1,667	-	138	1,718

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average decline of 0.69% for the various maturities, compared to the previous year.

On the basis of actuarial calculations, the present value of the defined benefit obligations, excluding Employee termination indemnities, was as follows.

Internal plans:
- as said before, these refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.;

External plans:
- 723 million euro referred to the Intesa Sanpaolo Group Defined-Benefit Fund Pension Fund (of which 714 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 523 million euro referred to the Pension fund for employees of Cariplo, entirely contributed by Intesa Sanpaolo S.p.A.;
- 28 million euro referred to defined benefit plans at the New York branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 393 million euro referred to the Pension Fund of Cassa di Risparmio di Firenze, almost fully contributed by Intesa Sanpaolo S.p.A.

3. Information on the fair value of plan assets

(millions of euro)

Plan assets	31.12.2019		31.12.2018	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**109**	**1,572**	**118**	**2,543**
Return on assets net of interest	11	75	-7	-59
Interest income	3	19	3	21
Positive exchange differences	6	-	-	1
Increases - business combinations	-	-	-	16
Employer contributions	6	-	6	-
Participants' contributions	-	-	-	-
Negative exchange differences	-	-	-1	-
Decreases - business combinations	-	-	-	-
Benefits paid	-3	-122	-6	-146
Curtailments of the fund	-	-39	-	-808
Settlements of the fund	-	-	-4	-
Other changes	-	28	-	4
Final amount	**132**	**1,533**	**109**	**1,572**

The final amount of the internal plans, as said before, refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A..

The final amount of external plans was broken down as follows:
- 576 million euro relating to the Intesa Sanpaolo Group Defined-Benefit Fund Pension Fund;
- 514 million euro referred to the Pension fund for employees of Cariplo;
- 19 million euro referred to defined benefit plans at the New York branch;
- 424 million euro referred to the Pension fund of Cassa di Risparmio di Firenze.

(millions of euro)

Plan assets: additional information	31.12.2019				31.12.2018			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**70**	**53.2**	**231**	**15.0**	**56**	**52.0**	**194**	**12.0**
- of which level-1 fair value	70		211		56		176	
Mutual funds	**-**	**-**	**224**	**14.6**	**-**	**-**	**99**	**6.0**
- of which level-1 fair value	-		165		-		50	
Debt securities	**50**	**37.8**	**571**	**37.3**	**45**	**41.0**	**550**	**36.0**
- of which level-1 fair value	50		571		45		550	
Real estate assets and investments in real estate companies	**8**	**6.1**	**423**	**27.6**	**8**	**7.0**	**461**	**29.0**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**1.0**
- of which level-1 fair value	-		-		-		-	
Other assets	**4**	**2.9**	**84**	**5.5**	**-**	**-**	**258**	**16.0**
- of which level-1 fair value	-		-		-		-	
TOTAL	**132**	**100.0**	**1,533**	**100.0**	**109**	**100.0**	**1,572**	**100.0**

(millions of euro)

Plan assets: additional information	31.12.2019				31.12.2018			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**70**	**53.2**	**231**	**15.0**	**56**	**52.0**	**194**	**12.0**
- of which financial companies	70		57		56		46	
- of which non financial companies	-		174		-		148	
Mutual funds	**-**	**-**	**224**	**14.6**	**-**	**-**	**99**	**6.0**
Debt securities	**50**	**37.8**	**571**	**37.3**	**45**	**41.0**	**550**	**36.0**
Government bonds	50		361		45		389	
- of which investment grade	*50*		*361*		*45*		*386*	
- of which speculative grade	-		-		-		*3*	
Financial companies	-		109		-		70	
- of which investment grade	-		*78*		-		*42*	
- of which speculative grade	-		*31*		-		*28*	
Non Financial companies	-		101		-		91	
- of which investment grade	-		*75*		-		*51*	
- of which speculative grade	-		*26*		-		*40*	
Real estate assets and investments in real estate companies	**8**	**6.1**	**423**	**27.6**	**8**	**7.0**	**461**	**29.0**
Insurance business	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**1.0**
Other assets	**4**	**2.9**	**84**	**5.5**	**-**	**-**	**258**	**16.0**
TOTAL ASSETS	**132**	**100.0**	**1,533**	**100.0**	**109**	**100.0**	**1,572**	**100.0**

The difference between net defined benefit liabilities (Table 10.5.2) and the plan assets (Table 10.5.3) is recognised in the post-employment plans.

4. Description of the main actuarial assumptions

Actuarial assumptions	31.12.2019				31.12.2018			
	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate
EMPLOYEE TERMINATION INDEMNITIES	0.4%	X	2.7%	1.5%	1.1%	X	2.7%	1.5%
INTERNAL PLANS	2.0%	0.0%	1.9%	1.9%	2.9%	0.0%	2.2%	2.2%
EXTERNAL PLANS	1.2%	3.5%	2.6%	1.2%	1.7%	3.2%	2.7%	1.4%

(a) Net of career developments.

Starting from 2013, the Intesa Sanpaolo Group primarily uses the Eur Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, on the one hand, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation, on the other. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The Eur Composite AA curve is obtained daily from Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2019					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	1,007	1,109	166	173	1,579	1,764
Rate of wage rises	1,057	1,057	171	167	1,694	1,642
Inflation rate	1,088	1,025	170	168	1,738	1,600

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 10.5.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.
The average duration of the defined benefit obligation is 12.42 years for pension funds and 10 years for employee termination indemnities.

Any outflows to be made over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo") shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

6. Plans regarding more than one employer

The Group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Supplementary Pension Fund for the Employees of Banco di Napoli (now the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo").
The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI S.p.A. (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer into the Section A of the Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo" did not modify the guarantees and commitments undertaken by the parties in the past.

7. Defined benefit plans that share risks among entities under joint control

The Intesa Sanpaolo Group Defined-Benefit Fund "Fondo Pensione a Prestazione Definita del Gruppo Intesa Sanpaolo" and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.
The liabilities of each jointly responsible Company are determined by an Independent Actuary through the "projected unit credit method" and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.
Each jointly responsible company reports in this section, for each table, the total liabilities/assets of the Funds for which it is jointly responsible, highlighting at the bottom of said tables the liability/asset amount under their responsibility.

10.6 Allowances for risks and charges – Other allowances

(millions of euro)

Captions/Components	31.12.2019	31.12.2018
2. Other allowances		
2.1 legal disputes	616	608
2.2 personnel charges	1,437	1,358
incentive-driven exit plans	*991*	*1,022*
employee seniority bonuses	*112*	*93*
other personnel expenses	*334*	*243*
2.3 other risks and charges	456	895
Total	**2,509**	**2,861**

Other allowances refer to:

- Legal and tax disputes: the allowance was set up mainly to cover expected outlay for litigation, revocatory action and tax disputes;
- Personnel charges: the allowance includes charges for incentive-driven exit plans, employee seniority bonuses (calculated on the basis of actuarial assumptions) and provisions for bonuses and other outlays relating to employees;
- Other risks and charges: these refer to provisions to cover charges for integration of the former Venetian banks and other litigation charges.

SECTION 11 – REDEEMABLE SHARES – CAPTION 120

11.1 Redeemable shares: breakdown

This caption is not present for Intesa Sanpaolo.

SECTION 12 – PARENT COMPANY'S SHAREHOLDERS' EQUITY – CAPTIONS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and Treasury shares: breakdown

As at 31 December 2019, the Bank's portfolio amounts to 26,380,005 treasury shares fully paid in.
For information on this section, see point 12.3 below.

12.2 Share capital – Parent Company's number of shares: annual changes

	Ordinary
A. Initial number of shares	**17,509,356,966**
- fully paid-in	17,509,356,966
- not fully paid-in	-
A.1 Treasury shares (-)	**-16,230,033**
A.2 Shares outstanding: initial number	**17,493,126,933**
B. Increases	**4,180,057**
B.1 New issues	371,459
- for consideration	371,459
business combinations	*371,459*
conversion of bonds	-
exercise of warrants	-
other	-
- for free	-
in favour of employees	-
in favour of directors	-
other	-
B.2 Sale of treasury shares	3,807,723
B.3 Other	875
C. Decreases	**-13,958,570**
C.1 Annulment	-
C.2 Purchase of treasury shares	-12,393,958
C.3 Disposal of companies	-
C.4 Other	-1,564,612
D. Shares outstanding: final number	**17,483,348,420**
D.1 Treasury shares (+)	26,380,005
D.2 Final number of shares	**17,509,728,425**
- fully paid-in	17,509,728,425
- not paid-in	-

12.3 Share capital: other information

The share capital of the Bank as at 31 December 2019 amounted to 9,086 million euro, divided into 17,509,728,425 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in.

Entries made in accordance with IFRS 3 regarding the merger between Banca Intesa and SANPAOLO IMI, finalised on 1 January 2007, generated a reserve of 23,734 million euro as at 31 December 2019, equal to the difference between the acquisition cost of the Sanpaolo IMI Group and the nominal value of the shares issued to service the exchange. In the 2007 financial statements, it was reported under share premium reserve, based on the opinions expressed by legal experts. This reserve will be reported differently should the Law or Supervisory Authorities indicate a different solution.

Note that in 2019, the following changes in share capital occurred:

- an increase of 64,511 euro with the issue of 124,061 new ordinary shares, with no nominal value, assigned to shareholders of Cassa dei Risparmi di Pistoia e della Lucchesia as a share exchange as part of the merger by incorporation of said subsidiary into the Parent Company Intesa Sanpaolo.
- an increase of 128,647 euro with the issue of 247,398 new ordinary shares, with no nominal value, assigned to shareholders of Banca Apulia as a share exchange as part of the merger by incorporation of said subsidiary into the Parent Company Intesa Sanpaolo.

For the purpose of completeness, it is noted that during the year, as approved by the Shareholders' Meeting of 30 April 2019, the Share premium reserve now includes the reclassification of the total positive amount of 306,299,877 euro of the LECOIP Contribution Reserve, set up in relation to the investment plan based on financial instruments (LECOIP-Leveraged Employee Co-Investment Plan) for employees, launched in 2014 and concluded in 2018. The share premium reserve was also increased by a positive amount of 1,012,167 euro in relation to the assignment of shares to Key Managers.

12.4 Reserves: other information

Reserves amounted to 3,399 million euro and included: legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, Art. 7, par. 3, and Law 218 of 30 July 1990, Art. 7) and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated through mandatory allocation of at least one twentieth of net income for the year. Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.
Other reserves included reserves pertaining to international branches and other reserves set up in the past following specific legal provisions.
Valuation reserves amounted to 1,375 million euro and included reserves of financial assets measured at fair value through other comprehensive income, reserves for cash flow hedge derivatives, and revaluations of net defined benefit liabilities (assets), as well as legally-required revaluation reserves and revaluation reserves of properties and valuable art assets.
Note that in 2019, the following changes in the reserves occurred:

- allocation to the Extraordinary reserve of the residual income for 2018, equal to 222,727,057 euro, as per the resolution of the Ordinary Shareholders' Meeting of 30 April 2019;
- allocation to the Extraordinary Reserve of the total net negative amount of 829,527,618 euro relating to the merger and exchange differences arising from the cancellation of the shares of the subsidiaries incorporated during the year (Intesa Sanpaolo Group Services S.c.p.A., Cassa di Risparmio in Bologna S.p.A., Banca CR Firenze S.p.A., Cassa di Risparmio di Pistoia e della Lucchesia S.p.A., Banca Apulia S.p.A., Banca Prossima S.p.A., Mediocredito Italiano S.p.A., Intesa Sec. 3 S.r.l. and Intesa Sec NPL S.p.A.). In that regard, it should be noted that, pursuant to Art. 172, paragraph 5, of the Consolidated Law on Income Taxes, Reserves qualifying for deferred taxation will not be reconstituted for the merger surplus, as the prerequisites have not been met;
- the reclassification of the LECOIP Contribution Reserve, set up in relation to the investment plan based on financial instruments for employees, launched in 2014 and concluded in 2018, to Other reserves of the Share Premium Reserve, for the total negative amount of 306,299,877 euro;
- allocation to the Extraordinary reserve of the total net negative amount of 29,254,157 euro, mainly connected with the realignment of the IAS 19 revaluation reserve for the portion corresponding to the obligation extinguished following the acceptance of the voluntary lump-sum conversion offer formulated by the Bank to participants in the fund "Cassa di Previdenza del Personale della Cassa di Risparmio di Padova e Rovigo" and the fund "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino";
- allocation to Other reserves of the total net negative amount of 233,579,901 euro for the coupons paid to subscribers of the Additional Tier 1 instruments, net of the related taxes;
- recognition under Other reserves of the effects connected with the merger of Mediocredito Italiano S.p.A., carried out while maintaining consistency of the book values in the Consolidated Financial Statements of the Group, for a net negative amount of 22,355,370 euro;
- adjustment of the reserves for the Equity Settled Share Based Payment plans (named "LECOIP 2.0" and targeted to all employees) and the Performance-based Option Plan (named "POP" and reserved for the top management, Risk Takers and Key Managers of the Bank), for a total positive amount of 190,899,033 euro. In that regard, it is noted that the balance as at 31 December 2018 of said reserves was also reclassified to "principal" under Other reserves, for a total net positive amount of 50,143,106 euro;
- allocation to the Extraordinary reserve of the value of the treasury shares assigned to top management as part of the Group personnel incentive plans, for a negative amount of 37,233,211 euro;
- recognition under Other reserves pursuant to IFRS 2 of the fair value of the shares to be assigned to the top management as part of the equity settled plans reserved to them for a total positive amount of 57,984,482 euro;
- transfer to Other reserves of the Valuation reserves for the gains/losses realised on Financial assets measured at fair value through other comprehensive income and on Property and equipment measured at fair value, for a total net positive amount of 12,745,807 euro;
- allocation to the Extraordinary reserve of the dividends collected on treasury shares held, as well as forfeited dividends, for a total positive amount of 3,062,347 euro;
- other effects, for a total net positive amount of 512.897 euro.

(millions of euro)

	Amount as at 31.12.2019	Principal	Portion of net income	Portion subject to a suspended tax regime	Portion available (a)	Uses in the past three years
Shareholders' equity						
– Share capital	9,086	6,562	1,335	1,189	-	-
– Equity instruments	4,103	4,134	-31	-	-	-
– Share premium reserve (b)	25,233	11,115	11,921	2,197	A, B, C	3,409
– Legal reserve	2,065	520	1,545	-	A(1), B, C(1)	-
– Extraordinary reserve	1,172	61	1,111	-	A, B, C	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7, par. 3)	232	-	-	232	A, B(2), C(3)	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7)	302	-	-	302	A, B(2), C(3)	-
– Other reserves, of which:						
Legal Reserve Branches abroad	*16*	*-*	*16*	*-*	*A, B, C*	*-*
Reserve for contribution to LECOIP 2.0/POP incentive plans	*301*	*301*	*-*	*-*	*A*	*-*
Reserve for POP incentive plan novation agreement	*-160*	*-160*	*-*	*-*	*-*	*-*
IFRS 2 reserve for employee incentive scheme	*58*	*58*	*-*	*-*	*A*	*-*
Reserve for AT1 equity instruments coupons	*-668*	*-*	*-668*	*-*	*-*	*-*
Reserves: other	*81*	*-*	*78*	*3*	*A*	*-*
– Valuation reserves						
Revaluation reserve (Law 576 of 2/12/1975)	*4*	*-*	*-*	*4*	*A, B(2), C(3)*	*-*
Revaluation reserve (Law 72 of 19/3/1983)	*146*	*-*	*-*	*146*	*A, B(2), C(3)*	*-*
Revaluation reserve (Law 408 of 29/12/1990)	*9*	*-*	*-*	*9*	*A, B(2), C(3)*	*-*
Revaluation reserve (Law 413 of 30/12/1991)	*380*	*-*	*-*	*380*	*A, B(2), C(3)*	*-*
Revaluation reserve (Law 342 of 22/11/2000)	*457*	*-*	*-*	*457*	*A, B(2), C(3)*	*-*
FVOCI revaluation reserve	*93*	*-*	*93*	*-*	*(4)*	*-*
Property and equipment and intangible assets valuation reserve	*1,496*	*-*	*1,496*	*-*	*(4)*	*-*
CFH valuation reserve	*-847*	*-*	*-847*	*-*	*-*	*-*
Defined benefit plans valuation reserve	*-363*	*-*	*-363*	*-*	*-*	*-*
– Treasury shares	-61	-61	-	-	-	-
Total Capital and Reserves	**43,135**	**22,530**	**15,686**	**4,919**	(5)	-
Non-distributable portion (C)	8,206	-	-	-	-	-

(a) A = capital increase; B = loss coverage; C = distribution to shareholders.

(b) This reserve includes 23,734 million euro originating from the merger between Banca Intesa and Sanpaolo IMI, as a result of the application of IFRS 3 relating to business combinations. Pending the issue of legal measures concerning the classification of the reserve recognised in application of that accounting standard, the reserve is considered unavailable up to the amount of goodwill and intangible assets recognised in the financial statements.
It should be noted that, solely for the amount classified as suspended tax, if the reserve is used to cover losses, net income cannot be distributed unless the reserve is replenished or correspondingly reduced. In addition, if the suspended tax amount is distributed to shareholders, it contributes to the formation of the company income.
The reserve also includes an amount of 1,685 million euro, subject to taxation in the event of distribution as a result of the realignment of the tax values to the higher book values of some real estate assets in accordance with Article 1, paragraph 948, of Law 145/2018.

(c) The non-distributable portion mainly relates to the revaluation reserves, the valuation reserves established as a direct balancing entry to the fair value measurement of property and equipment, the reserve established under the LECOIP 2.0/POP long-term incentive plans, a portion of the share premium reserve, the other suspended tax reserves, the share of net income corresponding to the capital gains recognised in the income statement of the previous year, net of the related tax charge, arising from the application of the fair value measurement, pursuant to Article 6, paragraph 1, letter a) of Legislative Decree 38/2005, and the amount of the legal reserve corresponding to one-fifth of the share capital, pursuant to Article 2430 of the Italian Civil Code.

(1) May be used to increase capital (A) and for distribution to shareholders (C) for the portion exceeding one fifth of the share capital.

(2) In case of use of the reserve to cover losses, net income may not be distributed unless the reserve is integrated or correspondingly reduced.

(3) The reserve, if it is not recorded under shareholders' equity, may be reduced only in compliance with the provisions of par. 2 and 3 of art. 2445 of the Italian Civil Code. If it is distributed to shareholders, it is recorded in the Company's taxable income.

(4) The reserve is unavailable pursuant to art. 6 of Legislative Decree no. 38/2005.

(5) Pursuant to art. 47, par. 1 of the Combined Tax Regulations, the portion of net income includes retained earnings reserves for 4,208 million euro classified for tax purposes as capital reserves.

The valuation reserves have been included under retained earnings reserves given that these are either reserves destined to be reversed to the income statement at the time of sale or discharge of the corresponding assets or liabilities, i.e. reserves essentially similar to retained earnings reserves.

The proposal for allocation of net income for the year 2019 is reported in the specific separate chapter of these financial statements.

12.5 Equity instruments: breakdowns and annual changes

During 2019 this caption showed no changes. In 2017, Intesa Sanpaolo launched two Additional Tier 1 issues of, respectively, 1.25 billion euro and 750 million euro, targeted at the international markets. The standalone instruments have characteristics in line with CRD IV provisions.
In addition to these securities, two Additional Tier 1 instruments, one issued in 2016 for the amount of 1.25 billion euro and the other in 2015 for U.S.$1 billion targeted at the US and Canadian markets and with characteristics in line with CRD IV provisions, were launched.

12.6 Other information

There is no other information to be provided in addition to that already contained in this Section.

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those designated at fair value)

(millions of euro)

	Nominal value on financial release obligations and guarantees			31.12.2019	31.12.2018
	First stage	Second stage	Third stage		
1. Commitment to supply funds	**232,607**	**16,699**	**1,496**	**250,802**	**249,050**
a) Central Banks	1,267	-	-	1,267	1,175
b) Public Administration	3,403	3,542	-	6,945	6,871
c) Banks	68,029	2,453	9	70,491	83,380
d) Other financial companies	54,329	1,528	88	55,945	49,825
e) Non-financial companies	100,663	8,559	1,372	110,594	103,268
f) Families	4,916	617	27	5,560	4,531
2. Financial release guarantees	**48,330**	**4,430**	**747**	**53,507**	**56,516**
a) Central Banks	1	-	-	1	-
b) Public Administration	163	63	-	226	1,412
c) Banks	16,349	495	1	16,845	17,030
d) Other financial companies	2,238	259	5	2,502	2,652
e) Non-financial companies	29,335	3,587	736	33,658	35,120
f) Families	244	26	5	275	302

The "commitments to disburse funds" include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 199,834 million euro in 2019).

2. Other commitments and other guarantees given

This caption is not present for Intesa Sanpaolo.

3. Assets pledged as collateral of liabilities and commitments

(millions of euro)

Portfolios	31.12.2019	31.12.2018
1. Financial assets measured at fair value through profit or loss	95	885
2. Financial assets measured at fair value through other comprehensive income	16,091	21,721
3. Financial assets measured at amortised cost	126,064	102,780
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

4. Management and dealing on behalf of third parties

(millions of euro)

Type of service	31.12.2019	31.12.2018
1. Trading on behalf of customers		
a) Purchases	-	-
1. settled	-	-
2. to be settled	-	-
b) Sales	-	-
1. settled	-	-
2. to be settled	-	-
2. Portfolio management		
a) individual	-	-
b) collective	-	-
3. Custody and afministration of securities		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-	-
1. securities issued by companies included in the consolidation area	-	-
2. other securities	-	-
b) third party securities held in deposit	505,074	338,487
1. securities issued by companies included in the consolidation area	7,021	7,435
2. other securities	498,053	331,052
c) third party securities deposited with third parties	500,659	334,455
d) portfolio securities deposited with third parties	81,747	75,386
4. Other	**65,703**	**57,306**

Note regarding contractual clauses of financial payables
For details, reference should be made to the relevant section of the Notes to the Consolidated Financial Statements.

5. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	15,209	-	15,209	13,500	1,232	477	503
2. Repurchase agreements	37,697	-	37,697	37,371	326	-	3
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2019	**52,906**	**-**	**52,906**	**50,871**	**1,558**	**477**	**X**
TOTAL 31.12.2018	**35,899**	**-**	**35,899**	**34,020**	**1,373**	**X**	**506**

6. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2019 (f=c-d-e)	Net amount 31.12.2018
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	21,622	-	21,622	13,500	7,495	627	850
2. Repurchase agreements	2,188	-	2,188	2,123	65	-	18
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2019	**23,810**	**-**	**23,810**	**15,623**	**7,560**	**627**	**X**
TOTAL 31.12.2018	**28,282**	**-**	**28,282**	**22,073**	**5,341**	**X**	**868**

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar agreements" that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, Intesa Sanpaolo does not have any netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements.
In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRAs (for repurchase agreements).

With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2019.

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:
– the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
– the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/pledged as collateral";
– repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value.
– derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

7. Securities lending transactions

The banking service accessory securities lending, offered by Intesa Sanpaolo to customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract envisages transfer of the ownership exclusively of government securities, with the obligation for Intesa Sanpaolo to return them, paying a consideration amount as remuneration for their availability. The transaction has no speculative purposes. As at 31 December 2019, the collateral of transactions amounted to 85 million euro.

8. Disclosure on joint-control assets

Intesa Sanpaolo has no joint-control assets.

Part C – Information on the Parent Company's income statement

SECTION 1 – INTEREST – CAPTIONS 10 AND 20

1.1. Interest and similar income: breakdown

(millions of euro)

Captions	Debt securities	Loans	Other transactions	2019	2018
1. Financial assets measured at fair value through profit or loss	**111**	**21**	**-**	**132**	**102**
1.1 Financial assets held for trading	70	-	-	70	73
1.2 Financial assets designated at fair value	4	-	-	4	4
1.3 Other financial assets mandatorily measured at fair value	37	21	-	58	25
2. Financial assets measured at fair value through other comprehensive income	**136**	**2**	**X**	**138**	**211**
3. Financial assets measured at amortised cost	**181**	**7,250**	**X**	**7,431**	**7,034**
3.1 Due from banks	5	436	X	441	672
3.2 Loans to customers	176	6,814	X	6,990	6,362
4. Hedging derivatives	**X**	**X**	**-801**	**-801**	**-770**
5. Other assets	**X**	**X**	**13**	**13**	**30**
6. Financial liabilities	**X**	**X**	**X**	**369**	**429**
Total	**428**	**7,273**	**-788**	**7,282**	**7,036**
of which: interest income on impaired financial assets	-	*793*	-	*793*	*806*
of which: interest income on financial lease	-	*245*	-	*245*	-

Interest and similar income also include interest income on securities relating to repurchase agreements.
Interest income on impaired financial assets relate almost entirely to loans to customers and also include interest due to the passing of time, equal to 436 million euro (time value).
Lastly, the caption "Hedging derivatives" includes the differentials on hedging transactions, which adjust interest income recognised on hedged financial instruments.
"Financial liabilities" include interest on funding transactions with negative rates.

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

As at 31 December 2019, interest income on foreign currency financial assets amounted to 979 million euro.

1.3 Interest and similar expense: breakdown

(millions of euro)

Captions/Types	Debts	Securities	Other transactions	2019	2018
1. Financial liabilities measured at amortised cost	**1,020**	**1,732**	X	**2,752**	**3,017**
1.1 Due to Central Banks	87	X	X	87	72
1.2 Due to banks	685	X	X	685	598
1.3 Due to customers	248	X	X	248	209
1.4 Securities issued	X	1,732	X	1,732	2,138
2. Financial liabilities held for trading	**14**	**-**	**4**	**18**	**19**
3. Financial liabilities designated at fair value	**-**	**23**	**-**	**23**	**10**
4. Other liabilities and allowances	**X**	**X**	**31**	**31**	**3**
5. Hedging derivatives	**X**	**X**	**-328**	**-328**	**-663**
6. Financial assets	**X**	**X**	**X**	**378**	**399**
Total	**1,034**	**1,755**	**-293**	**2,874**	**2,785**
of which: interest expense on lease liabilities	*-19*	*-*	*-*	*-19*	*-*

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.
Lastly, the caption "Hedging derivatives" includes the differentials on hedging transactions, which adjust interest expense recognised on hedged financial instruments.
"Financial assets" include interest on lending transactions with negative rates.

1.4. Interest and similar expense: other information

1.4.1 Interest expense on foreign currency financial liabilities

Interest and similar expense as at 31 December 2019 included 820 million euro relative to financial liabilities in foreign currency.

1.5. Differentials on hedging transactions

(millions of euro)

Captions	2019	2018
A. Positive differentials on hedging transactions	1,589	2,344
B. Negative differentials on hedging transactions	-2,062	-2,451
C. Balance (A-B)	**-473**	**-107**

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

Type of service/Amounts	2019	2018
a) guarantees given	**300**	**296**
b) credit derivatives	**-**	**-**
c) management, dealing and consultancy services	**2,253**	**2,077**
1. trading in financial instruments	-	1
2. currency dealing	45	40
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	44	39
5. depositary bank	10	9
6. placement of securities	1,033	942
7. reception and transmission of orders	81	59
8. consultancy services	34	6
8.1. on investments	*34*	*6*
8.2. on financial structure	-	-
9. distribution of third party services	1,006	981
9.1. portfolio management	*123*	*131*
9.1.1. individual	*123*	*131*
9.1.2. collective	-	-
9.2. insurance products	*824*	*777*
9.3. other products	*59*	*73*
d) collection and payment services	**375**	**325**
e) servicing related to securitisations	**-**	**-**
f) services related to factoring	**87**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading facilities	**-**	**-**
i) management of current accounts	**1,076**	**974**
j) Other services	**1,007**	**894**
Total	**5,098**	**4,566**

J) other services recorded fees on credit and debit cards of 406 million euro, commissions on loans of 494 million euro and commissions on sundry services rendered to customers and banks of 107 million euro.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income include the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.
In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 21 million euro.

2.2 Fee and commission income: distribution channels of products and services

(millions of euro)

Channels/Amounts	2019	2018
a) Group branches	**2,036**	**1,869**
1. portfolio management	-	-
2. placement of securities	1,031	941
3. third party services and products	1,005	981
b) "Out-of-Branch" offer	**3**	**-**
1. portfolio management	-	-
2. placement of securities	2	-
3. third party services and products	1	-
c) Other distribution channels	**-**	**1**
1. portfolio management	-	-
2. placement of securities	-	1
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts	2019	2018
a) Guarantees received	**113**	**76**
b) Credit derivatives	**10**	**6**
c) Management, dealing and consultancy services	**41**	**31**
1.trading in financial instruments	1	1
2. currency dealing	3	3
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third party portfolio	-	-
4. custody and administration of securities	35	26
5. placement of financial instruments	-	-
6. "out-of-branch" offer of financial instruments, products and services	2	1
d) Collection and payment services	**87**	**84**
e) Other services	**359**	**431**
Total	**610**	**628**

E) Other services includes 17 million euro fees on credit and debit cards, 171 million euro fees on credit cards and use of international circuits, 2 million euro securities lending operations and 169 million euro other services rendered by banks.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income include the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers in the amount of 39 million euro.
In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 6 million euro.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2019		2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	3	5	7	12
C. Financial assets measured at fair value through other comprehensive income	43	-	31	-
D. Investments in associates and companies subject to joint control	2,093	-	3,441	-
Total	**2,139**	**5**	**3,479**	**12**

C. Financial assets measured at fair value through other comprehensive income includes 2 million euro of dividends distributed by SIA S.p.A., a company sold during the year.

D – Equity investments includes the dividends distributed by:
- Fideuram – Intesa Sanpaolo Private Banking S.p.A. for 810 million euro;
- Eurizon Capital SGR S.p.A. for 479 million euro;
- Banca Imi S.p.A. for 300 million euro, including 108 million euro relating to Tier 1 subordinated instruments;
- Intesa Sanpaolo Holding International S.A. for 210 million euro;
- Intesa Sanpaolo Vita S.p.A. for 105 million euro;
- Bank of Alexandria for 69 million euro;
- Private Equity International S.A. for 50 million euro;
- CIB Bank LTD for 31 million euro;
- Intesa Sanpaolo Bank Ireland Plc. for 27 million euro;
- other equity investments for 12 million euro.

SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

4.1 Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial trading assets	**26**	**48**	**-13**	**-16**	**45**
1.1 Debt securities	25	47	-11	-16	45
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	1	1	-2	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-3**	**-**	**-3**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-3	-	-3
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**33**
4. Derivatives	**5,475**	**7,312**	**-5,895**	**-6,753**	**-36**
4.1 Financial derivatives:	5,144	7,131	-5,538	-6,594	-32
- on debt securities and interest rates	*4,897*	*6,423*	*-5,296*	*-5,886*	*138*
- on equities and stock indexes	*25*	*23*	*-19*	*-24*	*5*
- on currencies and gold	*X*	*X*	*X*	*X*	*-175*
- other	*222*	*685*	*-223*	*-684*	*-*
4.2 Credit derivatives	331	181	-357	-159	-4
of which: natural hedging associated with the fair value option	*X*	*X*	*X*	*X*	*-*
Total	**5,501**	**7,360**	**-5,911**	**-6,769**	**39**

"Net result" includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

5.1 Fair value adjustments in hedge accounting: breakdown

(millions of euro)

Income component/Amount	2019	2018
A. Income from:		
A.1 fair value hede derivatives	420	531
A.2 financial assets hedged (fair value)	2,571	323
A.3 financial liabilities hedged (fair value)	130	880
A.4 cash flow hedge: derivatives	-	-
A.5 currency assets and liabilities	-	-
Total income from hedging (A)	**3,121**	**1,734**
B. Expenses for		
B.1 fair value hedge derivatives	-1,938	-1,164
B.2 financial assets hedged (fair value)	-595	-109
B.3 financial liabilities hedged (fair value)	-625	-483
B.4 cash flow hedge: derivatives	-	-
B.5 currency assets and liabilities	-	-
Total expense from hedging (B)	**-3,158**	**-1,756**
C. Fair value adjustments in hedge accounting (A - B)	**-37**	**-22**
of which: fair value adjustments in hedge accounting on net positions	**-**	**-**

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the table "5.1 Fair value adjustments in hedge accounting: breakdown", contains no amounts in the row "of which: profits (losses) on hedges of net positions" envisaged for parties that apply IFRS 9 also to hedges.

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2019			2018		
	Profits	Losses	Net result	Profits	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	92	-118	-26	20	-84	-64
1.1 Due from banks	*-*	*-2*	*-2*	*12*	*-1*	*11*
1.2 Loans to customers	*92*	*-116*	*-24*	*8*	*-83*	*-75*
2. Financial assets measured at fair value through other comprehensive income	223	-8	215	246	-31	215
2.1 Debt securities	*223*	*-8*	*215*	*246*	*-31*	*215*
2.2 Loans	*-*	*-*	*-*	*-*	*-*	*-*
Total assets	**315**	**-126**	**189**	**266**	**-115**	**151**
B. Financial liabilities measured at amortised cost						
1. Due to banks	4	-	4	3	-31	-28
2. Due to customers	1	-	1	1	-	1
3. Securities issued	185	-21	164	3	-26	-23
Total liabilities	**190**	**-21**	**169**	**7**	**-57**	**-50**

SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110

7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**1**	**-**	**-3**	**-**	**-2**
1.1 Debt securities	1	-	-3	-	-2
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-93**	**-**	**-93**
2.1 Securities issued	-	-	-93	-	-93
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**1**	**-**	**-96**	**-**	**-95**

For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of the Notes to the financial statements.

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**111**	**42**	**-34**	**-6**	**113**
1.1 Debt securities	30	22	-11	-1	40
1.2 Equities	4	12	-	-	16
1.3 Quotas of UCI	48	-	-12	-3	33
1.4 Loans	29	8	-11	-2	24
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**111**	**42**	**-34**	**-6**	**113**

SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2019	2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Credit to banks	**-18**	**-**	**-14**	**25**	**-**	**-7**	**10**
- Loans	-17	-	-14	25	-	-6	8
- Debt securities	-1	-	-	-	-	-1	2
of which: acquired or originated deteriorated credits	-	-	-	-	-	-	-
B. Credit to clients	**-208**	**-128**	**-2,967**	**550**	**806**	**-1,947**	**-1,832**
- Loans	-184	-128	-2,963	546	806	-1,923	-1,844
- Debt securities	-24	-	-4	4	-	-24	12
of which: acquired or originated impaired credits	*-*	*-*	*-60*	*-*	*6*	*-54*	*1*
C. Total	**-226**	**-128**	**-2,981**	**575**	**806**	**-1,954**	**-1,822**

8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2019	2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	**-13**	**-**	**-**	**1**	**-**	**-12**	**1**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
C. Total	**-13**	**-**	**-**	**1**	**-**	**-12**	**1**

SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140

9.1 Profits (Losses) from changes in contracts: breakdown

As part of profits (losses) from changes in contracts without derecognition, losses of 5 million euro were recognised.

SECTION 10 - ADMINISTRATIVE EXPENSES - CAPTION 160

10.1 Personnel expenses: breakdown

(millions of euro)

Type of expense	2019	2018
1) Employees	**4,516**	**3,703**
a) wages and salaries	3,021	2,513
b) social security charges	813	666
c) termination indemnities	38	32
d) supplementary benefits	-	-
e) provisions for termination indemnities	13	12
f) provisions for post employment benefits	8	9
- defined contribution plans	*-*	*-*
- defined benefit plans	*8*	*9*
g) payments to external pension funds	272	223
- defined contribution plans	*272*	*223*
- defined benefit plans	*-*	*-*
h) costs from share based payments	165	94
i) other benefits in favour of employees	186	154
2) Other non-retired personnel	**6**	**4**
3) Directors and statutory auditors	**8**	**8**
4) Early retirement costs	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**-44**	**-90**
6) Reimbursement of expenses for third party employees seconded to the company	**13**	**44**
Total	**4,499**	**3,669**

Provisions to employee termination indemnities determined on the basis of Art. 2120 of the Italian Civil Code amounted to 17 million euro.

10.2 Average number of employees by categories

	2019	2018
Personnel employed	**55,558**	**45,112**
a) managers	757	615
b) total officers	23,734	19,310
c) other employees	31,067	25,187
Other personnel	**24**	**42**
TOTAL	**55,582**	**45,154**

The increase in the average number of employees was mostly due to the business combinations completed during the year.

10.3 Post-employment defined benefit plans: costs and revenues

(millions of euro)

	2019			2018		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-1	-2	-4	-3	-2	-4
Interest expense	-12	-4	-21	-9	-4	-23
Interest income	-	3	19	-	3	21
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-1	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

10.4 Other benefits in favour of employees

The balance of this caption as at 31 December 2019 amounted to 186 million euro, of which 34 million euro referred to charges for exit incentives, relating to the agreements resulting from the integration of the former Venetian banks. The residual 152 million euro essentially refer to contributions for health assistance, lunch and restaurant vouchers and provisions for seniority bonuses.

10.5 Other administrative expenses: breakdown

(millions of euro)

Type of expense/Amount	2019	2018
Expenses for maintenance of information technology and electronic equipment	462	60
Telephonic, teletransmission and transmission expenses	31	8
Information technology expenses	**493**	**68**
Rentals and service charges - real estate	31	192
Security services	24	24
Cleaning of premises	33	29
Expenses for maintenance of real estate assets furniture and equipment	59	50
Energy costs	82	61
Property costs	7	6
Management of real estate assets expenses	**236**	**362**
Printing, stationery and consumables expenses	20	18
Transport and related services expenses (including counting of valuables)	81	72
Information expenses	104	30
Postal and telegraphic expenses	33	35
Other rental charges	**-**	**-**
General structure costs	**238**	**155**
Expenses for consultancy fees	140	170
Legal and judiciary expenses	117	114
Insurance premiums - banks and customers	34	30
Professional and legal expenses	**291**	**314**
Advertising and promotional expenses	**87**	**93**
Services rendered by third parties	**250**	**137**
Indirect personnel costs	**55**	**34**
Other costs	**18**	**1,358**
Other costs	**427**	**336**
Taxes and duties	**600**	**530**
Recovery of other expenses	**-39**	**-42**
Total	**2,656**	**3,345**

Due to the merger by incorporation with effect from 1 January 2019 of the subsidiary Intesa Sanpaolo Group Services S.c.p.A., which previously provided IT, real estate and back office services to the Parent Company and other Group companies, the comparison and composition of administrative expenses for the reporting year present objective limits of comparability with 2018.

In addition, as thoroughly explained above in the section "*Transition to IFRS 16*", the costs included in the sub-caption "Rentals and service charges - real estate" were accounted for differently in the two comparative periods. Whereas in 2018, under IAS 17, lease rentals were presented among administrative expenses, in 2019, in accordance with IFRS 16, they were recognised among "right of use" amortisation charges and interest expenses on the corresponding lease liabilities, within "Net adjustments to / recoveries on property and equipment" and "Interest and similar expense", respectively. The 2019 figure relates to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of 5,000 euro or less ("low value"). In such cases, as allowed by the new Standard, the lease payments for these leases are recognised as an expense – in the same way as in the past – on a straight-line basis for the lease term.

"Other expenses" include 347 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Interbank Deposit Guarantee Fund, gross of the tax effect.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 170

11.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown

(millions of euro)

Captions	Provision	Reallocations	Net provision
Stage 1	-13	21	8
Stage 2	-17	20	3
Stage 3	-53	41	-12
Total	**-83**	**82**	**-1**

11.2 Net provisions associated with commitments and other guarantees given: breakdown

This caption is not present for Intesa Sanpaolo.

11.3 Net provisions for other risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	Net provision
Net provisions for legal disputes	-75	37	-38
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-87	60	-27
Total	**-162**	**97**	**-65**

"Net provisions for other risks and charges", which amounted to 65 million euro, recorded the provisions attributable to the year relating to legal disputes and other risks and charges, net of reallocations.

In particular, the sub-caption "Net provisions for risks and charges for legal and tax disputes" includes provisions for legal disputes, including revocatory actions and other disputes, net of releases for the year.

The above provisions include the interest expense due to time value for 2 million euro.

SECTION 12 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 180

12.1 Net adjustments to property and equipment: breakdown

(millions of euro)

'Assets/Income component	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Used in operations	-387	-2	-	-389
- Owned	*-236*	*-2*	*-*	*-238*
- Licenses acquired through lease	*-151*	*-*	*-*	*-151*
A.2 Investment property	-	-	-	-
- Owned	*-*	*-*	*-*	*-*
- Licenses acquired through lease	*-*	*-*	*-*	*-*
A.3 Inventories	*X*	-2	-	-2
Total	**-387**	**-4**	**-**	**-391**

Amortisation of rights of use acquired under leases has been based on application of the accounting standard IFRS 16 since 1 January 2019. Reference should be made to Part A "Accounting policies".

The result of the measurement of property and equipment classified as held for sale, pursuant to IFRS 5, was insignificant. Please note that as at 31 December 2019 the analysis of factors internal and external to the Company did not indicate any impairment of rights of use.

SECTION 13 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 190

13.1 Net adjustments to intangible assets: breakdown

(millions of euro)

Assets/Income component	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-534	-3	-	-537
- internally generated	*-485*	*-2*	*-*	*-487*
- other	*-49*	*-1*	*-*	*-50*
A.2 Rights of use acquired through the lease	-	-	-	-
Total	**-534**	**-3**	**-**	**-537**

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 9 – Intangible Assets in these Notes to the financial statements.

SECTION 14 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 200

14.1 Other operating expenses: breakdown

(millions of euro)

Type of expense/Amount	2019
Other expenses for consumer credit and leasing transactions	15
Settlements for legal disputes	7
Amortisation of leasehold improvements	28
Other non-recurring expenses	88
Other	40
Total 2019	**178**
Total 2018	**99**

14.2 Other operating income: breakdown

(millions of euro)

Type of expense/Amount	
Recovery of insurance costs	9
Recovery of other expenses	6
Rentals and recovery of expenses on real estate	33
Income related to consumer credit and leasing	28
Recovery of services rendered to third parties	339
Recovery of taxes and duties	490
Other non-recurring income	46
Other	34
Total 2019	**985**
Total 2018	**618**

As required by paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 29 million euro.

SECTION 15 – PROFITS (LOSSES) ON EQUITY INVESTMENTS - CAPTION 220

15.1 Profits (Losses) on equity investments: breakdown

(millions of euro)

Income component/Amount	2019	2018
A. Revenues	**23**	**424**
1. Revaluations	-	225
2. Profits on disposal	1	199
3. Recoveries	18	-
4. Other	4	-
B. Charges	***-79***	**-297**
1. Write-downs	-	-
2. Impairment losses	-79	-296
3. Losses on disposal	-	-1
4. Other	-	-
Net result	**-56**	**127**

A.3. "Recoveries" includes 17.7 million euro relating to Consorzio Bancario Sir S.p.A. (in liquidation). The recovery, justified by the elimination of the circumstances that had resulted in the impairment of the equity interest, realigns the value of the investment with the share of the company's equity and its value in the Group's consolidated financial statements.

Sub-caption B.2. "Impairment losses" refers to the impairment losses on the equity interests in Intesa Sanpaolo Provis S.p.A. for 57 million euro, Rainbow for 10 million euro, Risanamento S.p.A. for 6 million euro, Intesa Sanpaolo RE.O.CO. S.p.A for 4 million euro and other minority interests for 2 million euro.

SECTION 16 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 230

16.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown

(millions of euro)

Assets/Income component	Revalutations	Write-downs	Foreign exchange differences		Net result
			Positive	Negative	
A. Property and equipment	**1**	**-11**	**-**	**-**	**-10**
A.1 Used in operations:	1	-5	-	-	-4
- Owned	*1*	*-5*	-	-	*-4*
- Licenses acquired through lease	-	-	-	-	-
A.2 Investment:	-	-6	-	-	-6
- Owned	-	*-6*	-	-	*-6*
- Licenses acquired through lease	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Licenses acquired through lease	-	-	-	-	-
Total	**1**	**-11**	**-**	**-**	**-10**

SECTION 17 – GOODWILL IMPAIRMENT - CAPTION 240

17.1 Goodwill impairment: breakdown

During the year, no impairment of goodwill was recognised.
For a description of the impairment testing methods for goodwill, reference should be made to Part B of – Assets Section 9 – Intangible Assets.

SECTION 18 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 250

18.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

Income component/Amount	2019	2018
A. Real estate assets	**-**	**-**
- profits on disposal	1	-
- losses on disposal	-1	-
B. Other assets	**-**	**1**
- profits on disposal	-	1
- losses on disposal	-	-
Net result	**-**	**1**

SECTION 19 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 270

19.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2019	2018
1. Current taxes (-)	-23	245
2. Changes in current taxes of previous years (+/-)	38	19
3. Reduction in current taxes of the year (+)	1	13
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	397
4. Changes in deferred tax assets (+/-)	-106	-561
5. Changes in deferred tax liabilities (+/-)	124	-49
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**34**	**64**

The exercise of this option for the realignment of the tax values to the higher accounting values of real estate assets pursuant to Art. 1, paragraph 984, of Law No. 145/2018 (2019 Budget Act) and the intangibles recognised (Art. 15, paragraph 10, of Law Decree No. 185/2008), entailed: i) the immediate recognition of substitute tax of 269 million euro, of which 87 million euro posted to the income statement and 182 million euro to shareholders' equity; ii) the adjustment of deferred taxes for 624 million euro, of which 201 million euro through profit or loss and 423 million euro through shareholders' equity, with a positive impact on the separate income statement of the period of 114 million euro and an additional 241 million euro in shareholders' equity.
These effects were taken to Current taxes for -87 million euro, to Changes in deferred tax assets for 21 million euro and to Changes in deferred tax liabilities of 180 million euro.

19.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2019	2018
Income before tax from continuing operations	2,039	3,574
Income (Loss) before tax from discontinued operations	88	71
Theoretical taxable income	**2,127**	**3,645**

(millions of euro)

	Taxes	%
Income taxes - theoretical tax charge [(a)]	**703**	**33.1**
Increases of taxes	**78**	**3.7**
Greater IRAP taxable income	-	-
Other non-deductible costs (loss on investments, out-of-period items, fines, IMU property tax)	63	3.0
Other	15	0.7
Decreases of taxes	**-791**	**-37.3**
Lower IRAP taxable income	-29	-1.4
Non-taxed capital gains on equity investments	-8	-0.4
Capital gains subject to substitute tax	-	-
Tax-exempt portion of dividends	-578	-27.2
ACE Benefit - Aid for Economic Growth	-	-
Other [(b)]	-176	-8.3
Total change in taxes	**-713**	**-33.6**
Total income tax expense for the period	**-10**	**-0.5**
of which: - effective tax expense (income) from continuing operations	**-34**	**-1.6**
- effective tax expense (income) from discontinued operations	**24**	**1.1**

(a) Includes IRES ordinary tax 24%, IRES additional rate 3.5% and IRAP weighted average rate 5.56%

(b) Includes the net effect, amounting to 114 million euro, deriving from the realignment of the tax values of real estate assets to the higher book values, as required by Article 1, paragraph 948, of Law 145/2018 ("2019 Budget Act") and of the intangible assets recognised in the financial statements in accordance with Article 15, paragraph 10, of Law Decree 185/2008

SECTION 20 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 290

20.1 Income (Loss) after tax from discontinued operations: breakdown

(millions of euro)

Income component/Amount	2019	2018
1. Income	426	363
2. Charges	-338	-292
3. Valuation differences on discontinued operations and related liabilities	-	-
4. Profits (losses) on disposal	-	-
5. Taxes and duties	-24	-23
Income (Loss)	**64**	**48**

Income (Loss) from discontinued operations represented the income effects of the business line connected to the acquiring operations currently carried out by the Bank that will be transferred to Nexi in 2020 under the agreement signed with regard to payment systems.

20.2 Breakdown of taxes on income from discontinued operations

(millions of euro)

Captions	2019	2018
1. Current taxes (-)	-24	-23
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Taxes on income (-1+/-2+/-3)	**-24**	**-23**

SECTION 21 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 22 – EARNINGS PER SHARE

For details, reference should be made to the relevant section of the Notes to the consolidated financial statements.

Part D – Comprehensive income

(millions of euro)

	Statement of comprehensive income	2019	2018
10	**Net income (loss)**	**2,137**	**3,686**
	Other comprehensive income that may not be reclassified to the income statement	**185**	**352**
20	Equity instruments measured at fair value through other comprehensive income	-44	104
	a) fair value changes	*-35*	*102*
	b) transfer to other components of shareholders' equity	*-9*	*2*
30	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
	a) fair value changes	-	-
	b) transfer to other components of shareholders' equity	-	-
40	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50	Property and equipment	246	2
60	Intangible assets	-	-
70	Defined benefit plans	-36	353
80	Non-current assets held for sale and discontinued operations	-	-
90	Share of valuation reserves connected with investments carried at equity	-	-
100	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	19	-107
	Other comprehensive income that may be reclassified to the income statement	**127**	**-122**
110	Hedges of foreign investments:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
120	Foreign exchange differences:	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
130	Cash flow hedges:	-49	139
	a) fair value changes	*186*	*387*
	b) reclassification to the income statement	*-235*	*-248*
	c) other changes	-	-
	of which: gains (losses) on net positions	-	-
140	Hedging instruments (not designated elements)	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
150	Financial assets (other than equities) measured at fair value through other comprehensive income	239	-316
	a) fair value changes	*440*	*-102*
	b) reclassification to the income statement	*-202*	*-214*
	- adjustments for credit risk	*12*	-
	- gains/losses on disposals	*-214*	*-214*
	c) other changes	*1*	-
160	Non-current assets held for sale and discontinued operations	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
170	Share of valuation reserves connected with investments carried at equity:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	- impairment losses	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
180	Income taxes associated with other comprehensive income that may be reclassified to the income statement	-63	55
190	**Total other comprehensive income**	**312**	**230**
200	**Comprehensive income (Captions 10+190)**	**2,449**	**3,916**

Part E – Information on risks and relative hedging policies

INTRODUCTION

This part of the Notes to the Parent Company's financial statements provides the quantitative information on risks relative to the Parent Company, Intesa Sanpaolo. For qualitative information regarding the methods whereby risks are managed and monitored, the organisation of the Bank's risk governance, the associated processes and key functions, the culture of risk-awareness at the Bank and the methods whereby it is ensured that this culture is spread, the main risks associated with the Bank's business model, the risk appetite and the methods whereby such risks are managed and the use of stress tests within risk governance strategies, refer to Part E of the Notes to the consolidated financial statements.
The qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

Qualitative information on Intesa Sanpaolo's credit quality is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.
The tables below also include the revocable commitments among the off-balance sheet exposures.

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)

(millions of euro)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost	5,912	6,379	668	2,975	423,999	439,933
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	30,486	30,486
3. Financial assets designated at fair value	-	-	-	-	195	195
4. Other financial assets mandatorily measured at fair value	-	46	-	-	1,655	1,701
5. Non-current financial assets held for sale	10	257	-	-	107	374
Total 31.12.2019	**5,922**	**6,682**	**668**	**2,975**	**456,442**	**472,689**
Total 31.12.2018	**4,407**	**7,166**	**263**	**2,159**	**431,778**	**445,773**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

(millions of euro)

Portfolios/quality	**IMPAIRED ASSETS**				**NOT IMPAIRED ASSETS**			**TOTAL (net exposure)**
	Gross exposure	**Overall writedowns of value**	**Net exposure**	**Overall partial write-off**	**Gross exposure**	**Overall writedowns of value**	**Net exposure**	
1. Financial assets valued to amortized cos	27,933	-14,974	12,959	7,742	428,260	-1,286	426,974	439,933
2. Financial assets valued to fair value with impact on overall profitability	35	-35	-	-	30,502	-16	30,486	30,486
3. Financial assets designated to fair value	-	-	-	-	X	X	195	195
4. Other financial assets mandatorily valuated to fair value	65	-19	46	-	X	X	1,655	1,701
5. Financial assets as held for sale	358	-91	267	1	107	-	107	374
Total 31.12.2019	**28,391**	**-15,119**	**13,272**	**7,743**	**458,869**	**-1,302**	**459,417**	**472,689**
Total 31.12.2018	**25,443**	**-13,607**	**11,836**	**3,828**	**428,611**	**-1,285**	**433,937**	**445,773**

(millions of euro)

Portfolios/quality	**ASSETS OF EVIDENTLY LOW CREDIT QUALITY**		**OTHER ASSETS**
	Cumulative capital losses	**Net exposure**	**Net exposure**
1. Financial assets held for trading	-36	48	19,782
2. Hedging derivatives	-	-	2,830
Total 31.12.2019	**-36**	**48**	**22,612**
Total 31.12.2018	**-34**	**41**	**20,805**

A.1.3. Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	**STAGE 1**			**STAGE 2**			**STAGE 3**		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	485	162	1,532	225	278	292	223	241	9,692
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Non-current financial assets held for sale	-	-	-	-	-	-	29	11	151
Total 31.12.2019	**485**	**162**	**1,532**	**225**	**278**	**292**	**252**	**252**	**9,843**
Total 31.12.2018	**337**	**159**	**501**	**274**	**282**	**606**	**172**	**124**	**7,967**

A.1.4. Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS									
	Stage 1 assets					Stage 2 assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Non-current financial assets held for sale	*of which: individual impairment losses*	*of which: collective impairment losses*
Initial total adjustments	**474**	**7**	**-**	**481**	**-**	**804**	**-**	**-**	**804**	**-**
Increases in purchased or originated financial assets	230	6	-	236	-	-	1	-	1	-
Derecognition other than write-offs	-126	-4	-	-130	-	-96	-	-	-96	-
Net losses/recoveries for credit risk (+/-)	-266	-	-	-266	-	-140	5	-	-135	-
Changes in contracts without derecognition	-	-	-	-	-	-2	-	-	-2	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-
Other changes	134	-	-	135	-	274	1	-	275	-
- of which: business combinations	*134*	-	-	*134*	-	*274*	-	-	*274*	-
Final total adjustments	**446**	**9**	**-**	**456**	**-**	**840**	**7**	**-**	**847**	**-**
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS						TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets					Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	Non-current financial assets held for sale	*of which: individual writedowns*	*of which: collective writedowns*		Stage 1	Stage 2	Stage 3	
Initial total adjustments	**13,377**	**35**	**177**	**13,589**	**-**	**209**	**62**	**58**	**230**	**15,224**
Increases in purchased or originated financial assets	-	-	-	-	-	-	4	11	-	252
Derecognition other than write-offs	-1,235	-	-266	-1,501	-	-	-3	-5	-	-1,735
Net losses/recoveries for credit risk (+/-)	1,965	-	-	1,965	-	54	-10	-8	13	1,559
Changes in contracts without derecognition	-10	-	-	-10	-	-	-	-	-	-12
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-3,176	-	-	-3,176	-	-41	-	-	-	-3,176
Other changes	4,053	-	180	4,233	-	3	11	7	16	4,676
- of which: business combinations	*4,106*	-	*89*	*4,195*	-	*2*	*10*	*7*	*18*	*4,638*
Final total adjustments	**14,974**	**35**	**91**	**15,100**	**-**	**225**	**64**	**63**	**259**	**16,788**
Recoveries on collection of financial assets previously written off	65	-	-	65	-	-	-	-	-	65
Write-offs recognised directly through profit or loss	-128	-	-	-128	-	-	-	-	-	-128

Intesa Sanpaolo does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	33,340	23,011	2,817	739	799	220
2. Financial assets measured at fair value through other comprehensive income	5	-	-	-	-	-
3. Non-current financial assets held for sale	-	-	-	-	-	-
4. Commitments to provide funds and financial guarantees issued	15,804	9,941	230	164	161	60
Total 31.12.2019	**49,149**	**32,952**	**3,047**	**903**	**960**	**280**
Total 31.12.2018	**36,910**	**32,271**	**2,601**	**992**	**1,140**	**430**

A.1.6. On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Impairment	Non impairment			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*
b) Unlikely to pay	96	X	-14	82	-
- of which: forborne exposures	*96*	*X*	*-14*	*82*	*-*
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	*-*	*X*	*-*	*-*	*-*
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	*X*	*-*	*-*	*-*	*-*
e) Other performing exposures	X	126,021	-68	125,953	-
- of which: forborne exposures	*X*	*-*	*-*	*-*	*-*
Total (A)	**100**	**126,021**	**-86**	**126,035**	**4**
B. Off-balance sheet exposures					
a) Non-performing	10	X	-	10	-
b) Performing	X	96,076	-11	96,065	-
Total (B)	**10**	**96,076**	**-11**	**96,075**	**-**
Total (A+B)	**110**	**222,097**	**-97**	**222,110**	**4**

A.1.7. On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	17,053	X	-11,131	5,922	7,250
- of which: forborne exposures	*2,478*	*X*	*-1,479*	*999*	*356*
b) Unlikely to pay	10,463	X	-3,863	6,600	484
- of which: forborne exposures	*4,099*	*X*	*-1,274*	*2,825*	*332*
c) Non-performing past due exposures	775	X	-107	668	5
- of which: forborne exposures	*95*	*X*	*-14*	*81*	*-*
d) Performing past due exposures	X	3,007	-32	2,975	-
- of which: forborne exposures	*X*	*118*	*-7*	*111*	*-*
e) Other performing exposures	X	335,772	-1,202	334,570	-
- of which: forborne exposures	*X*	*5,155*	*-172*	*4,983*	*-*
Total (A)	**28,291**	**338,779**	**-16,335**	**350,735**	**7,739**
B. Off-balance sheet exposures					
a) Non-performing	2,234	X	-259	1,975	-
b) Performing	X	225,712	-115	225,597	-
Total (B)	**2,234**	**225,712**	**-374**	**227,572**	**-**
Total (A+B)	**30,525**	**564,491**	**-16,709**	**578,307**	**7,739**

During the year, as part of business combinations under common control, non-performing loans of 4,173 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

A.1.8. On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**99**	**-**
B.1 inflows from performing exposures	-	99	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-3**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-3	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**96**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.8. Bis On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**-**	**100**
- of which: exposures sold not derecognised	*-*	*-*
B. Increases	**99**	**-**
B.1 inflows from performing not forborne exposures	-	-
B.2. inflows from performing forborne exposures	99	X
B.3. inflows from impaired forborne exposures	X	-
B.4 inflows from non-performing non-forborne exposures	-	-
B.5 other increases	-	-
C. Decreases	**-3**	**-100**
C.1 outflows to performing not forborne exposures	X	-
C.2 outflows to performing forborne exposures	-	X
C.3 outflows to exposures subject to impaired concessions	X	-99
C.4 write-offs	-	-
C.5 collections	-3	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**96**	**-**
- of which: exposures sold not derecognised	*-*	*-*

A.1.9. On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**14,322**	**10,765**	**352**
- of which: exposures sold not derecognised	*57*	*83*	*2*
B. Increases	**6,809**	**7,855**	**2,058**
B.1 inflows from performing exposures	80	2,200	1,914
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	1,745	1,245	15
B.4 changes in contracts without derecognition	3	-	-
B.5 other increases	4,981	4,410	129
C. Decreases	**-4,078**	**-8,157**	**-1,635**
C.1 outflows to performing exposures	-20	-782	-273
C.2 write-offs	-3,042	-258	-2
C.3 collections	-762	-2,115	-143
C.4 profits on disposal	-46	-1,600	-
C.5 losses on disposal	-32	-38	-
C.6 transfers to other non-performing exposure categories	-54	-1,740	-1,211
C.7 changes in contracts without derecognition	-15	-	-
C.8 other decreases	-107	-1,624	-6
D. Final gross exposure	**17,053**	**10,463**	**775**
- of which: exposures sold not derecognised	*26*	*34*	*9*

The "other increases" mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
During the year, as part of business combinations under common control, non-performing loans of 8,380 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.
The "other decreases" mainly include the portfolio of loans classified as "unlikely to pay" sold under the partnership with Prelios.

A.1.9. Bis On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance (gross amount)	**6,055**	**6,127**
- Sold but not derecognised	*35*	*62*
B. Increases	**4,298**	**4,313**
B.1 transfers from performing not forborne exposures	52	1,795
B.2.transfers from performing forborne exposures	934	X
B.3. transfers from impaired forborne exposures	X	504
B.4 inflows from forborne non-performing exposures	243	27
B.5 other increases	3,069	1,987
C. Decreases	**-3,681**	**-5,167**
C.1 Transfers to performing not forborne exposures	X	-2,843
C.2 Transfers to performing forborne exposures	-504	X
C.3 transfers to impaired exposures not forborne	X	-934
C.4 write-offs	-419	-
C.5 recoveries	-1,092	-1,320
C.6 sales proceeds	-771	-3
C.7 losses on disposals	-10	-
C.8 other decreases	-885	-67
D. Closing balance (gross amounts)	**6,672**	**5,273**
- Sold but not derecognised	*22*	*-*

The “other increases” mainly include the increases in the amounts for charges.
The “other decreases” mainly include the portfolio of loans classified as “unlikely to pay” sold under the partnership with Prelios.
During the year, as part of business combinations under common control, gross forborne exposures of 2,516 million euro (non-performing) and of 1,428 million euro (performing) were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

A.1.10. Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**14**	***14***	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	14	*14*	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**14**	***14***	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.11. Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

(millions of euro)

Description/Category	NON-PERFORMING LOANS		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	*of wich: forborne exposures*	Total	*of wich: forborne exposures*	Total	*of wich: forborne exposures*
A. Opening balance overall amount of writedowns	**9,915**	***1,020***	**3,600**	***1,397***	**89**	***4***
- Sold but not derecognised	*25*	*2*	*14*	*5*	*-*	*-*
B. Increases	**4,968**	***870***	**3,133**	***1,106***	**332**	***44***
B.1 impairment losses on acquired or originated assets	-	*X*	-	*X*	-	*X*
B. 2 other value adjustments	1,073	*224*	1,545	*532*	312	*42*
B.3 losses on disposal	32	*1*	38	*19*	-	*-*
B.4 transfer from other impaired exposure	746	*246*	313	*49*	5	*-*
B. 5 contractual changes without cancellations	-	*-*	-	*-*	-	*-*
B.6 other increases	3,117	*399*	1,237	*506*	15	*2*
C. Reductions	**-3,752**	***-411***	**-2,870**	***-1,229***	**-314**	***-34***
C.1 write-backs from assessments	-228	*-50*	-265	*-138*	-10	*-1*
C.2 write-backs from recoveries	-140	*-10*	-95	*-52*	-4	*-*
C.3 gains on disposal	-2	*-1*	-40	*-16*	-	*-*
C.4 write-offs	-3,042	*-295*	-258	*-124*	-2	*-*
C.5 transfers to other impaired exposures	-25	*-7*	-745	*-236*	-294	*-32*
C. 6 contractual changes without cancellations	-	*-*	-10	*-10*	-	*-*
C.7 other decreases	-315	*-48*	-1,457	*-653*	-4	*-1*
D. Closing overall amount of writedowns	**11,131**	***1,479***	**3,863**	***1,274***	**107**	***14***
- Sold but not derecognised	*9*	*3*	*6*	*2*	*1*	*-*

The "other increases" mainly include the collections of loans already derecognised in full (through "recoveries on repayments") and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
During the year, as part of business combinations under common control, adjustments to non-performing financial assets of 4,207 million euro were made. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.
The "other decreases" mainly include the portfolio of loans classified as "unlikely to pay" sold under the partnership with Prelios. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

A.2. Classification of financial assets, commitments to disburse funds and financial guarantees given based on internal and external rating

A.2.1. Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

Intesa Sanpaolo uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings e DBRS Morningstar Ratings.
In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.
For the mapping of the risk classes and agency ratings employed, see the corresponding section of the Notes to the consolidated financial statements.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	Class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**14,432**	**5,765**	**141,079**	**9,507**	**3,027**	**460**	**281,922**	**456,192**
- Stage 1	14,115	5,137	135,021	5,805	2,566	46	226,071	388,761
- Stage 2	317	628	6,058	3,702	461	146	28,186	39,498
- Stage 3	-	-	-	-	-	268	27,665	27,933
B.Financial assets measured at fair value through other comprehensive income	**699**	**9,591**	**10,504**	**9,300**	**-**	**14**	**430**	**30,538**
- Stage 1	667	9,142	10,449	8,169	-	-	403	28,830
- Stage 2	32	449	55	1,131	-	-	5	1,672
- Stage 3	-	-	-	-	-	14	22	36
C. Non-current financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**466**	**466**
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	1	1
- Stage 3	-	-	-	-	-	-	358	358
Total (A+B+C)	**15,131**	**15,356**	**151,583**	**18,807**	**3,027**	**474**	**282,818**	**487,196**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*538*	*538*
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	8,522	21,637	129,734	10,241	2,744	102	107,958	280,938
- Stage 2	134	772	4,401	1,916	767	81	13,058	21,129
- Stage 3	-	-	-	-	-	368	1,875	2,243
Total (D)	**8,656**	**22,409**	**134,135**	**12,157**	**3,511**	**551**	**122,891**	**304,310**
Total (A+B+C+D)	**23,787**	**37,765**	**285,718**	**30,964**	**6,538**	**1,025**	**405,709**	**791,506**

A.2.2. Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

(millions of euro)

Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortised cost	**45,454**	**48,135**	**234,447**	**77,055**	**16,628**	**2,452**	**32,022**	**456,193**
- Stage 1	45,374	47,600	224,808	60,371	7,786	176	2,646	388,761
- Stage 2	80	535	9,639	16,684	8,842	821	2,897	39,498
- Stage 3	-	-	-	-	-	1,455	26,479	27,934
B. Financial assets measured at fair value through other comprehensive income	**5,081**	**11,597**	**13,185**	**143**	**17**	**9**	**507**	**30,539**
- Stage 1	5,007	11,473	11,820	131	17	5	378	28,831
- Stage 2	74	124	1,365	12	-	1	96	1,672
- Stage 3	-	-	-	-	-	3	33	36
C. Non-current financial assets held for sale	-	-	-	-	-	4	461	465
- Stage 1	-	-	-	-	-	-	107	107
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	4	354	358
Total (A+B+C)	**50,535**	**59,732**	**247,632**	**77,198**	**16,645**	**2,465**	**32,990**	**487,197**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	538	538
D. Commitments and financial guarantees given								
- Stage 1	21,897	41,512	182,952	29,313	3,319	52	1,893	280,938
- Stage 2	470	621	6,626	9,072	2,505	253	1,581	21,128
- Stage 3	-	-	-	-	-	1,086	1,158	2,244
Total (D)	**22,367**	**42,133**	**189,578**	**38,385**	**5,824**	**1,391**	**4,632**	**304,310**
Total (A+B+C+D)	**72,902**	**101,865**	**437,210**	**115,583**	**22,469**	**3,856**	**37,622**	**791,507**

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives - Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**23,875**	**23,864**	**-**	**6**	**23,291**	**-**	**-**	**-**
1.1 totally guaranteed	23,796	23,785	-	6	23,291	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	79	79	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**1,689**	**1,689**	**-**	**-**	**427**	**1,033**	**-**	**-**
2.1 totally guaranteed	1,340	1,340	-	-	427	810	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	349	349	-	-	-	223	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives							
	Banks	Other financial companies	Other counterparties	Public Administration	Banks	Other financial companies	Other counterparties	(1)+(2)
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**9**	**221**	**-**	**48**	**23,575**
1.1 totally guaranteed	-	-	-	3	207	-	46	23,553
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	6	14	-	2	22
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**22**	**117**	**-**	**11**	**1,610**
2.1 totally guaranteed	-	-	-	18	79	-	6	1,340
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	4	38	-	5	270
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Guarantees (*) (2)	
							Credit derivatives	
			Property, Mortgages	Financial leases	Securities	Other assets	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**211,413**	**201,404**	**119,767**	**7,637**	**16,616**	**7,369**	**-**	**-**
1.1 totally guaranteed	188,550	180,761	118,278	7,623	16,493	6,073	-	-
- of which non-performing	*15,926*	*8,856*	*5,377*	*1,325*	*26*	*279*	-	-
1.2 partly guaranteed	22,863	20,643	1,489	14	123	1,296	-	-
- of which non-performing	*3,459*	*1,308*	*681*	*-*	*7*	*39*	-	-
2. Guaranteed off-balance sheet credit exposures:	**28,117**	**28,044**	**1,784**	**38**	**521**	**950**	**-**	**-**
2.1 totally guaranteed	22,973	22,925	1,380	20	463	647	-	-
- of which non-performing	*379*	*350*	*101*	*-*	*4*	*5*	-	-
2.2. partly guaranteed	5,144	5,119	404	18	58	303	-	-
- of which non-performing	*227*	*213*	*28*	*-*	*-*	*16*	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1. Guaranteed on-balance sheet credit exposures	**45**	**-**	**-**	**11,532**	**612**	**2,028**	**24,131**	**189,737**
1.1 totally guaranteed	-	-	-	9,342	370	1,749	20,371	180,299
- of which non-performing	-	-	-	*140*	*9*	*308*	*1,344*	*8,808*
1.2 partly guaranteed	45	-	-	2,190	242	279	3,760	9,438
- of which non-performing	-	-	-	*51*	*4*	*60*	*227*	*1,069*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**4,055**	**168**	**947**	**17,495**	**25,958**
2.1 totally guaranteed	-	-	-	3,874	147	894	15,479	22,904
- of which non-performing	-	-	-	*1*	*-*	*21*	*214*	*346*
2.2. partly guaranteed	-	-	-	181	21	53	2,016	3,054
- of which non-performing	-	-	-	*-*	*-*	*4*	*45*	*93*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Financial assets and non-financial assets resulting from the enforcement of guarantees

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	
					of which obtained during the year
A. Property and equipment	**73**	**76**	**-3**	**73**	**30**
A.1 Used in operations	-	-	-	-	-
A.2. Investment	4	6	-	6	6
A.3 Inventories	69	70	-3	67	24
B. Equities and debt securities	**354**	**354**	**-98**	**256**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and discontinued operations	**-**	**-**	**-**	**-**	**-**
D.1 Property and equipment	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2019	**427**	**430**	**-101**	**329**	**30**
Total 31.12.2018	**-**	**-**	**-**	**-**	**-**

As at 31 December 2019, there were financial assets and non-financial assets resulting from the enforcement of guarantees.

The property and equipment related to assets acquired upon closure of impaired credit exposures on finance lease contracts due to failure to repurchase the asset or early termination of the contract. Specifically, the book value of the assets collected consisted of 6 million euro in investment properties (5 million euro in buildings and 1 million euro in land) and 67 million euro in real estate stock (buildings only). The figures for 2018 are not shown because these operations were present in Mediocredito Italiano, a company merged into Intesa Sanpaolo in 2019.

The equities and debt securities, with a book value of 256 million euro (76 million euro as "Equity investments" of which 72 million euro relating to the investment in Risanamento, 119 million euro as "Financial assets mandatorily measured at fair value" and 61 million euro as "Financial assets measured at fair value through other comprehensive income") represent financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Bank derecognised the related credit exposure. The inclusion of this case in the table, from 2019, is also referred to in the recent clarifications in the NPE Stocktake instructions and in the update of the FINREP rules that will come into force in 2020.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Breakdown of on- and off-balance sheet credit exposures to customers by sector

(millions of euro)

Exposures/Counterparts		Public administration		Financial companies		Financial companies (of which: insurance companies)	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures							
A.1 Bad loans		177	-65	87	-254	-	-
- of which: forborne exposures		-	-	*8*	*-78*	-	-
A.2 Unlikely to pay		78	-44	201	-83	-	-
- of wich: forborne exposures		*29*	*-28*	*25*	*-15*	-	-
A.3 Non-performing past due exposures		9	-	1	-	-	-
- of which: forborne exposures		-	-	-	-	-	-
A.4 Performing exposures		48,346	-100	46,242	-71	1,038	-
- of wich: forborne exposures		*302*	*-2*	*132*	*-3*	-	-
Total (A)		**48,610**	**-209**	**46,531**	**-408**	**1,038**	**-**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		1	-	73	-21	-	-
B.2 Performing exposures		8,502	-6	65,748	-26	4,314	-4
Total (B)		**8,503**	**-6**	**65,821**	**-47**	**4,314**	**-4**
Total (A+B)	**31.12.2019**	**57,113**	**-215**	**112,352**	**-455**	**5,352**	**-4**
Total (A+B)	**31.12.2018**	**54,910**	**-166**	**103,966**	**-407**	**4,127**	**-**

(millions of euro)

Exposures/Counterparts		Non-financial companies		Households	
		Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		4,320	-8,523	1,338	-2,289
- of which: forborne exposures		*815*	*-1,259*	*176*	*-142*
A.2 Unlikely to pay		4,950	-3,220	1,371	-516
- of which: forborne exposuress		*2,283*	*-1,130*	*488*	*-101*
A.3 Non-performing past due exposures		236	-42	422	-65
- of which: forborne exposures		*39*	*-8*	*42*	*-6*
A.4 Performing exposures		129,124	-714	113,833	-349
- of which: forborne exposures		*3,648*	*-146*	*1,012*	*-28*
Total (A)		**138,630**	**-12,499**	**116,964**	**-3,219**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		1,873	-234	28	-4
B.2 Performing exposures		145,537	-72	5,810	-11
Total (B)		**147,410**	**-306**	**5,838**	**-15**
Total (A+B)	**31.12.2019**	**286,040**	**-12,805**	**122,802**	**-3,234**
Total (A+B)	**31.12.2018**	**238,799**	**-11,468**	**106,605**	**-3,075**

B.2. Breakdown of on- and off-balance sheet credit exposures to customers by geographical area

(millions of euro)

Exposure/Geographical areas		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Non-performing loans		5,910	-10,996	12	-76
A.2 Unlikely to pay		6,448	-3,747	84	-25
A.3 Non-performing past due exposures		664	-107	2	-
A.4 Performing exposures		277,304	-1,121	32,179	-57
Total (A)		**290,326**	**-15,971**	**32,277**	**-158**
B. Off-balance sheet exposure					
B.1 Non-performing exposures		1,950	-258	5	-1
B.2 Performing exposures		118,317	-80	46,421	-22
Total (B)		**120,267**	**-338**	**46,426**	**-23**
Total (A+B)	**31.12.2019**	**410,593**	**-16,309**	**78,703**	**-181**
Total (A+B)	**31.12.2018**	**349,034**	**-14,754**	**71,888**	**-193**

(millions of euro)

Exposure/Geographical areas		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures							
A.1 Non-performing loans		-	-53	-	-6	-	-
A.2 Unlikely to pay		63	-90	5	-1	-	-
A.3 Non-performing past due exposures		-	-	2	-	-	-
A.4 Performing exposures		17,502	-38	8,496	-12	2,064	-6
Total (A)		**17,565**	**-181**	**8,503**	**-19**	**2,064**	**-6**
B. Off-balance sheet credit exposures							
B.1 Non-performing exposures		19	-	-	-	1	-
B.2 Performing exposures		54,563	-7	5,398	-6	898	-
Total (B)		**54,582**	**-7**	**5,398**	**-6**	**899**	**-**
Total (A+B)	**31.12.2019**	**72,147**	**-188**	**13,901**	**-25**	**2,963**	**-6**
Total (A+B)	**31.12.2018**	**70,350**	**-143**	**10,570**	**-22**	**2,438**	**-4**

B.2.Bis Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas		North West		North East		Centre		South and islands	
		Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures									
A.1 Bad loans		1,797	-3,248	1,153	-2,494	1,452	-2,648	1,508	-2,606
A.2 Unlikely to pay		2,461	-1,472	1,264	-696	1,552	-995	1,171	-584
A.3 Non-performing past due exposures		203	-33	119	-18	134	-22	208	-34
A.4 Performing exposures		93,403	-405	57,798	-201	82,445	-269	43,658	-246
Total A		**97,864**	**-5,158**	**60,334**	**-3,409**	**85,583**	**-3,934**	**46,545**	**-3,470**
B. Off-balance sheet exposures									
B.1 Non-performing exposures		534	-66	543	-80	753	-102	120	-10
B.2 Performing exposures		51,147	-32	27,800	-15	31,378	-24	7,992	-9
Total B		**51,681**	**-98**	**28,343**	**-95**	**32,131**	**-126**	**8,112**	**-19**
Total (A+B)	**31.12.2019**	**149,545**	**-5,256**	**88,677**	**-3,504**	**117,714**	**-4,060**	**54,657**	**-3,489**
Total (A+B)	**31.12.2018**	**135,499**	**-5,436**	**69,098**	**-2,901**	**96,461**	**-3,048**	**47,976**	**-3,369**

B.3. Breakdown of on- and off-balance sheet credit exposures to banks by geographical area

(millions of euro)

Exposure/Geographical areas		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		-	-	-	-1
A.2 Unlikely to pay		-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-
A.4 Performing exposures		109,417	-48	11,099	-11
Total (A)		**109,417**	**-48**	**11,099**	**-12**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		6,234	-2	71,700	-7
Total (B)		**6,234**	**-2**	**71,700**	**-7**
TOTAL (A+B)	**31.12.2019**	**115,651**	**-50**	**82,799**	**-19**
Total (A+B)	**31.12.2018**	**159,780**	**-104**	**81,843**	**-14**

(millions of euro)

Exposures / Geographical Area		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposuress							
A.1 Bad loans		-	-	-	-3	-	-
A.2 Unlikely to pay		82	-14	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		2,469	-4	2,532	-2	436	-3
Total (A)		**2,551**	**-18**	**2,532**	**-5**	**436**	**-3**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		10	-	-	-	-	-
B.2 Performing exposures		5,591	-	9,748	-1	2,703	-1
Total (B)		**5,601**	**-**	**9,748**	**-1**	**2,703**	**-1**
Total (A+B)	**31.12.2019**	**8,152**	**-18**	**12,280**	**-6**	**3,139**	**-4**
Total (A+B)	**31.12.2018**	**7,710**	**-2**	**12,017**	**-4**	**3,111**	**-5**

B.3.Bis Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	98,337	-47	117	-	10,932	-1	31	-
TOTAL A	**98,337**	**-47**	**117**	**-**	**10,932**	**-1**	**31**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,020	-2	222	-	987	-	5	-
TOTAL B	**5,020**	**-2**	**222**	**-**	**987**	**-**	**5**	**-**
TOTAL (A+B) 31.12.2019	**103,357**	**-49**	**339**	**-**	**11,919**	**-1**	**36**	**-**
TOTAL (A+B) 31.12.2018	**120,205**	**-54**	**3,183**	**-49**	**35,957**	**-1**	**435**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	273,620
b) Weighted value (millions of euro)	7,278
c) Number	6

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of the entity's eligible capital. In that regard, it is noted that the table above includes exposures to Intesa Sanpaolo Group companies, whose book value amounted to 189,802 million euro which, in line with prudential regulations, have a weighted value of zero.
For completeness, it is noted that the table above also includes exposures to the Italian Treasury for a book value of 50,752 million euro and a weighted value of 951 million euro, and exposures to the Bank of Italy for 11,850 million euro and a weighted value of 13 million euro.

Lastly, it should be noted that in accordance with the provisions of the EBA document "Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013", the supervisory reports have standard methods of presentation of groups of connected clients that (in the case of silos) require exposures to the central governments to be repeated within each corresponding economic group directly controlled by a Central Government or connected to it by economic dependence. However, the amounts shown in points a) and b) and the number shown in point c) in the table above include the exposure to the various central governments, to which the Intesa Sanpaolo Group is exposed, only once.

C. SECURITISATIONS

This section does not include securitisations where the originator is the Bank and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by the Bank. For a description of these types of transactions, see the section on liquidity risk in Part E of the Notes to the Parent Company's financial statements.

Qualitative information

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

C.1. Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**1,260**	**-3**	**256**	**1**	**319**	**11**
- Loans to businesses (including SMEs) (a)	1,256	-3	252	1	311	11
– Consumer credit	4	-	4	-	8	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**15,767**	**-26**	**220**	**-8**	**456**	**-14**
– Loans to businesses (including SMEs) (b) (c)	14,945	-25	66	-6	163	-7
– Residential mortgage loans (c)	822	-1	154	-2	293	-7
TOTAL	**17,027**	**-29**	**476**	**-7**	**775**	**-3**

(a) The entire amount refers to non-performing financial assets relating to the Kerma and Penelope securitisations. The two vehicle companies were set up pursuant to Law 130/99 on the occasion of the sale by the Bank of UTP loans (Kerma - UTP Partnership Project) and bad loans (Penelope - Savoy Project).

(b) The exposures include non-performing financial assets amounting to 5 million euro in Senior exposures, 58 million euro in Mezzanine exposures and 64 million euro in Junior exposures, respectively, net of adjustments.

(c) The items also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

Off-balance sheet

This type of exposure did not exist as at 31 December 2019.

C.2. Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of underlying assets/Exposures	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (a)	5,968	-	-	-1	-	-
Trade receivables	249	-5	-	-	-	-
Residential mortgage loans	195	2	12	-	-	-
Securitisations	165	-4	-	-	-	-
Consumer credit	50	-	-	-	-	-
Loans to businesses (including SMEs) (c)	40	-1	83	-8	78	-8
TOTAL	**6,667**	**-8**	**95**	**-9**	**78**	**-8**

(a) The amount also includes the Romulus securities for 5,886 million, held by Intesa Sanpaolo, generally represented among third-party securitisations. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of Part E of the Notes to the consolidated financial statements.

(b) The exposures include non-performing financial assets amounting to 28 million euro in Senior exposures, 74 million euro in Mezzanine exposures and 69 million euro in Junior exposures, respectively, net of adjustments. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Mezzanine notes amount to 2 million euro, while the Junior notes were fully written off.

Off-balance sheet

(millions of euro)

Type of underlying assets/Exposures	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo												
- ABCP Conduit transaction	-	-	-	-	-	-	6,211	-21	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**6,211**	**-21**	**-**	**-**	**-**	**-**

C.3. Securitisation vehicles

(millions of euro)

-	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (f)			LIABILITIES (f)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	2,789	-	184	1,550	-	1,351
Apulia Finance 4 S.r.l.	Conegliano (TV)	Not consolidated (b)	130	-	18	14	30	73
Augusto S.r.l. (e)	Milano	Not consolidated (b)	1	-	2	13	-	-
Berica ABS 3 S.r.l.	Vicenza	Not consolidated (b)	369	-	17	106	94	115
Berica ABS 4 S.r.l.	Vicenza	Not consolidated	434	-	18	168	123	95
Berica ABS 5 S.r.l. (d)	Vicenza	Not consolidated	441	-	35	325	60	52
Brera Sec S.r.l. (d)	Conegliano (TV)	Not consolidated (b)	16,079	-	1,100	13,312	-	3,457
Claris Finance 2005 S.r.l.	Roma	Not consolidated (b)	44	-	17	1	24	10
Claris RMBS 2014 S.r.l. (d)	Conegliano (TV)	Not consolidated	333	-	16	135	-	176
Claris RMBS 2016 S.r.l. (d)	Conegliano (TV)	Not consolidated	770	-	48	522	116	144
Colombo S.r.l. (e)	Milano	Not consolidated (b)	1	-	6	-	-	15
Diocleziano S.r.l. (e)	Milano	Not consolidated (b)	7	-	1	51	-	-
ISP CB Ipotecario S.r.l. (c)	Milano	Consolidated	18,873	-	4,824	-	22,298	-
ISP OBG S.r.l. (c)	Milano	Consolidated	39,476	-	6,191	-	45,463	-
ISP CB Pubblico S.r.l. (c)	Milano	Consolidated	2,708	1,726	1,745	-	5,961	-

(a) Consolidation method relating to the "prudential" scope applied in the Group's financial statements.

(b) Not consolidated line-by-line but using the equity method.

(c) Vehicles used for the covered bond issue. For more information, see Section "E.4 Covered bond transactions" in Part E of these Notes to the financial statements

(d) Self-securitisation vehicle described in Section 4 - Liquidity Risk, Quantitative Information, paragraph 2

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31 December 2018)

(f) The amounts shown under assets and liabilities refer to the total values reported in the financial statements of the special purpose vehicles

C.4. Unconsolidated securitisation vehicles

The information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

C.5. Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

The Bank does not perform servicer activities in originated securitisations where the assets sold have been derecognised in accordance with IFRS 9. Therefore, the related disclosure is omitted. For more information, reference should be made to the relevant section of the Notes to the consolidated financial statements.

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION VEHICLES)

The qualitative and quantitative information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

E. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables E.1, E.2 and E.3, reference is made to the information shown below the relevant tables.
For operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

E.1. Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**49**	**-**	***49***	***X***	**49**	**-**	***49***
1. Debt securities	49	-	*49*	*X*	49	-	*49*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**14,341**	**-**	***14,341***	**-**	**14,277**	**-**	***14,277***
1. Debt securities	14,341	-	*14,341*	-	14,277	-	*14,277*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**596**	***510***	***86***	***53***	**651**	***397***	***254***
1. Debt securities	86	-	*86*	-	254	-	*254*
2. Loans	510	*510*	-	*53*	397	*397*	-
TOTAL 31.12.2019	**14,986**	***510***	***14,476***	***53***	**14,977**	***397***	***14,580***
TOTAL 31.12.2018	**18,286**	***1,244***	***17,042***	***103***	**18,014**	***919***	***17,095***

The table above does not include covered bond transactions in which the Bank is both the seller and lender for the vehicle issuing the debt securities.

The aggregates of the sales contracts with repurchase clauses relate to repurchase agreements entered into the by Bank for assets sold and not derecognised. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included in the related financial liabilities.

The aggregates of the securitisations refer to related assets and liabilities recognised for the following securitisations: Apulia Finance, Berica, Claris, Adriano, and Brera, and those relating to the K-Equity programme.

E.2. Financial assets sold partly recognised and related financial liabilities: book value

These are not present in Intesa Sanpaolo.

E.3. Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2019	31.12.2018
A. Financial assets held for trading	**49**	**-**	**49**	**745**
1. Debt securities	49	-	49	745
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**14,341**	**-**	**14,341**	**16,297**
1. Debt securities	14,341	-	14,341	16,297
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**591**	**-**	**591**	**1,227**
1. Debt securities	86	-	86	-
2. Loans	505	-	505	1,227
Total financial assets	**14,981**	**-**	**14,981**	**18,269**
Total related financial liabilities	**14,978**	**-**	**14,978**	**18,014**
Net value 31.12.2019	**3**	**-**	**3**	**X**
Net value 31.12.2018	**255**	**-**	**X**	**255**

The table above does not include covered bond transactions in which the Bank is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement

These are not present in Intesa Sanpaolo.

C. Financial assets sold and fully derecognised

Qualitative information

Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual investment fund with the assignment of the units in the fund to the selling intermediaries

As at 31 December 2019, Intesa Sanpaolo held units of mutual funds acquired in multioriginator sales of loan portfolios.
In accordance with the provisions of the Communication of the Bank of Italy of 23 December 2019, disclosures regarding "*Multioriginator sale transactions involving loan portfolios – classified as unlikely to pay in particular – attributable to the sale of loans to a mutual fund with the assignment of the units in the fund to the selling intermediaries*" are provided below.

FI.NAV. Fund

In pursuit of the de-risking activities provided for in the 2018-2021 Business Plan, in the fourth quarter of 2018 the Intesa Sanpaolo Group launched the contribution to the FI.NAV. Fund (a closed-end Italian securities umbrella fund) of a portfolio of non-performing secured and unsecured loans attributable to the shipping sector. The Fund, reserved for institutional investors, is managed by the asset management company Davy Investment Fund Service Limited, not a member of the Intesa Sanpaolo Group, based in Ireland, and is divided into two autonomous sub-funds: FI.NAV. Sub-fund A – Loans in which the loans transferred by the Intesa Sanpaolo Group, Unicredit were included and FI.NAV. Sub-fund B - New Finance, in which the capital of third-party investors will be included to relaunch the "repossessed" ships.
The transaction, formulated in 2018, was closed in 2019 through a sale without recourse for total gross consideration of 155 million euro and a net exposure equal to the price of 102 million euro, with the price of sale set off against the price of subscription of the Fund units, without any effects on the income statement for the year.
Pursuant to IFRS 9, for the Intesa Sanpaolo Group the transaction entailed the derecognition of the loans sold since the Fund has become solely responsible for managing them following the sale; the Intesa Sanpaolo Group therefore derecognised the loans concerned, while recognising the corresponding fair value of the units of the Fund assigned.
The Group companies involved in the transaction were Intesa Sanpaolo (including the units of the former subsidiaries Cassa di Risparmio in Bologna and Mediocredito acquired within the framework of the merger transactions) and Banca IMI.
For the Parent Company alone, the amount relates to loans of 109 million euro sold at a price of 69 million euro without any effects on the income statement for the year. In addition, as at 31 December 2019, the Parent Company held a 28.3% stake in the FI.NAV. Fund, classified under investments subject to significant influence, for a book value of 70 million euro.

IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund

In 2018, the Intesa Sanpaolo Group (specifically Intesa Sanpaolo and the banks subsequently merged into Intesa Sanpaolo: Cassa di Risparmio del Veneto, Cassa di Risparmio di Firenze, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio in Bologna, and Mediocredito) participated in the closed-end Italian fund IDEA, managed by Dea Capital Alternative Funds S.G.R. Spa and dedicated to the recovery of mid-size Italian companies in situations of financial tension but with solid industrial fundamentals. The transaction, which was completed in 2018, was undertaken by contributing non-performing loans with a nominal value of 59 million euro and a net exposure to the price of 39.2 million euro, with the price of sale offset against the subscription price, of equal amount, of the units of the IDEA CCR Corporate Credit Recovery II Fund - Loans Sub-fund.
As at 31 December 2019, Intesa Sanpaolo held a 11.3% stake in the IDEA Fund, classified among Financial assets mandatorily measured at fair value, for a book value of 31.4 million euro.

E.4. Covered bond transactions

Covered bond transactions where the selling bank and the lending bank are the same must be reported under this section. Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.
Intesa Sanpaolo has arranged three programmes for the issue of Covered Bonds (CB).

The first programme, launched in 2009, has a maximum amount of 20 billion euro (the original maximum amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. The Bank gradually sold the vehicle assets with a total original nominal value of 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro). The last sale (amounting to around 1 billion euro) took place in April 2013.
As at 31 December 2019, loans and securities sold to the vehicle had a book value of 4.4 billion euro. Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 3 billion euro relating to a covered bond that matured during the fourth quarter of 2011, 13.6 billion euro relating to issues acquired in full by the Parent Company and subject to early redemption or matured and 3.5 billion euro relating to an exchange offer to investors during 2012, of which 2 billion euro that matured in the second quarter of 2017).
In 2019, the thirteenth and tenth series of covered bonds were partially redeemed in advance in the nominal amounts of 0.6 billion euro and 0.1 billion euro, respectively.

Therefore, as at 31 December 2019, a total nominal amount of 4.9 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 4.8 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, launched in 2010, amounting to a maximum of 25 billion euro (the original maximum amount was 20 billion euro), the guarantor of the covered bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans and, initially bonds issued by Adriano Finance S.r.l., originated by Intesa Sanpaolo, were transferred. The Bank gradually sold the vehicle mortgage loans with an original total nominal value of 32.5 billion euro (net of retrocessions). During 2019, Intesa Sanpaolo also transferred residential mortgage loans with an original total nominal value of 1.67 billion euro to the vehicle in March, and retrocessions of non-performing loans with a nominal value of 0.4 billion euro were closed in October. As at 31 December 2019, the loans sold to the vehicle had a book value of 19 billion euro. Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of covered bonds for a total nominal value of approximately 31.7 billion euro (of which 8.2 billion euro subject to early redemption in 2012, 1 billion euro matured in the fourth quarter of 2015, 2.5 billion euro matured in the third quarter of 2016, 1.86 billion euro matured in the second quarter of 2017 and 0.75 billion euro matured in the third quarter of 2018).
During 2019:
- the twelfth series of CB, with a nominal value of 1 billion euro, reached maturity in September;
- in March, series 25 of CB was placed on the market, in the form of a fixed-rate bond (0.50%), for a nominal value of 1 billion euro, with a 5-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa3 rating;
- in April, series 26 of CB was issued in the form of a floating-rate bond, with a 9-year maturity, for a nominal value of 500 million euro, listed on the Luxembourg Stock Exchange with a Moody's Aa3 rating. The bond was entirely subscribed by the Parent Company.

As at 31 December 2019, a total nominal amount of 17.9 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.9 billion placed with third party investors and 6 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages for a maximum amount of 50 billion euro (the original maximum amount was 30 billion euro). The programme aims to achieve retained issues. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli (merged into Intesa Sanpaolo in November 2018), Cassa di Risparmio del Veneto (merged into Intesa Sanpaolo in July 2018), Cassa di Risparmio in Bologna (merged into Intesa Sanpaolo in February 2019) and, from May 2015, Cassa di Risparmio di Firenze (merged into Intesa Sanpaolo in February 2019). Over time, the Bank has sold mortgages to the vehicle for an original total nominal value of 51.1 billion euro (net of exclusions).
The following sales were also carried out in 2019:
- in May, for a total of 7 billion euro;
- in June, for a total of 2.8 billion euro;
- in November, for a total of 2.4 billion euro.

In October 2019, Intesa Sanpaolo closed retrocessions of non-performing loans with a nominal value of 0.9 billion euro.
As at 31 December 2019, the loans sold to the vehicle by the Bank had a book value of 39.5 billion euro. Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 61.2 billion euro (of which 31.2 billion euro subject to early redemption and reimbursed).
During 2019:
- in February, the securities of series 13 and 14 were redeemed in advance for a total of 2.75 billion euro;
- in February, the 32nd series of CB was issued with a nominal value of 1.65 billion euro. This is a 5-year, floating-rate bond;
- in February, the 33rd series of CB was issued with a nominal value of 1.65 billion euro. This is a 13-year, floating-rate bond.
- in June, the 34th series of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;
- in June, the 35th series of CB was issued with a nominal value of 1.6 billion euro. This is a 10-year, floating-rate bond.
- in June, the 36th series of CB was issued with a nominal value of 1.8 billion euro. This is a 14-year, floating-rate bond.
- in December, the 37th series of CB was issued with a nominal value of 1.25 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations.
As at 31 December 2019, the issues made under the programme guaranteed by the vehicle ISP OBG had a total nominal amount of 36.78 billion euro, fully subscribed by Intesa Sanpaolo and subsequently used in repurchase agreements for 250 million euro.

The main features of the issues are shown in the table below.

(millions of euro)

VEHICLE	NAME	TYPE OF UNDERLYING ASSET	ISSUE	MATURITY	RATING	VEHICLE DATA		SUBORDINATED FINANCING (1)	COVERED BOND ISSUED				
						Total assets	Cumulated write-downs to the securitised portfolio	amount	nominal amount (2)	book value (2)		IAS classification	Valuation
ISP CB PUBBLICO						6,179	9	5,962	147	154			
	Intesa Sanpaolo 18/25 1,125%	Bonds and loans to the public sector	27/01/2011	27/01/2021	A3				147	154		Securities issued	Amortised cost
ISP CB IPOTECARIO						23,696	37	22,298	11,963	12,676	(3)		
	Intesa Sanpaolo 11/26 5.25%	Mortgage loans	17/02/2011	17/02/2026	A2				100	126		Securities issued	Amortised cost
	Intesa Sanpaolo 11/31 5.375%	Mortgage loans	17/02/2011	17/02/2031	A2				300	421		Securities issued	Amortised cost
	Intesa Sanpaolo 11/27 5.25%	Mortgage loans	16/09/2011	16/09/2027	A2				210	255		Securities issued	Amortised cost
	Intesa Sanpaolo 12/21 5%	Mortgage loans	16/07/2012	27/01/2021	A2				1,353	1,465		Securities issued	Amortised cost
	Intesa Sanpaolo 12/22 3.625%	Mortgage loans	03/12/2012	05/12/2022	A2				1,250	1,305		Securities issued	Amortised cost
	Intesa Sanpaolo 13/25 3.375%	Mortgage loans	24/01/2013	24/01/2025	A2				1,000	1,100		Securities issued	Amortised cost
	Intesa Sanpaolo 14/26 3.25%	Mortgage loans	10/02/2014	10/02/2026	A2				1,250	1,435		Securities issued	Amortised cost
	Intesa Sanpaolo 15/22 0.625%	Mortgage loans	23/01/2015	20/01/2022	Aa2				1,000	1,009		Securities issued	Amortised cost
	Intesa Sanpaolo 15/25 1.375%	Mortgage loans	18/12/2015	18/12/2025	Aa2				1,250	1,266		Securities issued	Amortised cost
	Intesa Sanpaolo 16/23 0.625%	Mortgage loans	23/03/2016	23/03/2023	Aa2				1,250	1,250		Securities issued	Amortised cost
	Intesa Sanpaolo 16/23 1.125%	Mortgage loans	16/06/2017	16/06/2027	Aa2				1,000	1,006		Securities issued	Amortised cost
	Intesa Sanpaolo 07/25 1.125%	Mortgage loans	13/07/2018	14/07/2025	Aa2				1,000	1,038		Securities issued	Amortised cost
	Intesa Sanpaolo 03/24 0.5%	Mortgage loans	05/03/2019	05/03/2024	Aa3				1,000	1,000		Securities issued	Amortised cost
ISP OBG						45,668	112	45,463	250	250			
	Intesa Sanpaolo 08/26 FRN	Mortgage loans	22/11/2018	20/08/2026	A (High)				250	250		Securities issued	Amortised cost

(1) This caption includes the subordinated loan granted by Intesa Sanpaolo to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with professional investors for almost the entire amount issued.

The additional information required by IFRS 12 is not provided by banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

At year-end, the expected loss amounted to 0.40% of disbursed loans, down by 0.04% on the end of 2018 (0.44%). This figure has been restated pro-forma to take account of the mergers of Group banks into Intesa Sanpaolo in 2018. The reduction was mainly due to the general improvement in credit quality, particularly in the Corporate and Retail SME segments, partly due to a recomposition of the portfolio following the exit from high-risk operations.
For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function and a third level of control by the Internal Auditing Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

SECTION 2 – MARKET RISKS

REGULATORY TRADING BOOK

2.1. INTEREST RATE RISK AND PRICE RISK

Qualitative information
Qualitative information on the measurement of financial risks of Intesa Sanpaolo's regulatory trading book is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information
Operational quantitative information on Intesa Sanpaolo's market risks is contained in Part E of the Notes to the consolidated financial statements.

BANKING BOOK

2.2 INTEREST RATE RISK AND PRICE RISK

Qualitative information
Qualitative information on the measurement of financial risks in Intesa Sanpaolo's banking book is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

Banking book - internal models and other sensitivity analysis methodologies
The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 806 million euro, -888 million euro and 1,622 million euro, respectively, at the end of 2019. This latter figure was up compared to the end of 2018, when it was 1,334 million euro.
The above potential impact would be reflected, in the case of invariance of the other income components, also in the Bank's year-end profit and loss net of tax.

Interest rate risk, generated by Intesa Sanpaolo's banking book, measured through value shift sensitivity (sensitivity of portfolio value to a parallel and uniform shift in the yield curve of +100 basis points), recorded an average of 1,577 million euro during 2019 and amounted to 1,190 million euro at year-end.

Interest rate risk, measured in terms of VaR (99% confidence level, 10-day holding period), amounted to an average of 131 million euro during 2019, with a maximum value of 154 million euro and a minimum value of 107 million euro, equal to the 2019 year-end figure.

Price risk generated by minority stakes in listed companies, mostly held in the HTCS category and measured in terms of VaR, recorded an average level during 2019 of 60 million euro (52 million euro at the end of 2018), with maximum and minimum values of 75 million euro and 43 million euro respectively, with the latter coinciding with the value at the end of 2019. Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock for the abovementioned quoted assets recorded in the HTCS portfolio.

Price risk: impact on Shareholders' Equity

(millions of euro)

		I Quarter 2019 Impact on shareholders' equity at 31.03.2019	II Quarter 2019 Impact on shareholders' equity at 30.06.2019	III Quarter 2019 Impact on shareholders' equity at 30.09.2019	IV Quarter 2019 Impact on shareholders' equity at 31.12.2019	Impact on shareholders' equity at 31.12.2018
Price shock	10%	59	56	52	50	39
Price shock	-10%	-59	-56	-52	-50	-39

2.3. FOREIGN EXCHANGE RISK

Qualitative information

Qualitative information, including hedging activities of foreign exchange risk, is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

	CURRENCIES				
	US dollar	GB pound	Swiss franc	Yen	Other currencies
A. FINANCIAL ASSETS	**23,162**	**2,006**	**315**	**3,291**	**3,615**
A.1 Debt securities	4,171	563	-	2,166	352
A.2 Equities	79	-	6	-	436
A.3 Loans to banks	5,605	279	184	19	869
A.4 Loans to customers	13,307	1,164	125	1,106	1,958
A.5 Other financial assets	-	-	-	-	-
B. OTHER ASSETS	**3,078**	**188**	**24**	**277**	**49**
C. FINANCIAL LIABILITIES	**25,325**	**903**	**401**	**714**	**1,354**
C.1 Due to banks	9,264	226	326	49	1,010
C.2 Due to customers	5,588	374	75	105	286
C.3 Debt securities	10,473	303	-	560	58
C.4 Other financial liabilities	-	-	-	-	-
D. OTHER LIABILITIES	**257**	**11**	**-**	**3**	**22**
E. FINANCIAL DERIVATIVES					
- Options					
long positions	*694*	*110*	*-*	*9*	*111*
short positions	*593*	*104*	*-*	*9*	*112*
- Other derivatives					
long positions	*70,578*	*9,417*	*3,526*	*4,214*	*10,118*
short positions	*71,199*	*10,291*	*3,482*	*7,126*	*12,080*
TOTAL ASSETS	**97,512**	**11,721**	**3,865**	**7,791**	**13,893**
TOTAL LIABILITIES	**97,374**	**11,309**	**3,883**	**7,852**	**13,568**
DIFFERENCE (+/-)	**138**	**412**	**-18**	**-61**	**325**

2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included within the operating procedures and the estimation methodologies of the internal model based on VaR calculations, as described in Part E of the Notes to the consolidated financial statements.
Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 10 million euro as at 31 December 2019. This potential impact would only be reflected in the Shareholders' Equity.

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

The Bank is authorised to use EPE (Expected Positive Exposure) internal approaches to determine the capital requirement for counterparty risk.
These approaches are used for almost the entire trading book (as shown in the table below, as at 31 December 2019 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models).
Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2019 accounting for approximately 2% of overall EAD) and refer to residual contracts which are not simulated, in compliance with the immateriality of the EBA thresholds.

As a result of the enactment of the new rules of Basel 3, the scope of counterparty risk also includes Exchange Traded Derivatives (ETD) and contracts with central counterparties (CCP).

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

(millions of euro)

Transaction categories	Exposure at default (EAD)			
	31.12.2019		31.12.2018	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	155	8,457	46	7,910

Using the EPE internal model, it is possible to consider the collateral collected to mitigate credit exposure and any excess collateral paid in the simulation. The value of guarantees received and included in the calculation of the EAD amounted to around 2 billion euro for Intesa Sanpaolo, while the collateral paid amounted to approximately 9 billion euro.

3.1 Trading derivatives

A. FINANCIAL DERIVATIVES

A.1. Financial trading derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivatives	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	**-**	**347,213**	**44,727**	**-**	**-**	**461,683**	**43,558**	**-**
a) Options	-	7,034	2,553	-	-	7,759	2,676	-
b) Swaps	-	340,179	39,190	-	-	453,924	36,857	-
c) Forwards	-	-	14	-	-	-	20	-
d) Futures	-	-	2,970	-	-	-	4,005	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**841**	**1,372**	**1**	**-**	**794**	**550**	**2**
a) Options	-	828	1,359	1	-	785	536	2
b) Swaps	-	13	13	-	-	9	9	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	5	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**148,195**	**12,485**	**-**	**-**	**121,399**	**11,741**	**-**
a) Options	-	4,340	862	-	-	3,889	910	-
b) Swaps	-	31,550	3,433	-	-	31,023	2,404	-
c) Forwards	-	110,871	7,769	-	-	85,505	7,986	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	1,434	421	-	-	982	441	-
4. Commodities	**-**	**3,081**	**625**	**-**	**-**	**3,224**	**802**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**499,330**	**59,209**	**1**	**-**	**587,100**	**56,651**	**2**

The Bank has traded on organised futures markets through direct participants mainly belonging to the Group Investment Bank.

A.2. Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	259	70	-	-	294	76	-
b) Interest rate swaps	-	9,106	2,854	-	-	7,744	2,376	-
c) Cross currency swaps	-	1,621	261	-	-	1,416	262	-
d) Equity swaps	-	1	4	-	-	-	-	-
e) Forwards	-	855	65	-	-	866	60	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	178	51	-	-	217	56	-
Total	**-**	**12,020**	**3,305**	**-**	**-**	**10,537**	**2,830**	**-**
2. Negative fair value								
a) Options	-	270	79	-	-	307	91	-
b) Interest rate swaps	-	11,502	797	-	-	9,846	628	-
c) Cross currency swaps	-	1,055	748	-	-	1,029	621	-
d) Equity swaps	-	4	1	-	-	2	-	-
e) Forwards	-	832	62	-	-	936	89	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	201	27	-	-	246	38	-
Total	**-**	**13,864**	**1,714**	**-**	**-**	**12,366**	**1,467**	**-**

A.3. Over the counter financial trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	10,820	2,305	31,601
- positive fair value	X	1,079	68	1,763
- negative fair value	X	-690	-1	-129
2) Equities and stock indices				
- notional amount	X	66	816	490
- positive fair value	X	2	-	9
- negative fair value	X	-	-	-48
3) Foreign exchange rates and gold				
- notional amount	X	1,437	1,946	9,101
- positive fair value	X	3	10	323
- negative fair value	X	-650	-38	-134
4) Commodities				
- notional amount	X	-	78	547
- positive fair value	X	-	1	47
- negative fair value	X	-	-1	-23
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	-	331,003	6,095	10,116
- positive fair value	-	8,262	329	682
- negative fair value	-	-11,140	-232	-340
2) Equities and stock indices				
- notional amount	-	823	19	-
- positive fair value	-	48	6	-
- negative fair value	-	-9	-	-
3) Foreign exchange rates and gold				
- notional amount	-	119,159	17,531	11,506
- positive fair value	-	2,039	180	308
- negative fair value	-	-1,348	-162	-443
4) Commodities				
- notional amount	-	1,853	7	1,221
- positive fair value	-	109	1	56
- negative fair value	-	-105	-	-85
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4. Residual maturity of over the counter financial derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	106,108	138,123	147,708	391,939
A.2 Financial derivatives on equities and stock indices	781	952	482	2,215
A.3 Financial derivatives on foreign exchange rates and gold	125,487	22,926	12,267	160,680
A.4 Financial derivatives on commodities	1,956	1,749	-	3,705
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**234,332**	**163,750**	**160,457**	**558,539**
Total 31.12.2018	**189,197**	**212,864**	**241,690**	**643,751**

B. CREDIT DERIVATIVES

B.1. Credit trading derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	Trading derivatives	
	single counterparty	more counterparties (basket)
1. Protection purchases		
a) Credit default products	1,368	12,571
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**1,368**	**12,571**
Total 31.12.2018	**939**	**7,939**
2. Protection sales		
a) Credit default products	260	13,199
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2019	**260**	**13,199**
Total 31.12.2018	**188**	**8,375**

As at 31 December 2019, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.2. Credit trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Total 31.12.2019	Total 31.12.2018
1. Positive fair value		
a) Credit default products	403	123
b) Credit spread products	-	
c) Total rate of return swap	-	
d) Other	-	
Total	**403**	**123**
2. Negative fair value		
a) Credit default products	435	128
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**435**	**128**

As at 31 December 2019, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.3. Over the counter credit trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Protection purchases				
− notional amount	X	-	-	192
− positive fair value	X	-	-	45
− negative fair value	X	-	-	-
2) Protection sales				
− notional amount	X	-	-	-
− positive fair value	X	-	-	-
− negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Protection purchases				
− notional amount	-	12,943	804	-
− positive fair value	-	2	3	-
− negative fair value	-	-370	-17	-
2) Protection sales				
− notional amount	-	12,471	988	-
− positive fair value	-	328	25	-
− negative fair value	-	-48	-	-

As at 31 December 2019, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.4. Residual maturity of over the counter credit trading derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
1. Protection sales	50	13,217	192	13,459
2. Protection purchases	280	13,383	276	13,939
Total 31.12.2019	**330**	**26,600**	**468**	**27,398**
Total 31.12.2018	**78**	**16,944**	**419**	**17,441**

B.5. Credit derivatives associated with the fair value option: annual changes

Intesa Sanpaolo does not hold credit derivatives associated with the fair value option.

3.2. Accounting hedges

Qualitative information

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Group uses both micro fair value hedges and macro fair value hedges.
The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.
The macro fair value hedges are used for:

- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans. For this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

B. Cash flow hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the Group from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.

The Group uses both micro cash flow hedges and macro cash flow hedges.
The micro cash flow hedges mainly hedge bonds issued.
The macro cash flow hedges are used for:

- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties or with other Group companies, which, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

C. Hedging of foreign investments

In 2019, foreign exchange hedges were taken out against the foreign exchange risk on the cost of funding in foreign currency and on foreign currency gains generated by the Parent Company's international branches. These are operational hedges, which are the therefore not recognised as accounting hedges covered by this section.

D. Hedging instruments

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of the hedges are attributable to the following:
– misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
– application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised, are discounted on the Eonia curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
– inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:
– the determination of the effect on the income statement;
– the assessment of the possibility of continuing to apply the hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. Hedged items

The main types of hedged items are:
– debt securities under assets;
– debt securities issued and non-securities funding;
– fixed-rate loans;
– floating-rate loans;
– optional embedded component of floating-rate mortgages;
– already fixed coupon of floating rate-loans;
– modelled on demand deposits.

E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

E.2 Debt securities issued and non-securities funding

The Group currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.
For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

E.3 Fixed-rate loans

The Group has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.
The interest rate risk is hedged throughout the life of the underlying.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.
For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.

E.4 Floating-rate loans
The Group currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments.
The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

E.5 Optional embedded component of floating-rate mortgages
The optional embedded components (interest rate options) of floating-rate mortgages are hedged by micro fair value hedges, using options (cap, floor, collar) as hedging instruments.
The underlying assets may be partially or totally hedged, over time and in terms of amount.

The Dollar Offset Method is used to verify the hedge effectiveness.

E.6 Already fixed coupon of floating-rate loans
This is hedged by macro fair value hedges, using OIS as hedging instruments.
The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.
The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

E.7 Modelled on demand deposits.
Modelled on demand deposits are hedged by macro fair value hedges, as required by the "carve out" of IAS 39, using IRS and OIS as hedging instruments.
The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by the Bank's core deposits.
The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary.
The Dollar Offset Method is used to verify the hedge effectiveness.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivative	31.12.2019				31.12.2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**166,189**	**-**	**-**	**-**	**152,658**	**11**	**-**
a) Options	-	2,627	-	-	-	2,888	-	-
b) Swaps	-	163,562	-	-	-	149,770	11	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**6,242**	**-**	**-**	**-**	**2,349**	**13**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	6,242	-	-	-	2,349	13	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**-**	**172,431**	**-**	**-**	**-**	**155,007**	**24**	**-**

The average notional amount in the year of the financial hedging derivatives was 167,767 million euro.

A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2019				Total 31.12.2018				Total 31.12.2019	Total 31.12.2018
	Over the counter			Organized markets	Over the counter			Organized markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	17	-	-	-	47	-	-	-183	-169
b) Interest rate swap	-	2,434	-	-	-	2,546	-	-	2,127	2,044
c) Cross currency swap	-	379	-	-	-	285	-	-	116	59
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**2,830**	**-**	**-**	**-**	**2,878**	**-**	**-**	**2,060**	**1,934**
Negative fair value										
a) Options	-	4	-	-	-	4	-	-	1	4
b) Interest rate swap	-	6,958	-	-	-	5,066	1	-	6,242	4,317
c) Cross currency swap	-	361	-	-	-	287	-	-	356	267
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**7,323**	**-**	**-**	**-**	**5,357**	**1**	**-**	**6,599**	**4,588**

A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

(millions of euro)

Underlying asset	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	-	164,822	1,367	-
- positive fair value	-	2,404	48	-
- negative fair value	-	-6,342	-620	-
2) Equities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold				
- notional amount	-	5,838	404	-
- positive fair value	-	373	5	-
- negative fair value	-	-199	-162	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of over the counter financial hedging derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	65,111	47,175	53,903	166,189
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	10	3,990	2,242	6,242
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**65,121**	**51,165**	**56,145**	**172,431**
Total 31.12.2018	**32,234**	**70,579**	**52,218**	**155,031**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: period-end notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product

B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty

B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts

Intesa Sanpaolo does not hold credit derivatives classified as hedges in its portfolio

C. Non-derivative hedging instruments

C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the Bank does not hold financial instruments to be shown in table "C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge".

INFORMATION ON THE UNCERTAINTY DERIVING FROM HEDGING DERIVATIVE BENCHMARK INDICES

As illustrated in Part A – Accounting policies, Intesa Sanpaolo has exercised the option of early adoption of Regulation (EU) 34/2020 of 15 January 2020 for the 2019 Financial Statements, which adopted the document issued by the IASB in September 2019 on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)". This regulation introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships. Therefore, the analysis of hedge effectiveness was carried out considering the flows and timing of outstanding hedging derivatives, assuming that the interest rate benchmarks used to set existing interest rates will not be changed as a result of the Interest Rate Benchmark Reform (IBOR Reform).
The disclosure required by IFRS 7, paragraph 24H, on the uncertainty arising from interest rate benchmark reform on hedging relationships and the nominal amount of hedging instruments potentially impacted by the benchmark rate reform is provided below. Reference should also be made to that set out in the Notes to the consolidated financial statements, in the Introduction of Part E – Information on risks and relative hedging policies, for an illustration of how the Group is managing the process to transition to alternative benchmark rates.

Fair value hedge derivatives

Fair value hedge derivatives of the Bank are mainly index-linked to the Euribor, whose calculation method was revised during 2019 to be able to continue using that parameter also after 1 January 2022, both for outstanding contracts and new contracts. To make the Euribor compliant with the EU Benchmarks Regulation (BMR - Regulation 2016/1011/EU) the EMMI - European Money Markets Institute - completed the change to a new "hybrid" calculation method. The new calculation system – which was completed at the end of November 2019 – does not change the economic variable that the benchmark measures: the Euribor expresses the actual cost of funding for contributing European banks and is always available and consultable.
Therefore, the Bank does not deem that there is uncertainty on the timing or cash flows of the Euribor and does not consider the fair value hedges linked to the Euribor to be impacted by the reform as at 31 December 2019.
The fair value hedges also include derivatives index-linked to benchmarks impacted by the reform, specifically to the EONIA and the LIBOR, for the various currencies, which will be replaced in the future with new risk-free interest rates. Specifically, in Europe, the EONIA fixing, calculated starting from October 2019 based on the new risk-free rate €STR, will be published until the end of 2021 and then permanently replaced by €STR. The publication of the LIBOR is also expected to be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the LIBOR.
Specifically, as at 31 December 2019, there were fair value hedges index-linked to the EONIA for a notional amount of 59,019 million euro, of which 16,112 million euro maturing after 31 December 2021, to the LIBOR USD for a notional amount of 10,492 million euro, all maturing after 31 December 2021, and to other interest rates impacted by the reform, such as the LIBOR of other currencies, for a notional amount of 78 million euro, of which 53 million euro maturing after 31 December 2021. These amounts represent 42% of the total of fair value hedge derivatives of the Bank and 16% considering only derivatives maturing after 31 December 2021.

Cash flow hedge derivatives

Cash flow hedge derivatives are index-linked to the Euribor. As illustrated for fair value hedges, the Bank does not deem that there is uncertainty on the timing or cash flows of the Euribor, and, therefore does not consider the cash flow hedges linked to the Euribor to be impacted by the reform as at 31 December 2019.

D. Hedged items

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

D.1 Fair value hedges

(millions of euro)

	Micro-hedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Micro-hedges			Macro-hedges: book value
			Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	
A. Assets						
1. Financial assets designated at fair value through other comprehensive income – hedging of:	**24,360**	**-**	**258**	**103**	**284**	**-**
1.1 Debt securities and interest rates	22,838	-	265	103	250	x
1.2 Equities and stock indices	-	-	-	-	-	x
1.3 Foreign exchange rates and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	1,522	-	-7	-	34	x
2. Financial assets measured at amortised cost - hedging of:	**11,290**	**-**	**2,826**	**4**	**2,923**	**64,794**
1.1 Debt securities and interest rates	10,759	-	2,531	4	2,628	x
1.2 Equities and stock indices	-	-	-	-	-	x
1.3 Foreign exchange rates and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	531	-	295	-	295	x
Total 31.12.2019	**35,650**	**-**	**3,084**	**107**	**3,207**	**64,794**
Total 31.12.2018	**35,221**	**-**	**2,634**	**104**	**2,722**	**42,166**
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:	**34,074**	**-**	**1,332**	**264**	**1,641**	**19,413**
1.1 Debt securities and interest rates	29,630	-	1,249	264	1,548	x
1.2 Foreign exchange rates and gold	-	-	-	-	-	x
1.3 Other	4,444	-	83	-	93	x
Total 31.12.2019	**34,074**	**-**	**1,332**	**264**	**1,641**	**19,413**
Total 31.12.2018	**82,221**	**-**	**1,285**	**102**	**1,669**	**6,031**

D.2 Cash flow hedges and hedges of foreign investments

(millions of euro)

		Change in value used to assess hedge ineffectiveness	Hedging reserves	Termination of hedging: residual cumulative value of the hedging reserves
A. Cash flow hedge				
1. Assets		**-**	**-**	**-**
1.1 Debt securities and interest rates		-	-	-
1.2 Equities and stock indices		-	-	-
1.3 Foreign exchange rates and gold		-	-	-
1.4 Loans		-	-	-
1.5 Other		-	-	-
2. Liabilities		**-1,216**	**-1,262**	**-**
1.1 Debt securities and interest rates		-1,216	-1,262	-
1.2 Foreign exchange rates and gold		-	-	-
1.3 Other		-	-	-
Total (A)	**31.12.2019**	**-1,216**	**-1,262**	**-**
Total (A)	**31.12.2018**	**-1,036**	**-1,150**	**-**
B. Hedges of foreign investments		X	-	-
Total (A+B)	**31.12.2019**	**-1,216**	**-1,262**	**-**
Total (A+B)	**31.12.2018**	**-1,036**	**-1,150**	**-**

E. Effects of hedging on shareholders' equity

E.1 Reconciliation of components of shareholders' equity

(millions of euro)

	Cash flow hedging reserve					**Reserve for hedging of foreign investments**				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
Initial amount	**-1,150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	-68	-	-	-	-	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	*X*	*X*	*X*	*X*	*X*
Other changes	-44	-	-	-	-	-	-	-	-	-
of which: transfer to the initial book value of the hedged instruments)	-	-	-	-	-	*X*	*X*	*X*	*X*	*X*
Final amount	**-1,262**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The aggregate "Other changes" includes the opening balances of the cash flow hedge reserve of the Group companies absorbed during the year.
The category "Hedging instruments (non-designated items)" is not present, because Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

3.3. Other information on derivative instruments (trading and hedging)

A. Credit and financial derivatives

A.1 Over the counter credit and financial derivatives: net fair values by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	506,645	9,767	41,717
- positive net fair value	-	1,184	156	1,869
- negative net fair value	-	-707	-37	-129
2) Equities and stock indices				
- notional amount	-	889	835	490
- positive net fair value	-	1	-	9
- negative net fair value	-	-	-	-48
3) Foreign exchange rates and gold				
- notional amount	-	126,434	19,881	20,607
- positive net fair value	-	60	41	449
- negative net fair value	-	-690	-76	-146
4) Commodities				
- notional amount	-	1,853	85	1,768
- positive net fair value	-	-	1	47
- negative net fair value	-	-	-1	-23
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	934	101	160
- negative net fair value	-	-7,033	-744	-202
B. Credit derivatives				
1) Protection purchases				
- notional amount	-	12,943	804	192
- positive net fair value	-	-	-	45
- negative net fair value	-	-	-	-
2) Protection sales				
- notional amount	-	12,471	988	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**34,477**	**34,439**	**10,990**	**23,099**	**43,110**	**27,919**	**27,299**	**128,947**	**107,540**	**10,389**
A.1 Government bonds	16	1	104	1,531	952	2,838	2,946	11,643	9,534	-
A.2 Other debt securities	16	571	728	4,748	215	243	163	2,346	4,306	-
A.3 Quotas of UCI	990	-	-	-	-	-	-	-	-	3
A.4 Loans	33,455	33,867	10,158	16,820	41,943	24,838	24,190	114,958	93,700	10,386
- Banks	9,455	23,687	4,325	6,586	26,047	9,076	5,221	17,277	3,251	10,329
- Customers	24,000	10,180	5,833	10,234	15,896	15,762	18,969	97,681	90,449	57
B. Cash liabilities	**248,619**	**15,117**	**3,812**	**6,946**	**10,140**	**28,312**	**13,154**	**90,114**	**33,137**	**-**
B.1 Deposits and current accounts	242,712	719	1,366	3,446	7,141	7,047	9,382	24,939	7,701	-
- Banks	13,289	552	988	3,248	6,928	6,721	8,340	23,631	7,701	-
- Customers	229,423	167	378	198	213	326	1,042	1,308	-	-
B.2 Debt securities	11	3	1,626	955	2,946	2,661	2,747	32,412	21,744	-
B.3 Other liabilities	5,896	14,395	820	2,545	53	18,604	1,025	32,763	3,692	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	10,720	6,010	12,361	15,116	8,268	7,343	12,882	5,998	-
- Short positions	-	11,975	4,310	9,915	11,243	7,437	6,691	12,658	7,230	-
C.2 Financial derivatives without exchange of capital										
- Long positions	11,025	33	1	26	155	300	475	-	-	-
- Short positions	11,377	31	12	73	182	400	494	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	8,371	-	-	-	-	-	-	-	-	-
- Short positions	-	8,366	-	-	-	-	-	6	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	15,203	-	8	1	96	826	9,649	981	-
- Short positions	26,731	35	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	45	-	-	-	-	-	2	31	25	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	403	-	-	-	-	-	-	-	-	-
- Short positions	426	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**2,718**	**2,593**	**739**	**2,077**	**2,424**	**2,793**	**4,827**	**9,561**	**4,139**	**48**
A.1 Government bonds	6	-	29	159	63	43	448	2,366	643	-
A.2 Other debt securities	8	134	3	106	50	186	205	1,141	1,432	-
A.3 Quotas of UCI	23	-	-	-	-	-	-	-	-	-
A.4 Loans	2,681	2,459	707	1,812	2,311	2,564	4,174	6,054	2,064	48
- Banks	807	807	202	263	783	1,053	2,493	647	-	40
- Customers	1,874	1,652	505	1,549	1,528	1,511	1,681	5,407	2,064	8
B. Cash liabilities	**4,768**	**1,764**	**1,343**	**1,682**	**2,183**	**1,339**	**984**	**10,500**	**4,380**	**-**
B.1 Deposits and current accounts	4,526	1,081	1,057	1,325	774	704	772	2,981	867	-
- Banks	1,619	411	662	560	218	298	728	2,847	867	-
- Customers	2,907	670	395	765	556	406	44	134	-	-
B.2 Debt securities	2	53	104	43	419	80	208	7,075	3,506	-
B.3 Other liabilities	240	630	182	314	990	555	4	444	7	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	38	19,742	6,691	14,777	14,841	9,839	9,789	14,291	8,488	-
- Short positions	528	18,944	8,377	17,214	18,014	10,281	10,391	14,037	6,772	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,294	1	137	-	8	66	209	-	-	-
- Short positions	1,309	-	90	-	29	82	202	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	30	-	-	-	-	-	-	-	-	-
- Short positions	-	3	-	18	-	9	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	100	97	543	143	1,057	9,991	741	-
- Short positions	12,460	213	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	1	2	18	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	9	-	-	-	-	-	-	-	-	-

2. Self-securitisations

A brief illustration of the securitisations originated by Intesa Sanpaolo outstanding as at 31 December 2019 is shown below, in which the Bank subscribed all the securities issued by the related vehicle (self-securitisations), and which need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the financial statements.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in December 2017, which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts to Adriano Lease Sec S.r.l. for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the bank for refinancing operations on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. originally issued two series of notes:

– a senior tranche (Class A), with a nominal amount of 2.9 billion euro, listed and assigned an A1 rating by Moody's and an A rating by DBRS Morningstar;
– a junior tranche (Class B), with a nominal amount of 1.4 billion euro, unlisted and unrated.

Following the merger by incorporation, the securities originally purchased by Mediocredito Italiano S.p.A. were included in Intesa Sanpaolo. As at 31 December 2019, the senior securities came to 1,550 million euro and junior securities to 1,350 million euro.
The senior securities are eligible for use in the Eurosystem.

Brera Sec S.r.l.

In October 2017, a self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec. Srl and originated by the Parent Company and by four banks of the Group subsequently incorporated into Intesa Sanpaolo (Banco di Napoli, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia, incorporated in the second half of 2018 and Cassa di Risparmio in Bologna, incorporated in the first half of 2019). The underlying consisted of residential mortgage loans held by households and/or family businesses. This transaction was the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The Transaction involved the issuance by the vehicle company of two tranches of securities:

- a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility;
- and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

Each selling bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo take cares of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A.
The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro.
The securities, which are listed with an Aa3 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been subscribed by Intesa Sanpaolo.
Following the merger by incorporation of Cassa di Risparmio in Bologna into Intesa Sanpaolo on 25 February 2019, the loans sold were transferred to the Intesa Sanpaolo portfolio.
As at 31 December 2019, the value of the outstanding subscribed securities for Intesa Sanpaolo was 4,772 million euro for senior securities and 1,067 million euro for junior securities.

Brera Sec S.r.l. (SME)

In October 2018, a self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec. S.r.l. and originated by the Parent Company and three of the Group banks subsequently incorporated by Intesa Sanpaolo (Banco di Napoli, incorporated in the second half of 2018 and Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze, incorporated in the first half of 2019). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).
This transaction is the Group's second Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed *pro rata* by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
Following the merger by incorporation of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze into Intesa Sanpaolo on 25 February 2019, the respective loans sold were transferred to the Intesa Sanpaolo portfolio.
On origination, the total sale consideration was 5.3 billion euro. The sale price was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.
The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and were subscribed by Intesa Sanpaolo.
As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was 1,890 million euro for senior securities and 1,530 million euro for junior securities.

Brera Sec S.r.l. (SEC 2)

In September 2019, a new self-securitisation was structured, implemented through the sale of a loan portfolio originated by Intesa Sanpaolo to the vehicle company Brera Sec. S.r.l. This transaction is the Group's third Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities on 27 November 2019: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS Morningstar) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating.
Both the senior and junior securities were subscribed by Intesa Sanpaolo, so that the loans could remain in the balance sheet of Intesa Sanpaolo without derecognition.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem.
The total sale consideration was 7,519 million euro. The sale price of the portfolio was settled through the issuance of securities on 27 November 2019 for a total of 7,510 billion euro.
The securities, which are listed with an A1 Moody's and an A (High) DBRS Morningstar rating, are eligible for the Eurosystem and have been fully subscribed by Intesa Sanpaolo.
As at 31 December 2019, the value of the outstanding securities subscribed by Intesa Sanpaolo was 6,650 million euro for senior securities and 860 million euro for junior securities.

Berica ABS 5 S.r.l.

This is a self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:

- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2019, securities totalling 325 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A+") and Moody's ("A2") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), unrated and indexed to the 3-month Euribor.

Claris RMBS 2016 S.r.l.

In November 2016, Veneto Banca arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 S.r.l.", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:

- class A tranche of 929 million euro, which had a residual amount of 522 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class B tranche of 116 million euro, which had a residual amount of 116 million euro as at 31 December 2019 and external ratings assigned by Fitch ("A+") and by DBRS Morningstar ("A High");
- class J1 tranche of 114 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 30 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were fully subscribed by Intesa Sanpaolo following the mergers by incorporation of Veneto Banca and Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2019, the book value of the remaining loans was 770 million euro.

Claris RMBS 2014 S.r.l.

In February 2014, Veneto Banca, together with Banca Apulia, (both incorporated into Intesa Sanpaolo), arranged a securitisation of mortgage loans which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in April 2014, "Claris RMBS 2014 S.r.l.", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 881 million euro, broken down as follows:

- class A1 tranche of 550 million euro, fully redeemed;
- class A2 tranche of 155 million euro, which had a residual amount of 135 million euro as at 31 December 2019 and external ratings assigned by Fitch ("AA") and by DBRS Morningstar ("AAA");
- class J1 tranche of 48 million euro, to be fully redeemed as at 31 December 2019, unrated;
- class J2 tranche of 128 million euro, to be fully redeemed as at 31 December 2019, unrated.

The class A1 and A2 securities are denominated in euro and provide for the payment of a quarterly floating rate coupon linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed by Intesa Sanpaolo, also following the mergers by incorporation of the portfolios of Veneto Banca and Banca Apulia.

The class A2 tranche can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro, were subscribed by Intesa Sanpaolo. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2019, the book value of the remaining loans was 333 million euro.

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2019
ADRIANO LEASE SEC SRL					
of which issued in euro					**2,901**
	Class A	Senior	Receivables from lease payments	Moody's A1 / DBRS A	1,550
	Class B	Junior	Receivables from lease payments	no rating	1,351
BRERA SEC SRL					
of which issued in euro					**5,839**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa3 / DBRS AH	4,772
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC SRL (SME)					
of which issued in euro					**3,420**
	Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1 / DBRS AH	1,890
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,530
BRERA SEC SRL (SEC 2)					
of which issued in euro					**7,510**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's A1 / DBRS AH	6,650
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	860
BERICA ABS 5 SRL					
of which issued in euro					**437**
	Class A	Senior	Mortgages	Fitch AA / Moody's Aa3	325
	Class B	Mezzanine	Mortgages	Fitch A+ / Moody's Aa3	39
	Class C	Mezzanine	Mortgages	Fitch A+ / Moody's A2	21
	Class J	Junior	Mortgages	no rating	52
CLARIS RMBS 2016 SRL					
of which issued in euro					**782**
	Class A	Senior	Mortgages	Fitch AA / DBRS AAA	522
	Class B	Mezzanine	Mortgages	Fitch A+ / DBRS AH	116
	Class J	Junior	Mortgages	no rating	144
CLARIS RMBS 2014 SRL					
of which issued in euro					**311**
	Class A	Senior	Mortgages	Fitch AA / DBRS AAA	135
	Class J	Junior	Mortgages	no rating	176
TOTAL					**21,200**

During 2019, the self-securitisations of Intesa Sanpaolo SEC S.A., Claris Finance 2008 S.r.l. and Claris SME 2015 S.r.l. were terminated. Adriano Lease SEC S.r.l. is a pre-existing securitisation, recorded as a self-securitisation following the merger of Mediocredito Italiano into Intesa Sanpaolo.

SECTION 5 – OPERATIONAL RISK

QUALITATIVE INFORMATION

The qualitative information, including legal risk and the tax litigation, is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

From 31 December 2010, Intesa Sanpaolo has been using the full AMA Method to determine its capital requirements, and the resulting capital requirement amount to 1,132 million euro.

Part F – Information on capital

SECTION 1 – PARENT COMPANY'S SHAREHOLDERS' EQUITY

A. Qualitative information

Qualitative information on capital and capital management policies is contained in Part F of the Notes to the consolidated financial statements.

Own funds, risk-weighted assets (RWA) and the capital ratios at 31 December 2019 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, amended by Regulation (EU) 2019/876 of 20 May 2019, also known as "CRR II", in force since 30 June 2019, and in part already applicable, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circular 285.

The transition phase for the introduction of the "Basel 3" regulatory framework was completed in 2017. It provided for the partial inclusion within or deduction from the Own Funds of certain items in accordance with the provisions of CRD IV and the CRR; in addition, the period of exemption from the amendments to be applied to IAS 19 with a filter on retained earnings reserves and actuarial losses ended in 2018.

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to adopt the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022.

Accordingly, the prudential ratios as at 31 December 2019 take account of the transitional provisions, which for 2019 are those limited to IFRS 9.

On 9 September 2019, Intesa Sanpaolo received notification of the ECB's permission to calculate capital ratios applying the so-called Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019.

B. Quantitative information

B.1. Parent Company's shareholders' equity: breakdown

(millions of euro)

Captions/Amounts	31.12.2019	31.12.2018
1. Share capital	9,086	9,085
2. Share premium reserve	25,233	24,926
3. Reserves	3,399	4,370
retained earnings:	2,620	3,789
a) legal reserve	1,545	1,545
b) statutory reserve	-	-
c) treasury shares	-	40
d) other	1,075	2,204
other	779	581
4. Equity instruments	4,103	4,103
5. (Treasury shares)	-61	-40
6. Valuation reserves	1,375	1,081
- Equity instruments measured at fair value through other comprehensive income	114	162
- Hedges of equity instruments measured at fair value through other comprehensive income	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	-21	-181
- Property and equipment	1,496	1,154
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	-847	-772
- Hedging instruments (not designated elements)	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	-363	-278
- Share of valuation reserves connected with investments carried at equity	-	-
- Legally-required revaluations	996	996
7. Net income (loss)	2,137	3,686
Total	**45,272**	**47,211**

Since own shares have already been accounted for by reducing shareholders' equity, during the year the balance of the relevant unavailable reserve previously presented in sub-caption 3 c) was reclassified with a balancing entry to the extraordinary reserve.

B.2. Valuation reserves of financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Assets/values	Total 31.12.2019		Total 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	28	-50	26	-207
2. Equity securities	247	-133	180	-18
3. Loans	1	-	-	-
Total	**276**	**-183**	**206**	**-225**

B.3. Valuation reserves of financial assets measured at fair value through other comprehensive income: annual changes

(millions of euro)

	Debt securities	Equity securities	Loans
1. Opening balance	**-181**	**162**	**-**
2. Positive changes	**346**	**83**	**1**
2.1. Fair value increases	334	91	-
2.2. Value adjustments for credit risk	8	-	1
2.3. Transfer to the income statement of negative reserves to be realized	4	-	-
2.4. Transfers to other equity (capital securities)	-	-	-
2.5. Other changes	-	-8	-
3. Negative changes	**-187**	**-131**	**-**
3.1. Fair value reductions	-39	-122	-
3.2. Write-backs for credit risk	-1	-	-
3.3. Reclassification throught profit or loss of positive reserves: following disposal	-147	-	-
3.4. Transfers to other equity (capital securities)	-	-8	-
3.5. Other changes	-	-1	-
4. Closing balance	**-22**	**114**	**1**

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year, the reserves in question recorded a negative change in items taken to the statement of comprehensive income of 16 million euro (of which a 22 million euro increase referring to pension funds and a 38 million euro decrease to employee termination indemnities). As at 31 December 2019 there was an overall negative reserve equal to 363 million euro for defined benefit plans.

Please note that the changes during the year primarily include the realignment of 10 million euro of the Valuation reserve for the portion corresponding to the obligation extinguished following the acceptance of the voluntary lump-sum conversion offer made to participants in the supplementary pension fund “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino”, merged with effect from 1 January 2019 into the Intesa Sanpaolo Group’s Defined-Benefit Fund, the realignment of 4 million euro of the Valuation reserve for the portion corresponding to the obligation extinguished following the acceptance of the voluntary lump-sum conversion offer made by the Bank to participants in the supplementary pension fund “Cassa di Previdenza del Personale della Cassa di Risparmio di Padova e Rovigo” and the realignment of 11 million euro due to the transfer to the Intesa Sanpaolo Group’s Defined-Benefit Fund of the reserves set aside by the bank, referring to “beneficiaries that have not accepted the offer”.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

Reference is made to the Intesa Sanpaolo Group’s “Basel 3 Pillar 3” public disclosure as at 31 December 2019 for the disclosure on own funds and capital adequacy.

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

During the year, no business combinations were undertaken, pursuant to IFRS 3, involving the acquisition of control over businesses or legal entities.

Conversely, several extraordinary intragroup transactions were carried out, which are not included in the scope of IFRS 3 and had no effects on the Consolidated financial statements. They consisted in transfers of business lines or legal entities between Intesa Sanpaolo Group companies or business combinations (under common control).
Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved.
The main intragroup transactions completed during the year concerned:

- the merger by incorporation of Intesa Sanpaolo Group Services into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio in Bologna into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio di Firenze into Intesa Sanpaolo;
- the sale of the Qingdao Yicai Wealth Management equity investment by Eurizon Capital SA and Fideuram - ISP Private Banking to Intesa Sanpaolo;
- the merger by incorporation of Banca Apulia into Intesa Sanpaolo;
- the merger by incorporation of Banca Prossima into Intesa Sanpaolo;
- the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo;
- the merger by incorporation of Intesa Sanpaolo SEC 3 into Intesa Sanpaolo.

Annual changes in goodwill

(millions of euro)

Activities/values	31.12.2019
Initial goodwill	**1,160**
Increases	**141**
- Goodwill recorded in the year	-
- Intragroup transactions	141
- Other changes	-
Decreases	**-59**
- Impairment recorded in the year	-
- Disinvestments	-
- Intragroup transactions	-
- Other changes	-59
Final goodwill	**1,242**

The amount indicated in "Intragroup transactions" refers to the mergers by incorporation of Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia and Cassa di Risparmio in Bologna.
The decreases refer to the amount attributable to the acquiring business line that will be transferred to Nexi in 2020, which has been reclassified among discontinued operations in the 2019 financial statements.

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2019.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

Part H – Information on compensation and transactions with related parties

A) TRANSACTIONS WITH RELATED PARTIES

1. Procedural features

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

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

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

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:
- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

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

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

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

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code for Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

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

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

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

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

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

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

2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2019 – other than those intragroup – amount to a total that is insignificant compared to the size of the Bank's capital base. Likewise, the weight of income and charges with related parties on the Parent Company's operating margin is insignificant.

	31.12.2019	
	Amount (millions of euro)	Impact (%)
Total financial assets (1)	145,623	28.0
Total other assets (2)	3,428	40.0
Total financial liabilities (3)	88,664	17.9
Total other liabilities (4)	6,747	34.5

(1) Including captions 20, 30, 40 and 70 of the Balance sheet assets

(2) Including captions 50, 60, 110 and 120 of the Balance sheet assets

(3) Including captions 10, 20, and 30 of the Balance sheet liabilities

(4) Including captions 40, 50, 70, 80, 90 and 100 of the Balance sheet liabilities

	31.12.2019	
	Amount (millions of euro)	Impact (%)
Total interest income	-190	-
Total interest expense	-518	18.0
Total fee and commission income	2,059	40.4
Total fee and commission expense	-70	11.5
Total operating costs (1)	-168	2.3

(1) Including caption 160 of the Income statement.

The negative figure for interest income is generated by the spreads on the hedging derivatives, which adjust the interest recognised on hedged financial instruments, and by the negative interest rates on outstanding lending transactions with related parties.

The operating costs shown in the table include non-performing loan servicing fees.
During the year, there were net provisions for non-performing loans for 5 million euro on existing loans 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 (referring to the subsequent paragraph for information relating to compensation to the members of the management and control bodies), with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.
With regard to Equity Investments, please see the tables in the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets – Section 7.
The table below does not show the impact of related-party transactions on Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 79 billion euro, of which 78 billion euro to subsidiaries.

(millions of euro)

	SUBSIDIARIES				Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
	100%-owned subsidiaries belonging to the banking	*subsidiaries not 100%-owned and belonging to the banking*	*subsidiaries not belonging to the banking group*	*TOTAL*							
Financial assets measured at fair value through profit or loss	7,441	391	177	8,009	-	147	-	-	8,156	-	673
a) financial assets held for trading	*7,441*	*1*	*63*	*7,505*	-	*1*	-	-	*7,506*	-	*666*
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	*390*	*114*	*504*	-	*146*	-	-	*650*	-	*7*
Financial assets measured at fair value through other comprehensive income	610	-	-	610	-	-	-	-	610	-	-
Financial assets measured at amortised cost	102,603	388	7,141	110,132	50	281	8	-	110,471	1	1,301
a) due from banks	100,198	388	-	100,586	-	-	-	-	100,586	-	75
b) loans to customers	2,405	-	7,141	9,546	50	281	8	-	9,885	1	1,226
Other assets	2,972	38	293	3,303	-	11	-	1	3,315	-	113
Investments in associates and companies subject to joint control	18,410	1,068	4,208	23,686	9	716	-	-	24,411	-	-
Financial liabilities measured at amortised cost	76,120	304	435	76,859	6	838	15	102	77,820	146	538
a) due to banks	75,211	272	1	75,484	-	2	-	-	75,486	-	370
b) due to customers	909	32	434	1,375	6	836	15	102	2,334	146	168
Financial liabilities held for trading	9,729	1	-	9,730	-	4	-	-	9,734	-	425
Financial liabilities designated at fair value	1	-	-	1	-	-	-	-	1	-	-
Other financial liabilities	5,832	7	10	5,849	-	51	-	2	5,902	3	842
Guarantees and committments given	91,232	1,977	7,037	100,246	26	512	-	1	100,785	5	1,346
Guarantees and committments received	410	-	3	413	17	215	14	-	659	1	526

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

(**) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty. The amounts mostly refer to JPMorgan Chase & Co., in relation to the aggregate investment equal to 6.952%, of which 1.941% with voting rights, recorded with form 120 B updated at 26 November 2018 and recalculated in 6.951%, of which 2,674% with voting rights, reported with form 120 A on 20 June 2019, as a consequence of the change in share capital taking place on 26 November 2018 following the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. had submitted the original report on 16 July 2018 (with form 120 B) following the positions held against the issue of "LECOIP 2.0 Certificate on Intesa Sanpaolo ordinary shares" received by the employees of the Intesa Sanpaolo Group as part of the LECOIP 2.0 2018-2021 Long-Term Incentive Plan based on financial instruments.

For the illustration of the associated companies and companies under joint control - and the companies controlled by them - that are most significant at Group level, see the description in the corresponding paragraph of the Notes to the consolidated financial statements.
With regard to the entities included as a result of self-regulation, there are significant relationships with JP Morgan Securities PLC.

3. Information on transactions with related parties

Most significant transactions

During the year, the Parent Company did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions subject – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – to the obligation to publish a market disclosure document.
The transactions exempt from said obligation include the self-securitisation aimed at expanding the portfolio of retained securities, eligible for Eurosystem refinancing operations. The transaction, with a total value of around 7.5 billion euro, was carried out via the sale to the vehicle company Brera Sec S.r.l., over which Intesa Sanpaolo exercises significant influence, of receivables arising from performing mortgage loans secured by residential properties disbursed to consumer and producer households originated by Intesa Sanpaolo S.p.A..
Please note the that 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 sales of mortgage portfolios to the vehicle companies ISP OBG S.r.l. and ISP CB Ipotecario S.r.l., both controlled by Intesa Sanpaolo, took place during the year, for an amount of about 12.2 and 1.7 billion euro respectively, under the covered bond issuance programme, which will be settled through the disbursement of a subordinated loan by the Parent Company. With regard to the latter, as a result of the expansion of operations, the programme ceilings were increased by 10 billion euro (ISP OBG S.r.l.) and 5 billion euro (ISP CB Ipotecario S.r.l.).

Other significant transactions

The transactions entered into with related parties fall within the scope of Intesa Sanpaolo's ordinary activities and are usually performed at market or standard conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

Relations between Intesa Sanpaolo and board members and general managers, as well as Key Managers, 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.

Concerning the transactions with subsidiaries carried out in 2019, please note that these are normal internal business activities of a multifunctional banking group. They are usually regulated at the conditions at which the Parent Company accesses the reference markets, which are not necessarily the same conditions that would be applicable if the Group's counterparties operated independently. These conditions are, in any case, applied in compliance with criteria of substantial correctness and with the aim of creating value for the Group.

Intragroup transactions mainly concerned:
- the support given by Parent Company to the financial needs of the other Group companies by providing risk capital and loans and by subscribing securities issued by the subsidiaries;
- the channelling of foreign funding by specialist Group companies in favour of the Parent Company and, in part, of other subsidiaries;
- the Parent Company's investment of subsidiaries' liquidity;
- structured finance transactions within the Group carried out through Banca IMI;
- outsourcing arrangements, which govern services of an auxiliary nature rendered by the Parent Company to other Group companies;
- the agreements with Group companies on distribution of products and/or services (certain agreements are extended to some associates/joint ventures) or, more generally, intragroup support and consultancy;
- financial settlements provided for by agreements entered into with Group companies taking part in national fiscal consolidation;
- the "VAT Group" scheme, governed by Articles 70-bis to 70-duodecies of Presidential Decree no. 633/72.

Also with regard to intragroup transactions, in 2019 the activities aimed at implementing the strategic options set out in the Business Plan and at rationalising the Group structure continued.

The 2018-2021 Business Plan envisages a major simplification of the Group's corporate structure. As part of the activities defined, the achievement of a gradual and notable reduction in the number of legal entities is expected and, with this view, the following transactions were carried out:
- the merger by incorporation of Intesa Sanpaolo Group Services S.c.p.A. into Intesa Sanpaolo S.p.A.;
- the merger by incorporation of Cassa di Risparmio in Bologna S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Banca CR Firenze S.p.A. into Intesa Sanpaolo S.p.A.;
- the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Banca Apulia S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Banca Prossima S.p.A. into Intesa Sanpaolo S.p.A.;
- the merger by incorporation of Mediocredito Italiano S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Intesa SEC NPL S.p.A. into Intesa Sanpaolo S.p.A.;
- the merger by incorporation of Intesa SEC 3 S.r.l. into Intesa Sanpaolo S.p.A..

The extraordinary transactions carried out by foreign companies included the merger by incorporation of Consumer Finance Holding Ceska Republika A.S. into VUB A.S..

In relation to transactions in equity investments, the following should be noted:
- the acquisition by Intesa Sanpaolo of 25% and 20% of the share capital of Yi Tsai Wealth Management Co. held by Fideuram ISPB and by Eurizon Capital SGR respectively. The transaction was carried out to speed up the licensing process for the provision of financial advisory services and distribution/promotion of wealth management products to customers based in China;
- the partial demerger of Banca IMI S.p.A. into Eurizon Capital SGR S.p.A. in accordance with Article 2506 et seq. of the Italian Civil Code, through the assignment to Eurizon Capital SGR of the entire equity investment held by Banca IMI in Epsilon SGR consisting of 4,900,000 ordinary shares with a par value of 0.52 euro each, corresponding to 49% of the share capital of Epsilon. The purpose of the transaction is to bring forward the reallocation of the entire share capital of Epsilon SGR into the Asset Management Division which supports its operations, via Eurizon, through its specialist expertise in asset management and already holds the assets in terms of management and oversight of the governance functions.

In addition, Fideuram Intesa Sanpaolo Private Banking S.p.A. has started a process of corporate simplification consisting of three steps: 1) the transfer by Fideuram of its equity investment in Intesa Sanpaolo Private Banking Suisse to Morval Vonwiller Holding S.A.; 2) the merger by incorporation of Intesa Sanpaolo Private Banking Suisse into Banque Morval, renamed Intesa Sanpaolo Private Bank (Suisse) Morval S.A.; and 3) the merger of Morval Vonwiller Holding S.A. into the new entity Intesa Sanpaolo Private Bank (Suisse) Morval S.A.
This process included the recapitalisation of Intesa Sanpaolo Private Bank (Suisse) Morval S.A. by Fideuram Intesa Sanpaolo Private Banking S.p.A. and the transfer of the entire equity investment held by Intesa Sanpaolo Private Bank (Suisse) Morval S.A. in Morval SIM to the direct parent company Fideuram Intesa Sanpaolo Private Banking S.p.A..

Transactions in financial instruments, in addition to the significant transactions listed above, included the following:
- sales of mortgage portfolios to the vehicle companies ISP CB Ipotecario S.r.l. and ISP OBG S.r.l. for 1.7 billion euro and 2.4 billion euro respectively;
- the early termination of the securitisation of Intesa SEC 3 S.r.l. through the repurchase by Intesa Sanpaolo S.p.A. of the entire loan portfolio of the vehicle company at a price of around 149 million euro.

The intragroup transactions relating to capital transactions, included:
- the issue in several tranches of AT1 subordinated instruments, classifiable as capital instruments, intended to strengthen Banca IMI's capital ratio in preparation for the entry into force of the Basel 3 rules. The total value of the transaction is 400 million euro;
- the capitalisation measure in favour of Intesa Sanpaolo Agents4You S.p.A. for a total of 7 million euro aimed at supporting the development of the internal sales network through the out-of-branch offering;
- the capital contribution in favour of Intesa Sanpaolo Innovation Center S.p.A., up to a maximum of 33 million euro to be made in several tranches based on the actual financial needs of the subsidiary Neva Finventures. This transaction is part of Neva's broader "evolution" plan approved by Intesa Sanpaolo Innovation Center S.p.A., which involves opening the company's capital up to outside institutional investors also by specialising its investment objectives. The first tranche of 5 million euro was paid on 29 July and the remainder will be paid based on the financial needs of the subsidiary Neva;
- capitalisation measure in favour of Banca 5 S.p.A. for an amount of 15 million euro to strengthen the subsidiary's capital ratios. The transaction involves payments in several tranches and the first payment was made on 25 June 2019 for an amount of 4 million euro.

We note the following capitalisation measures in favour of:
- ISP Provis S.p.A. for a total of 90 million euro paid in 2019, corresponding to the last two tranches of the total 220 million euro approved in 2018, to restore the company's capital adequacy;
- ISP Casa S.p.A. for an amount of 2 million euro carried out on 15 November 2019, corresponding to the second and last tranche of a total of 5 million euro approved in 2018, aimed at recovering losses and restoring the initial capital base.

Transactions carried out by Intesa Sanpaolo with subsidiaries over which it does not exercise management and coordination included the following:
- the extension to 31 December 2024 of the loans granted to Autostrade Lombarde S.p.A. for an amount of 15 million euro;
- the refinancing granted to the company Bre.Be.Mi. for an amount of 35 million euro.

The transactions with jointly-controlled subsidiaries and associates included the following:
- the sale by Intesa Sanpaolo S.p.A. to Cassa di Risparmio di Fermo of around 0.0333% of the capital of the Bank of Italy (100 stakes at a unit price of 25,000 euro for a total of 2.5 million euro);
- loan approvals and existing credit facility renewals in favour of Euromilano S.p.A., Tangenziale Esterna, Autostrade Bergamasche, and Immobiliare Novoli;
- the five-year extension of the maturity of the shareholders' loans granted by Intesa Sanpaolo S.p.A. to RCN Finanziaria S.p.A. for a total of 13 million euro;
- the one-year extension of two guarantees granted to the Alitalia Group under the aircraft lease agreement entered into between Alitalia Società Aerea Italiana S.p.A. in extraordinary administration and MDAC 10 Ltd in February 2012. This extension was functional to the continuation of the aircraft lease agreements and the transaction amounted to 3.5 million euro.

Additional information on the Intesa Sanpaolo Group's reorganisation operations is provided in Part G of the Notes to the consolidated financial statements and of the Notes to the Parent Company's financial statements. For more information on investments in associates, reference should be made to Part H of the Consolidated Financial Statements, while for details on the changes in the Parent Company's equity investment portfolio, reference should be made to Section 7 of the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets.

For information on the operations with the Special Purpose Entities over which the Group exercises control even in the absence of a stake, consolidated in accordance with IFRS 10, see the Notes to the consolidated financial statements - Part E – Information on risks and the relative hedging policies.

Other significant information

With reference to the investments in associates or companies subject to joint control, value adjustments/impairment losses were recognised for a total of 11 million euro (Rainbow, Destination Italia S.p.A, Solar Express S.r.l. and Leonardo Technology S.r.l.) and write-backs of 18 million euro (Consorzio Bancario Sir S.p.A in liquidation).
Please refer to Part C – Income Statement – Section 15 of the Parent Company's Financial Statements for more information on the income (loss) of equity investments.
For Pension Funds in which Intesa Sanpaolo is co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the financial statements – Part B – Information on the Balance Sheet – Liabilities, Post employment defined benefit plans, to which reference is made.

Other significant subsequent events

The Governing Bodies of the Parent Company have approved the plan for the merger by incorporation of Banca IMI S.p.A. into Intesa Sanpaolo S.p.A.
The transaction will be completed by the second half of 2020 and is part of the process of simplification of the Group's corporate structure.

B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

Pursuant to IAS 24, "key managers" are considered to be the members of the Board of Directors (including members of the Management Control Committee, the Managing Director and CEO), the Manager responsible for preparing the Company's financial reports, the Heads of Business Units and the Heads of Head Office Departments that report directly to the Managing Director and CEO or to the Chairman of the Board of Directors, as well as the Chief Operating Officer and the Heads of the Governance Areas, the Chief Financial Officer, the Chief Risk Officer, the Chief Lending Officer, the Chief Innovation Officer and the Chief Governance Officer.
The following table shows the amounts of the main benefits paid in 2019 to members of the Management and Control Bodies, as well as to other Key Managers who fall within the notion of "related party". This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

	MANAGEMENT BODIES/ CONTROL BODIES(1)		OTHER MANAGERS (2)		TOTAL as at 31.12.2019	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits (3)	7	7	26	21	33	28
Post-employement benefits (4)	-	-	2	2	2	2
Other long-term benefits (5)	-	-	4	-	4	-
Termination benefits (6)	-	-	-	-	-	-
Share-based payments (7)	-	-	18	-	18	-
Total	**7**	**7**	**50**	**23**	**57**	**30**

(1) Includes 19 members.

(2) Includes 19 members.

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees.

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations.

(5) Includes an estimate of provisions for employee seniority bonuses.

(6) Includes benefits due under the employment contract for termination of employment and non-competition agreements.

(7) Includes the cost referring to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through LECOIPs.

As previously noted in Part H of the Notes to the consolidated financial statements, detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the "Report on Remuneration", which includes:

– a detailed indication of the compensation paid to the members of the management and control bodies and, in aggregate, the Key Managers, as well as the stock option plans reserved for the members of the Board of Directors and Key Managers;
– the details and the evolution of the stock option plans relative to Key Managers;
– Parent Company's and subsidiary companies' shares held by the members of the management and control bodies, Key Managers and other associated entities.

Part I – Share-based payments

A. QUALITATIVE INFORMATION

Description of share-based payments

Annual Incentive Plan based on financial instruments
The Supervisory Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, *inter alia*, that a portion of annual incentives paid to "Risk Takers" be granted through the assignment of financial instruments, over a multi-year time horizon. As a result, the Intesa Sanpaolo Group sets up annual incentive plans linked to performance. In fulfilment of these plans:

- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 9 October 2015 the Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro;
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Group purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro.
- with regard to the results for 2018, and in implementation of the Shareholders' Meeting resolution of 30 April 2019, on 17 and 18 September 2019 the Group totally purchased - through Banca IMI, in charge of the programme execution - 17,137,954 Intesa Sanpaolo ordinary shares (representing approximately 0.10% of the ordinary share capital) at an average purchase price of 2.129 euro per share, for a total value of 36,481,543 euro.
  In addition, the purchase programme has been implemented in order to grant severance payments to Risk Takers upon early termination of employment, as envisaged by the Supervisory Provisions.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.
The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive systems. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the "malus condition" – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0 Plans
At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:

- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 Plan targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.
The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).
The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).

Furthermore, in June 2018 the Group signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transferred to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby took on all the volatility risks associated with the Plan.

Instead, with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.
The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:

- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment ("Free Shares");
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment ("Matching Shares") and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price ("Discounted Shares").

The Certificates are divided into two categories and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.
The POP and the LECOIP 2.0 were subject to the approval of the ordinary Shareholders' Meeting of 27 April 2018.
With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders' Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.
Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.
With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset (the "credit transferred" representing the options) with a balancing entry in Shareholders' Equity. Fair value changes associated with subsequent measurements are recognised through profit or loss. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry under shareholders' equity.

With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset with a balancing entry in Shareholders' Equity. In particular, the Certificates entered in the Group's financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value. Fair value changes associated with subsequent measurements are recognised through profit or loss.

B. QUANTITATIVE INFORMATION

Annual Incentive plans based on financial instruments in 2019

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2018	11,968,942	-	May 2019/ May2023
Financial instruments granted during the year (a)	11,379,376	-	May 2021/ May 2024
Financial instruments no longer assignable (b)	347,417	-	-
Financial instruments vested during the year and assigned	3,777,157	-	-
Financial instruments outstanding as at 31 December 2019	19,223,744	-	May 2020/ May 2024
of which: vested and assigned as at 31 December 2019	-	-	-

(b) Including shares originating from Corporate Transactions.

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions.

Moreover, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration and Incentive Policies of the Group, during 2019, 729,128 shares were attributed over a multi-year time horizon and assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance). The residual life of those shares, assigned over a multi-year time horizon, ends between July 2020 and January 2025.

Breakdown by residual life

Residual life	Number of shares
May - November 2020	5,222,017
May - November 2021	7,745,724
May - November 2022	3,404,898
May - November 2023	2,087,731
May 2024	763,374

Evolution of long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		Matching Shares at July 2018		Discounted Shares at July 2018		Sell to cover shares at July 2018 (a)		Total number of shares assigned at July 2018	Number of LECOIP Certificates at 31.12.2018	Changes in the year (c)	Number of LECOIP Certificates at 31.12.2019	Average fair value 31.12.2019
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	23,018,762	2.4750	37,518,025	2.4750	423,757,509	0.3771	78,028,286	2.5416	562,322,582	59,686,054	-1,255,544	58,430,510	2.6222

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

	Performance-based Option Plan (POP)						
	POP options at July 2018 (a)		POP options at 31.12.2018		Changes in the year (b)	POP options at 31 December 2019	
	Number of POP options	Average unit fair value	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value
Total beneficiaries (Top Management, Risk Takers and Key Managers)	420,749,659	0.3098	420,749,659	0.0372	-25,029,572	395,720,087	0.0560

(a) Number of POP options and relevant average fair value assigned on 11 July 2018 to beneficiaries (Top Management, Risk Takers and Key Managers).

(b) Number of POP options for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees due to failure to comply with the condition of continuation of employment and other vesting conditions.

Part L – Segment reporting

Segment reporting is provided in the consolidated financial statements.

Part M – Disclosure of leases

This section provides the information required by IFRS 16 that is not included in other parts of the financial statements, divided between lessee and lessor.

SECTION 1 - LESSEE

QUALITATIVE INFORMATION

Intesa Sanpaolo essentially has real estate and car or other vehicle lease contracts in place. There are also other types of lease contracts, for residual amounts, mainly relating to hardware.

As at 31 December 2019, there were 4,924 lease contracts, 3,607 of which relating to real estate leases, for a total value of rights of use of 1,058 million euro.

Real estate lease contracts include, for the most part, properties designated for use as offices or bank branches. The contracts, within Italy, normally have a term of more than 12 months and typically have renewal and termination options that can be exercised by the lessor and the lessee in accordance with the law or specific contractual provisions. These contracts usually do not include the option to purchase at the end of the lease or significant restoration costs for the Bank. On the basis of the characteristics of the Italian lease contracts and the provisions of Law 392/1978, in the event of the signing of a new lease contract with a contractual term of six years and the option to automatically renew the contract after six years for another six years, the total term of the lease will be set at twelve years. This general rule is superseded if there are new elements or specific situations within the contract.

The contracts relating to other leases mainly involve motor vehicles and hardware. For vehicles, these are long-term rental contracts relating to the company fleet made available to employees (mixed use) or to the organisational structures of the individual companies. These contracts generally have a four-year term, with monthly payments, no renewal option and do not include the option to purchase the asset. The contract may be extended depending on the management of the car fleet and there may be a penalty in the event of early termination.
Lease contracts other than those relating to real estate and cars are immaterial.

No sale or leaseback transactions were carried out in 2019.

Sub-leasing transactions are immaterial and are connected to intra-group transactions.

As already stated in the accounting policies, the Group makes use of the exemptions allowed by IFRS 16 for short-term leases (i.e. with a term of less than or equal to 12 months) or leases of low value assets (i.e. with a value of 5,000 euro or less).

QUANTITATIVE DISCLOSURES

Part B - Assets in the Notes to the Financial Statements contains information on the rights of use acquired through leases (Table 8.1 - Property and equipment used in operations: breakdown of assets measured at cost and Table 8.4 - Investment property: breakdown of assets measured at fair value) and Part B - Liabilities contains information on the lease payables (Table 1.1 - Financial liabilities measured at amortised cost: breakdown of amounts due to banks and Table 1.2 - Financial liabilities measured at amortised cost: breakdown of amounts due to customers). In particular, the rights of use acquired through leases amounted to 1,058 million euro, of which 1,043 million euro relating to real estate leases. Lease payables amounted to 1,064 million euro. See the abovementioned sections for more details.

Part C of the Notes to the Financial Statements contains information on the interest expense on lease payables and other charges connected to rights of use acquired through leases, and on the income from sub-leasing transactions. See the specific sections for more details.

The table below provides a breakdown of the amortisation and depreciation charges for assets consisting of the right of use among the various categories, in line with the disclosure of property and equipment/intangible assets.

(millions of euro)

Captions	31.12.2019
Depreciation charges by asset class	**-**
Property and equipment used in operations	**151**
a) buildings	144
b) forniture	-
c) electronic equipment	1
d) other	6
Property and equipment for investment	**-**
a) buildings	-
TOTAL	**151**

As at 31 December 2019, there was no property and equipment relating to commitments for leases not yet commenced.

There is no other information that needs to be reported in addition to that already contained in this Section.

SECTION 2 - LESSOR

QUALITATIVE INFORMATION

As a result of the merger by incorporation of Mediocredito Italiano, Intesa Sanpaolo acquired specialist expertise in leasing operations, mainly with respect to finance leases of real estate, industrial and commercial assets, both already constructed and to be constructed. The Bank is also present on the market with lease products relating to capital goods, industrial vehicles, boats and pleasure craft. The risks associated with the ownership rights to the leased assets are managed through the compulsory subscription of an all-risk insurance policy, either offered through concessionary agreements or taken out directly by the customer with their insurer.
Operating leases are exclusively related to the leasing of owned real estate assets.

QUANTITATIVE DISCLOSURES

The Notes to the Financial Statements report the following:
- finance leases (Part B, Assets: Table 4.1 - Financial assets measured at amortised cost: breakdown of amounts due from banks and Table 4.2 - Financial assets measured at amortised cost: breakdown of loans to customers);
- assets leased under operating leases contained in caption 80 Property and equipment and described in Part B, Assets (Table 8.4 - Investment property: breakdown of assets measured at fair value); this consists of real estate no longer used in operations by the Bank, which is leased to third parties or held for possible appreciation in value. The amounts involved are immaterial.

See the abovementioned sections for more details.

Part C of the Notes to the Financial Statements contains information on interest income on finance leases and other income from finance and operating leases. See the specific sections for more details.

2. Finance leases

2.1. Breakdown by time bands of payments to be received and reconciliation with finance leases recorded as assets

This table provides the breakdown by time bands of lease payments to be received and the reconciliation between lease payments to be received and finance leases in accordance with IFRS 16, paragraph 94. In particular, the lease payments to be received, representing the sum of the minimum payments due as principal and interest, are shown net of the adjustment allowances and the unguaranteed residual value due to the lessor. The reconciliation with finance leases, shown in the financial statements under financial assets measured at amortised cost, is performed by subtracting the unearned finance income and adding the unguaranteed residual value.

(millions of euro)

Time bands	31.12.2019 Payments to be received
Up to 1 year	1,879
Between 1 and 2 years	1,566
Between 2 and 3 years	1,365
Between 3 and 4 years	1,123
Between 4 and 5 years	958
Over 5 years	4,251
Total lease payments to be received	**11,142**
Reconciliation with loans	103
Not accrued gains (+)	2,100
Unguaranteed residual value (-)	-1,997
Loans for leases	**11,039**

The figures for 2018 are not shown because the finance lease operations were previously carried out by Mediocredito Italiano, a company merged into Intesa Sanpaolo in November 2019.

2.2. Other information

2.2.1 Classification of finance leases by type of leased asset

The table shows the classification of finance leases by credit quality (performing and non-performing) and by type of leased asset. The amounts are shown net of adjustments.

(millions of euro)

Finance leases	Performing exposures	Non-performing exposures
A. Real estate assets	**7,849**	**1,378**
B. Operating assets	**1,350**	**53**
C. Movable assets	**370**	**28**
- Motor vehicles	234	13
- Aircraft and rolling stock	136	15
- Other	-	-
D. Intangible assets	**11**	**-**
- Trademarks	11	-
- Software	-	-
- Other	-	-

2.2.2 Classification of assets under finance leases

The table below provides a breakdown by category of leased asset (not yet transferred to property and equipment) relating to lease receivables, net of adjustments.

(millions of euro)

	Unexercised assets	Assets withdrawn following termination	Other assets
A. Real estate assets	**9**	**120**	**9,098**
B. Operating assets	**-**	**1**	**1,402**
C. Movable assets	**-**	**-**	**398**
- Motor vehicles	-	-	247
- Aircraft and rolling stock	-	-	151
- Other	-	-	-
D. Intangible assets	**-**	**-**	**11**
- Trademarks	-	-	11
- Software	-	-	-
- Other	-	-	-
TOTAL	**9**	**121**	**10,909**

Unexercised assets are assets still held by customers, for which the repurchase option has not been exercised, related to positions that do not show any deterioration in credit quality. Assets withdrawn following termination relate to terminated contracts, where the customer has not yet been released from the contractual obligations, despite having returned the asset covered by the lease contract. The category "other assets" includes the assets underlying the other lease receivables not included in the previous columns.

3. Operating lease

This refers to lease instalments to be received for owned real estate assets.

3.1. Breakdown of payments to be received by time bands

(millions of euro)

Time bands	**31.12.2019** **Payments to be received for leases**
Up to one year	4
Over one year up to 2 years	1
Over 2 years up to 3 years	2
Over 3 years up to 4 years	5
Over 4 years up to 5 years	2
For over 5 years	8
Total	**22**

3.2. Other information

There is no other information that needs to be reported in addition to that already contained in this Section.

Certification of the Parent Company's financial statements pursuant to Art. 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, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements during 2019.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements as at 31 December 2019 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems.[40]

3. The undersigned also certify that:

   3.1 The Parent Company's financial statements as at 31 December 2019:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
   - correspond to the results of the books and accounts;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer.

   3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer, together with a description of the main risks and uncertainties.

25 february 2020

Carlo Messina
Managing Director and CEO

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

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

Independent Auditors' Report on the Parent Company's financial statements

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

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

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Intesa Sanpaolo S.p.A. (the "bank"), which comprise the balance sheet at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Intesa Sanpaolo S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the Parent Company's financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 4 "Financial assets measured at amortised cost"

Notes to the Parent Company's financial statements "Part C - Information on the Parent Company's income statement": Section 8.1 "Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown"

Notes to the Parent Company's financial statements "Part E - Information on risks and relative hedging policies": Section 1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets measured at amortised cost, totalled €317,478 million at 31 December 2019, accounting for 56.6% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €1,947 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates,	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures on loans and receivables with customers recognised under financial assets at amortised cost in the separate financial statements.

Classification and measurement of financial assets and liabilities at fair value

Notes to the Parent Company's financial statements "Part A - Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"

Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 2 "Financial assets measured at fair value through profit or loss", Section 3 "Financial assets measured at fair value through other comprehensive income", Section 5 "Hedging derivatives"

Notes to the Parent Company's financial statements "Part B - Information on the Parent Company's balance sheet - Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 4 "Hedging derivatives"

Notes to the Parent Company's financial statements "Part C - Information on the Parent Company's income statement": Section 4 "Profits (losses) on trading", Section 5 "Fair value adjustments in hedge accounting" and Section 7 "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss"

Notes to the Parent Company's financial statements "Part E - Information on risks and relative hedging policies": Section 2 "Market risks", Section 3 "Derivatives and hedging policies"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the bank's core activities. The separate financial statements at 31 December 2019 include financial assets and financial liabilities at fair value totalling €59,080 million and €25,683 million, respectively. A portion thereof, equal to roughly €25,379 million and €25,250 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The bank's directors have classified them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the trading, classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3. We carried out these procedures with the assistance of experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure with the assistance of experts of the KPMG network — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the separate financial statements.

Responsibilities of the bank's directors and management control committee for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 10 May 2011, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 18 March 2020

KPMG S.p.A.

(signed on the original)

Mario Corti
Director

Attachments to the Parent Company's financial statements

Intesa Sanpaolo reconciliation statements

Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2018 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2018

Reconciliation between published Intesa Sanpaolo income statement for 2018 and adjusted Intesa Sanpaolo income statement for 2018

Reconciliation between published Intesa Sanpaolo financial statements and Intesa Sanpaolo IFRS 16 financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2018 and the Intesa Sanpaolo balance sheet as at 1 January 2019 (IFRS 16)

Reconciliation between IFRS 16/adjusted financial statements and restated financial statements

Reconciliation between Intesa Sanpaolo balance sheet as at 1 January 2019 (IFRS16) and restated Intesa Sanpaolo balance sheet as at 1 January 2019

Reconciliation between adjusted Intesa Sanpaolo income statement for 2018 and restated Intesa Sanpaolo income statement for 2018

Restated financial statements

Restated Intesa Sanpaolo balance sheet

Restated Intesa Sanpaolo income statement

Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements

Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

Reconciliation between restated Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2018 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2018

The published Intesa Sanpaolo balance sheet as at 31 December 2018 did not require any adjustments.

Reconciliation between published Intesa Sanpaolo income statement for 2018 and adjusted Intesa Sanpaolo income statement for 2018

(millions of euro)

		2018 Published	Effect of IFRS 5 application (a)	2018 Adjusted
10.	Interest and similar income	7,036	-	7,036
	of which: interest income calculated using the effective interest rate method	*7,245*	-	*7,245*
20.	Interest and similar expense	-2,785	-	-2,785
30.	**Interest margin**	**4,251**	**-**	**4,251**
40.	Fee and commission income	4,929	-363	4,566
50.	Fee and commission expense	-913	285	-628
60.	**Net fee and commission income**	**4,016**	**-78**	**3,938**
70.	Dividend and similar income	3,491	-	3,491
80.	Profits (Losses) on trading	-80	3	-77
90.	Fair value adjustments in hedge accounting	-22	-	-22
100.	Profits (Losses) on disposal or repurchase of:	101	-	101
	a) financial assets measured at amortised cost	*-64*	-	*-64*
	b) financial assets measured at fair value through other comprehensive income	*215*	-	*215*
	c) financial liabilities	*-50*	-	*-50*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	281	-	281
	a) financial assets and liabilities designated at fair value	*30*	-	*30*
	b) other financial assets mandatorily measured at fair value	*251*	-	*251*
120.	**Net interest and other banking income**	**12,038**	**-75**	**11,963**
130.	Net losses/recoveries for credit risks associated with:	-1,821	-	-1,821
	a) financial assets measured at amortised cost	-1,822	-	-1,822
	b) financial assets measured at fair value through other comprehensive income	1	-	1
140.	Profits (Losses) on changes in contracts without derecognition	-16	-	-16
150.	**Net income from banking activities**	**10,201**	**-75**	**10,126**
160.	Administrative expenses:	-7,016	2	-7,014
	a) personnel expenses	*-3,670*	*1*	*-3,669*
	b) other administrative expenses	*-3,346*	*1*	*-3,345*
170.	Net provisions for risks and charges	-40	-	-40
	a) commitments and guarantees given	*10*	-	*10*
	b) other net provisions	*-50*	-	*-50*
180.	Net adjustments to / recoveries on property and equipment	-125	-	-125
190.	Net adjustments to / recoveries on intangible assets	-15	1	-14
200.	Other operating expenses (income)	518	1	519
210.	**Operating expenses**	**-6,678**	**4**	**-6,674**
220.	Profits (Losses) on equity investments	127	-	127
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-6	-	-6
240.	Goodwill impairment	-	-	-
250.	Profits (Losses) on disposal of investments	1	-	1
260.	**Income (Loss) before tax from continuing operations**	**3,645**	**-71**	**3,574**
270.	Taxes on income from continuing operations	41	23	64
280.	**Income (Loss) after tax from continuing operations**	**3,686**	**-48**	**3,638**
290.	Income (Loss) after tax from discontinued operations	-	48	48
300.	**Net income (loss)**	**3,686**	**-**	**3,686**

(a) 2018 Income Statement figures relating to the business line to be contributed to Nexi, pursuant to the agreement signed in December 2019.

Reconciliation between published Intesa Sanpaolo financial statements and Intesa Sanpaolo IFRS 16 financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2018 and the Intesa Sanpaolo balance sheet as at 1 January 2019 (IFRS 16)

(millions of euro)

	Assets	31.12.2018 Published	Effect of transition to IFRS 16 Intesa Sanpaolo	Effect of transition to IFRS 16 Merged companies	01.01.2019 IFRS 16
10.	Cash and cash equivalents	7,363	-	-	7,363
20.	Financial assets measured at fair value through profit or loss	25,878	-	-	25,878
	a) financial assets held for trading	*18,020*	-	-	*18,020*
	b) financial assets designated at fair value	*198*	-	-	*198*
	c) other financial assets mandatorily measured at fair value	*7,660*	-	-	*7,660*
30.	Financial assets measured at fair value through other comprehensive income	31,136	-	-	31,136
40.	Financial assets measured at amortised cost	409,602	-	-	409,602
	a) due from banks	*154,591*	-	-	*154,591*
	b) loans to customers	*255,011*	-	-	*255,011*
50.	Hedging derivatives	2,878	-	-	2,878
60.	Fair value change of financial assets in hedged portfolios (+/-)	77	-	-	77
70.	Equity investments	26,258	-	-	26,258
80.	Property and equipment	4,598	957	230	5,785
90.	Intangible assets	2,768	-	-	2,768
	of which:				
	- goodwill	*1,160*	-	-	*1,160*
100.	Tax assets	14,335	-	-	14,335
	a) current	*2,997*	-	-	*2,997*
	b) deferred	*11,338*	-	-	*11,338*
110.	Non-current assets held for sale and discontinued operations	672	-	-	672
120.	Other assets	2,988	7	1	2,996
	Total assets	**528,553**	**964**	**231**	**529,748**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018 Published	Effect of transition to IFRS 16 Intesa Sanpaolo	Effect of transition to IFRS 16 Merged companies	01.01.2019 IFRS 16
10.	Financial liabilities measured at amortised cost	447,143	964	231	448,338
	a) due to banks	*161,719*	-	-	*161,719*
	b) due to customers	*208,532*	*964*	*231*	*209,727*
	c) securities issued	*76,892*	-	-	*76,892*
20.	Financial liabilities held for trading	14,560	-	-	*14,560*
30.	Financial liabilities designated at fair value	1,821	-	-	*1,821*
40.	Hedging derivatives	5,358	-	-	*5,358*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	382	-	-	*382*
60.	Tax liabilities	1,447	-	-	1,447
	a) current	*76*	-	-	*76*
	b) deferred	*1,371*	-	-	*1,371*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80.	Other liabilities	6,352	-	-	6,352
90.	Employee termination indemnities	845	-	-	845
100.	Allowances for risks and charges	3,434	-	-	3,434
	a) commitments and guarantees given	*350*	-	-	*350*
	b) post-employment benefits	*223*	-	-	*223*
	c) other allowances for risks and charges	*2,861*	-	-	*2,861*
110.	Valuation reserves	1,081	-	-	1,081
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	4,103	-	-	4,103
140.	Reserves	4,370	-	-	4,370
150.	Share premium reserve	24,926	-	-	24,926
160.	Share capital	9,085	-	-	9,085
170.	Treasury shares (-)	-40	-	-	-40
180.	Net income (loss) (+/-)	3,686	-	-	3,686
Total liabilities and shareholders' equity		**528,553**	**964**	**231**	**529,748**

Reconciliation between IFRS 16/adjusted financial statements and restated financial statements

Reconciliation between Intesa Sanpaolo balance sheet as at 1 January 2019 (IFRS16) and restated Intesa Sanpaolo balance sheet as at 1 January 2019

(millions of euro)

Assets		01.01.2019 IFRS 16	Changes								Change in the reference scope	01.01.2019 Restated
			Merger of Intesa Sanpaolo Group Services	Merger of Cassa di Risparmio in Bologna	Merger of Cassa di Risparmio di Firenze	Merger of Cassa di Risparmio di Pistoia e della Lucchesia	Merger of Banca Prossima	Merger of Banca Apulia	Merger of Mediocredito Italiano	Netting of intragroup transactions		
10.	Cash and cash equivalents	7,363	-	89	136	30	-	37	-	-	292	7,655
20.	Financial assets measured at fair value through profit or loss	25,878	2	56	144	11	-	4	8	-70	155	26,033
	a) financial assets held for trading	*18,020*	*-*	*55*	*33*	*10*	*-*	*1*	*-*	*-71*	*28*	*18,048*
	b) financial assets designated at fair value	*198*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*198*
	c) other financial assets mandatorily measured at fair value	*7,660*	*2*	*1*	*111*	*1*	*-*	*3*	*8*	*1*	*127*	*7,787*
30.	Financial assets measured at fair value through other comprehensive income	31,136	-	478	172	36	-	-	4	-	690	31,826
40.	Financial assets measured at amortised cost	409,602	1	8,974	11,316	2,795	4,482	2,147	44,046	-50,839	22,922	432,524
	a) due from banks	*154,591*	*-*	*1,528*	*1,804*	*368*	*2,532*	*307*	*3,224*	*-49,457*	*-39,694*	*114,897*
	b) loans to customers	*255,011*	*1*	*7,446*	*9,512*	*2,427*	*1,950*	*1,840*	*40,822*	*-1,382*	*62,616*	*317,627*
50.	Hedging derivatives	2,878	-	11	16	2	-	-	-	-1	28	2,906
60.	Fair value change of financial assets in hedged portfolios (+/-)	77	-	7	22	2	1	-	-	-	32	109
70.	Equity investments	26,258	-507	-875	-955	-115	-176	-211	-2,333	-2	-5,174	21,084
80.	Property and equipment	5,785	557	114	258	59	-	33	57	-1	1,077	6,862
90.	Intangible assets	2,768	1,464	53	70	17	-	4	-	1	1,609	4,377
	of which:											
	- goodwill	*1,160*	*-*	*53*	*70*	*17*	*-*	*-*	*-*	*-*	*140*	*1,300*
100.	Tax assets	14,335	94	313	352	84	21	70	586	-	1,520	15,855
	a) current	*2,997*	*13*	*54*	*73*	*19*	*6*	*25*	*14*	*-*	*204*	*3,201*
	b) deferred	*11,338*	*81*	*259*	*279*	*65*	*15*	*45*	*572*	*-*	*1,316*	*12,654*
110.	Non-current assets held for sale and discontinued operations	672	-	-	31	-	-	20	156	-	207	879
120.	Other assets	2,996	555	98	121	48	13	148	180	-681	482	3,478
Total assets		**529,748**	**2,166**	**9,318**	**11,683**	**2,969**	**4,341**	**2,252**	**42,704**	**-51,593**	**23,840**	**553,588**

(millions of euro)

	Liabilities and Shareholders' Equity	**01.01.2019 IFRS 16**	**Changes**								**Change in the reference scope**	**01.01.2019 Restated**
			Merger of Intesa Sanpaolo Group Services	Merger of Cassa di Risparmio in Bologna	Merger of Cassa di Risparmio di Firenze	Merger of Cassa di Risparmio di Pistoia e della Lucchesia	Merger of Banca Prossima	Merger of Banca Apulia	Merger of Mediocredito Italiano	Netting of intragroup transactions		
10.	Financial liabilities measured at amortised cost	448,338	1,322	8,996	11,588	2,675	4,225	2,069	42,006	-50,885	21,996	470,334
	a) due to banks	*161,719*	*1,322*	*2,049*	*1,672*	*548*	*538*	*88*	*41,378*	*-50,686*	*-3,091*	*158,628*
	b) due to customers	*209,727*	*-*	*6,942*	*9,873*	*2,126*	*3,687*	*1,912*	*427*	*1*	*24,968*	*234,695*
	c) securities issued	*76,892*	*-*	*5*	*43*	*1*	*-*	*69*	*201*	*-200*	*119*	*77,011*
20.	Financial liabilities held for trading	14,560	-	57	33	10	-	1	-	-9	*92*	14,652
30.	Financial liabilities designated at fair value	1,821	-	-	-	-	-	-	-	-	-	1,821
40.	Hedging derivatives	5,358	-	36	50	5	1	-	64	-63	*93*	5,451
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	382	-	6	7	1	-	-	-	-	*14*	396
60.	Tax liabilities	1,447	21	21	30	10	-	29	30	-	141	1,588
	a) current	*76*	*5*	*-*	*4*	*1*	*-*	*27*	*30*	*-*	*67*	*143*
	b) deferred	*1,371*	*16*	*21*	*26*	*9*	*-*	*2*	*-*	*-*	*74*	*1,445*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-
80.	Other liabilities	6,352	541	195	357	91	67	62	664	-473	1,504	7,856
90.	Employee termination indemnities	845	126	24	71	17	6	9	17	-1	269	1,114
100.	Allowances for risks and charges	3,434	197	71	80	22	11	39	65	-178	307	3,741
	a) commitments and guarantees given	*350*	*-*	*13*	*10*	*1*	*2*	*2*	*8*	*-1*	*35*	*385*
	b) post-employment benefits	*223*	*8*	*6*	*4*	*1*	*-*	*-*	*-*	*1*	*20*	*243*
	c) other allowances for risks and charges	*2,861*	*189*	*52*	*66*	*20*	*9*	*37*	*57*	*-178*	*252*	*3,113*
110.	Valuation reserves	1,081	-29	44	-17	2	-	-1	-47	-	-48	1,033
120.	Redeemable shares	-	-	-	-	-	-	-	-	-	-	-
130.	Equity instruments	4,103	-	-	-	-	-	-	-	-	-	4,103
140.	Reserves	4,370	-12	-143	-552	132	13	66	-351	157	-690	3,680
150.	Share premium reserve	24,926	-	-	-	-	-	-	-	-	-	24,926
160.	Share capital	9,085	-	-	-	-	-	-	-	-	-	9,085
170.	Treasury shares (-)	-40	-	-	-	-	-	-	-	1	1	-39
180.	Net income (loss) (+/-)	3,686	-	11	36	4	18	-22	256	-142	161	3,847
	Total liabilities and shareholders’ equity	**529,748**	**2,166**	**9,318**	**11,683**	**2,969**	**4,341**	**2,252**	**42,704**	**-51,593**	**23,840**	**553,588**

Reconciliation between adjusted Intesa Sanpaolo income statement for 2018 and restated Intesa Sanpaolo income statement for 2018

(millions of euro)

		2018 Adjusted	Effect of transition to IFRS 16	Changes									Change in the reference scope	2018 Restated
				Dividend elimination	Merger of Intesa Sanpaolo Group Services	Merger of Cassa di Risparmio in Bologna	Merger of Cassa di Risparmio di Firenze	Merger of Cassa di Risparmio di Pistoia e della Lucchesia	Merger of Banca Prossima	Merger of Banca Apulia	Merger of Mediocredito Italiano	Netting of intragroup transactions		
10.	Interest and similar income	7,036	-	-	1	156	210	56	54	49	732	-271	987	8,023
	of which: interest income calculated using the effective interest rate method	*7,245*	*-*	*-*	*-*	*170*	*233*	*59*	*55*	*57*	*695*	*-257*	*1,012*	*8,257*
20.	Interest and similar expense	-2,785	-21	-	-11	-23	-25	-3	-12	-17	-217	271	-37	-2,843
30.	**Interest margin**	**4,251**	**-21**	**-**	**-10**	**133**	**185**	**53**	**42**	**32**	**515**	**-**	**950**	**5,180**
40.	Fee and commission income	4,566	-	-	-	175	251	63	38	32	155	-62	652	5,218
50.	Fee and commission expense	-628	-	-	-	-9	-14	-3	-1	-3	-30	61	1	-627
60.	**Net fee and commission income**	**3,938**	**-**	**-**	**-**	**166**	**237**	**60**	**37**	**29**	**125**	**-1**	**653**	**4,591**
70.	Dividend and similar income	3,491	-	-209	-	2	1	-	-	-	-	1	-205	3,286
80.	Profits (Losses) on trading	-77	-	-	-	3	2	1	-	1	-	-	7	-70
90.	Fair value adjustments in hedge accounting	-22	-	-	-	-1	-1	-	-	-	-	-	-2	-24
100.	Profits (Losses) on disposal or repurchase of:	101	-	-	-	2	-1	-	1	-8	-17	-	-23	78
	a) financial assets measured at amortised cost	*-64*	*-*	*-*	*-*	*2*	*-1*	*-*	*1*	*-7*	*-17*	*-*	*-22*	*-86*
	b) financial assets measured at fair value through other comprehensive income	*215*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*215*
	c) financial liabilities	*-50*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-1*	*-*	*-*	*-1*	*-51*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	281	-	-	-1	-2	-2	-1	-	-1	-	-1	-8	273
	a) financial assets and liabilities designated at fair value	*30*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*30*
	b) other financial assets mandatorily measured at fair value	*251*	*-*	*-*	*-1*	*-2*	*-2*	*-1*	*-*	*-1*	*-*	*-1*	*-8*	*243*
120.	**Net interest and other banking income**	**11,963**	**-21**	**-209**	**-11**	**303**	**421**	**113**	**80**	**53**	**623**	**-1**	**1,372**	**13,314**
130.	Net losses/recoveries for credit risks associated with:	-1,821	-	-	-	-99	-93	-32	-4	-35	-138	1	-400	-2,221
	a) financial assets measured at amortised cost	*-1,822*	*-*	*-*	*-*	*-99*	*-93*	*-32*	*-4*	*-35*	*-138*	*1*	*-400*	*-2,222*
	b) financial assets measured at fair value through other comprehensive income	*1*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*1*
140.	Profits (Losses) on changes in contracts without derecognition	-16	-	-	-	-	-	-	-	-	-2	-	-2	-18
150.	**Net income from banking activities**	**10,126**	**-21**	**-209**	**-11**	**204**	**328**	**81**	**76**	**18**	**483**	**-**	**970**	**11,075**
160.	Administrative expenses:	-7,014	159	-	-1,245	-202	-311	-85	-56	-73	-172	1,669	-475	-7,330
	a) personnel expenses	*-3,669*	*-*	*-*	*-523*	*-104*	*-161*	*-47*	*-30*	*-33*	*-67*	*1*	*-964*	*-4,633*
	b) other administrative expenses	*-3,345*	*159*	*-*	*-722*	*-98*	*-150*	*-38*	*-26*	*-40*	*-105*	*1,668*	*489*	*-2,697*
170.	Net provisions for risks and charges	-40	-	-	-	-9	-2	-	-	-	13	-	2	-38
	a) commitments and guarantees given	*10*	*-*	*-*	*-*	*-*	*2*	*-*	*-*	*-*	*22*	*-*	*24*	*34*
	b) other net provisions	*-50*	*-*	*-*	*-*	*-9*	*-4*	*-*	*-*	*-*	*-9*	*-*	*-22*	*-72*
180.	Net adjustments to / recoveries on property and equipment	-125	-147	-	-149	-3	-7	-2	-	-2	-4	-	-167	-439
190.	Net adjustments to / recoveries on intangible assets	-14	-	-	-484	-	-	-	-	-	-	-	-484	-498
200.	Other operating expenses (income)	519	9	-	1,894	18	31	6	7	10	53	-1,667	352	880
210.	**Operating expenses**	**-6,674**	**21**	**-**	**16**	**-196**	**-289**	**-81**	**-49**	**-65**	**-110**	**2**	**-772**	**-7,425**
220.	Profits (Losses) on equity investments	127	-	-	-	-	-	-	-	-	-	66	66	193
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-6	-	-	-	-	-	-	-	-1	-	-1	-2	-8
240.	Goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	-
250.	Profits (Losses) on disposal of investments	1	-	-	-	-	-	2	-	-	-	-	2	3
260.	**Income (Loss) before tax from continuing operations**	**3,574**	**-**	**-209**	**5**	**8**	**39**	**2**	**27**	**-48**	**373**	**67**	**264**	**3,838**
270.	Taxes on income from continuing operations	64	-	-	-5	3	-3	2	-9	26	-117	-	-103	-39
280.	**Income (Loss) after tax from continuing operations**	**3,638**	**-**	**-209**	**-**	**11**	**36**	**4**	**18**	**-22**	**256**	**67**	**161**	**3,799**
290.	Income (Loss) after tax from discontinued operations	48	-	-	-	-	-	-	-	-	-	-	-	48
300.	**Net income (loss)**	**3,686**	**-**	**-209**	**-**	**11**	**36**	**4**	**18**	**-22**	**256**	**67**	**161**	**3,847**

Restated financial statements

Restated Intesa Sanpaolo balance sheet

(millions of euro)

Assets		31.12.2019	01.01.2019 Restated	Changes amount	Changes %
10.	Cash and cash equivalents	6,013	7,655	-1,642	-21.5
20.	Financial assets measured at fair value through profit or loss	22,973	26,033	-3,060	-11.8
	a) financial assets held for trading	*19,872*	*18,048*	*1,824*	*10.1*
	b) financial assets designated at fair value	*195*	*198*	*-3*	*-1.5*
	c) other financial assets mandatorily measured at fair value	*2,906*	*7,787*	*-4,881*	*-62.7*
30.	Financial assets measured at fair value through other comprehensive income	33,277	31,826	1,451	4.6
40.	Financial assets measured at amortised cost	439,933	432,524	7,409	1.7
	a) due from banks	*122,455*	*114,897*	*7,558*	*6.6*
	b) loans to customers	*317,478*	*317,627*	*-149*	*-0.0*
50.	Hedging derivatives	2,830	2,906	-76	-2.6
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,526	109	1,417	
70.	Equity investments	24,411	21,084	3,327	15.8
80.	Property and equipment	6,688	6,862	-174	-2.5
90.	Intangible assets	4,552	4,377	175	4.0
	of which:				
	- goodwill	*1,242*	*1,300*	*-58*	*-4.5*
100.	Tax assets	14,017	15,855	-1,838	-11.6
	a) current	*1,480*	*3,201*	*-1,721*	*-53.8*
	b) deferred	*12,537*	*12,654*	*-117*	*-0.9*
110.	Non-current assets held for sale and discontinued operations	469	879	-410	-46.6
120.	Other assets	3,740	3,478	262	7.5
Total assets		**560,429**	**553,588**	**6,841**	**1.2**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2019	01.01.2019 Restated	Changes amount	%
10.	Financial liabilities measured at amortised cost	476,325	470,334	5,991	1.3
	a) due to banks	*152,979*	*158,628*	*-5,649*	*-3.6*
	b) due to customers	*247,937*	*234,695*	*13,242*	*5.6*
	c) securities issued	*75,409*	*77,011*	*-1,602*	*-2.1*
20.	Financial liabilities held for trading	16,446	14,652	1,794	12.2
30.	Financial liabilities designated at fair value	1,914	1,821	93	5.1
40.	Hedging derivatives	7,323	5,451	1,872	34.3
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	522	396	126	31.8
60.	Tax liabilities	929	1,588	-659	-41.5
	a) current	*24*	*143*	*-119*	*-83.2*
	b) deferred	*905*	*1,445*	*-540*	*-37.4*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	-	41	
80.	Other liabilities	7,500	7,856	-356	-4.5
90.	Employee termination indemnities	1,057	1,114	-57	-5.1
100.	Allowances for risks and charges	3,100	3,741	-641	-17.1
	a) commitments and guarantees given	*385*	*385*	*-*	*-*
	b) post-employment benefits	*206*	*243*	*-37*	*-15.2*
	c) other allowances for risks and charges	*2,509*	*3,113*	*-604*	*-19.4*
110.	Valuation reserves	1,375	1,033	342	33.1
120.	Redeemable shares	-	-	-	
130.	Equity instruments	4,103	4,103	-	-
140.	Reserves	3,399	3,680	-281	-7.6
150.	Share premium reserve	25,233	24,926	307	1.2
160.	Share capital	9,086	9,085	1	0.0
170.	Treasury shares (-)	-61	-39	22	56.4
180.	Net income (loss) (+/-)	2,137	3,847	-1,710	-44.5
Total liabilities and shareholders' equity		**560,429**	**553,588**	**6,841**	**1.2**

Restated Intesa Sanpaolo income statement

(millions of euro)

		2019	2018	Changes	
			Restated	amount	%
10.	Interest and similar income	7,282	8,023	-741	-9.2
	of which: interest income calculated using the effective interest rate method	*7,569*	*8,257*	*-688*	*-8.3*
20.	Interest and similar expense	-2,874	-2,843	31	1.1
30.	**Interest margin**	**4,408**	**5,180**	**-772**	**-14.9**
40.	Fee and commission income	5,098	5,218	-120	-2.3
50.	Fee and commission expense	-610	-627	-17	-2.7
60.	**Net fee and commission income**	**4,488**	**4,591**	**-103**	**-2.2**
70.	Dividend and similar income	2,144	3,286	-1,142	-34.8
80.	Profits (Losses) on trading	39	-70	109	
90.	Fair value adjustments in hedge accounting	-37	-24	13	54.2
100.	Profits (Losses) on disposal or repurchase of:	358	78	280	
	a) financial assets measured at amortised cost	*-26*	*-86*	*-60*	*-69.8*
	b) financial assets measured at fair value through other comprehensive income	*215*	*215*	*-*	*-*
	c) financial liabilities	*169*	*-51*	*220*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	18	273	-255	-93.4
	a) financial assets and liabilities designated at fair value	*-95*	*30*	*-125*	
	b) other financial assets mandatorily measured at fair value	*113*	*243*	*-130*	*-53.5*
120.	**Net interest and other banking income**	**11,418**	**13,314**	**-1,896**	**-14.2**
130.	Net losses/recoveries for credit risks associated with:	-1,966	-2,221	-255	-11.5
	a) financial assets measured at amortised cost	-1,954	-2,222	-268	-12.1
	b) financial assets measured at fair value through other comprehensive income	*-12*	*1*	*-13*	
140.	Profits (Losses) on changes in contracts without derecognition	*-5*	*-18*	*-13*	*-72.2*
150.	**Net income from banking activities**	**9,447**	**11,075**	**-1,628**	**-14.7**
160.	Administrative expenses:	-7,155	-7,330	-175	-2.4
	a) personnel expenses	*-4,499*	*-4,633*	*-134*	*-2.9*
	b) other administrative expenses	*-2,656*	*-2,697*	*-41*	*-1.5*
170.	Net provisions for risks and charges	-66	-38	28	73.7
	a) commitments and guarantees given	*-1*	*34*	*-35*	
	b) other net provisions	*-65*	*-72*	*-7*	*-9.7*
180.	Net adjustments to / recoveries on property and equipment	-391	-439	-48	-10.9
190.	Net adjustments to / recoveries on intangible assets	-537	-498	39	7.8
200.	Other operating expenses (income)	807	880	-73	-8.3
210.	**Operating expenses**	**-7,342**	**-7,425**	**-83**	**-1.1**
220.	Profits (Losses) on equity investments	-56	193	-249	
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-10	-8	2	25.0
240.	Goodwill impairment	-	-	-	
250.	Profits (Losses) on disposal of investments	-	3	-3	
260.	**Income (Loss) before tax from continuing operations**	**2,039**	**3,838**	**-1,799**	**-46.9**
270.	Taxes on income from continuing operations	34	-39	73	
280.	**Income (Loss) after tax from continuing operations**	**2,073**	**3,799**	**-1,726**	**-45.4**
290.	Income (Loss) after tax from discontinued operations	64	48	16	33.3
300.	**Net income (loss)**	**2,137**	**3,847**	**-1,710**	**-44.5**

Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements

Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

(millions of euro)

Assets		31.12.2019	01.01.2019 Restated
Due from banks		**122,037**	**114,798**
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	122,030	114,795
Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	7	3
Loans to customers		**307,043**	**314,583**
Loans to customers measured at amortised cost		**305,800**	**308,651**
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	301,154	303,781
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	4,646	4,870
Loans to customers at fair value through other comprehensive income and through profit or loss		**1,243**	**5,932**
Caption 20a (partial)	Financial assets held for trading – Loans to customers	8	13
Caption 20b (partial)	Financial assets designated at fair value through profit or loss - Loans to customers	-	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value through profit or loss - Loans to customers	995	5,900
Caption 30 (partial)	Financial assets at fair value through other comprehensive income - Loans to customers	240	19
Financial assets measured at amortised cost which do not constitute loans		**12,103**	**9,078**
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities with banks	425	102
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	11,678	8,976
Financial assets at fair value through profit or loss		**21,963**	**20,117**
Caption 20a (partial)	Financial assets held for trading	19,864	18,035
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	195	198
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	1,904	1,884
Financial assets at fair value through other comprehensive income		**33,037**	**31,807**
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	33,037	31,807
Equity investments		**24,411**	**21,084**
Caption 70	Equity investments	24,411	21,084
Property, equipment and intangible assets		**11,240**	**11,239**
Assets owned		***10,182***	***10,052***
Caption 80 (partial)	Property and equipment	6,688	6,862
Caption 90	Intangible assets	4,552	4,377
- Caption 90 (partial)	Intangible assets (concession rights - intangible component)	-1,058	-1,187
Rights of use acquired under leases		***1,058***	***1,187***
Caption 80 (partial)	Property and equipment	1,058	1,187
Tax assets		**14,017**	**15,855**
Caption 100	Tax assets	14,017	15,855
Non-current assets held for sale and discontinued operations		**469**	**879**
Caption 110	Non-current assets held for sale and discontinued operations	469	879
Other assets		**14,109**	**14,148**
Caption 10	Cash and cash equivalents	6,013	7,655
Caption 50	Hedging derivatives	2,830	2,906
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	1,526	109
Caption 120	Other assets	3,740	3,478
Total assets		**560,429**	**553,588**

(millions of euro)

Liabilities			31.12.2019	01.01.2019 Restated
Due to banks at amortised cost			**152,973**	**158,628**
	Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	152,979	158,628
	- Caption 10 (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	-6	-
Due to customers at amortised cost and securities issued			**322,289**	**310,511**
	Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	247,937	234,695
	Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	75,409	77,011
	- Caption 10 (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	-1,057	-1,195
Financial liabilities held for trading			**16,446**	**14,652**
	Caption 20	Financial liabilities held for trading	16,446	14,652
Financial liabilities designated at fair value			**1,914**	**1,821**
	Caption 30	Financial liabilities designated at fair value	1,914	1,821
Tax liabilities			**929**	**1,588**
	Caption 60	Tax liabilities	929	1,588
Liabilities associated with non-current assets held for sale and discontinued operations			**41**	**-**
	Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	41	-
Other liabilities			**16,408**	**14,898**
	Caption 40	Hedging derivatives	7,323	5,451
	Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	522	396
	Caption 80	Other liabilities	7,500	7,856
	Caption 10 a) (partial)	Financial liabilities measured at amortised cost - Due to banks (of which lease payables)	6	
	Caption 10 b) (partial)	Financial liabilities measured at amortised cost - Due to customers (of which lease payables)	1,057	1,195
Allowances for risks and charges			**4,157**	**4,855**
	Caption 90	Employee termination indemnities	1,057	1,114
	Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	385	385
	Caption 100 b)	Allowances for risks and charges - Post-employment benefits	206	243
	Caption 100 c)	Allowances for risks and charges - Other allowances	2,509	3,113
Share capital			**9,086**	**9,085**
	Caption 160	Share capital	9,086	9,085
Reserves			**28,571**	**28,567**
	Caption 140	Reserves	3,399	3,680
	Caption 150	Share premium reserve	25,233	24,926
	Caption 170	Own shares	-61	-39
Valuation reserves			**1,375**	**1,033**
	Caption 110	Valuation reserves	1,375	1,033
Equity instruments			**4,103**	**4,103**
	Caption 130	Equity instruments	4,103	4,103
Net income (loss)			**2,137**	**3,847**
	Caption 180	Net income (loss) (+/-)	2,137	3,847
Total Liabilities and Shareholders' Equity			**560,429**	**553,588**

Reconciliation between restated Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

(millions of euro)

Captions		2019	2018 Restated
Net interest income		**4,411**	**5,162**
Caption 30	Interest margin	4,408	5.180
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	100	110
+ Caption 80 (partial)	Interest margin (Components of profits (losses) on trading relating to net interest)	-78	-128
- Caption 30 (partial)	Interest margin (Cost of funding of discontinued operations)	-	18
+ Caption 160 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-17	-16
+ Caption 170 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-2	-2
Net fee and commission income		**4,448**	**4,555**
Caption 60	Net fee and commission income	4,488	4.591
+ Caption 160 b) (partial)	Other administrative expenses (Recovery of other expenses)	-40	-36
Profits (Losses) on financial assets and liabilities designated at fair value		**529**	**575**
Caption 80	Profits (Losses) on trading	39	-70
Caption 90	Fair value adjustments in hedge accounting	-37	-24
Caption 110 a)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	-95	30
Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss	113	243
- Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss (Charges concerning the banking industry)	-	65
Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	215	215
Caption 100 c) (partial)	Profits (Losses) on disposal or repurchase of financial liabilities	169	-51
+ Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	51	54
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	78	128
- Caption 80 (partial)	Profits (Losses) on trading (Economic effect of purchase price allocation)	-	-5
Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss - Charges concerning the banking industry	-13	-
+ Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for sale of NTV)	9	-10
Other operating income (expenses)		**2,458**	**3,587**
Caption 70	Dividend and similar income	2,144	3.286
Caption 200	Other operating expenses (income)	807	880
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-51	-54
- Caption 200 (partial)	Other operating expenses (income) (Recovery of expenses and indirect taxes)	-504	-409
- Caption 200 (partial)	Other operating expenses (income) (Valuation effects of other assets)	26	-
- Caption 200 (partial)	Other operating expenses (income) (Non-recurring expenses)	50	-8
- Caption 200 (partial)	Other operating expenses (income) (Recovery of costs)	-1	-
- Caption 200 (partial)	Other operating expenses (income) (Charges for integration)	-13	-108
Operating income		**11,846**	**13,879**

(millions of euro)

Captions		2019	2018 Restated
Personnel expenses		**-4,447**	**-4,544**
Caption 160 a)	Personnel expenses	-4,499	-4,633
- Caption 160 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	34	42
- Caption 160 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	17	16
- Caption 160 a) (partial)	Personnel expenses (Reclassification for transfer of business)	-	31
+ Caption 200 (partial)	Other operating expenses (income) (Recovery of costs)	1	-
Other administrative expenses		**-1,737**	**-1,849**
Caption 160 b)	Other administrative expenses	-2,656	-2,697
- Caption 160 b) (partial)	Other administrative expenses (Charges for integration and exit incentives)	28	129
- Caption 160 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	347	305
- Caption 160 b) (partial)	Other administrative expenses (Recovery of other expenses)	40	36
+ Caption 160 a) (partial)	Personnel expenses (Reclassification for transfer of business)	-	-31
+ Caption 200 (partial)	Other operating expenses (income) (Recovery of expenses and indirect taxes)	504	409
Adjustments to property, equipment and intangible assets		**-866**	**-870**
Caption 180	Net adjustments to / recoveries on property and equipment	-391	-439
Caption 190	Net adjustments to / recoveries on intangible assets	-537	-498
- Caption 180 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	16	29
- Caption 180 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	4	4
- Caption 190 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	30	23
- Caption 190 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	3	3
- Caption 190 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	9	8
Operating costs		**-7,050**	**-7,263**
Operating margin		**4,796**	**6,616**
Net adjustments to loans		**-1,921**	**-2,221**
Caption 140	Profits/losses from changes in contracts without derecognition	-5	-18
Caption 170 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	-1	34
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-34	-98
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	8	-1
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-1,922	-2,236
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-14	4
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	27	85
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	17	-
- Caption 170 a) (partial)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	3	9
Other net provisions and net impairment losses on other assets		**-178**	**-119**
Caption 170 b)	Net provisions for risks and charges - Other net provisions	-65	-72
+ Caption 230	Valuation differences on property, equipment and intangible assets measured at fair value	-10	-8
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	-12	10
Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-12	1
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-17	-
+ Caption 170 a) (partial)	Net provisions for risks and charges (Net provisions for risks and charges for credit risk related to commitments and guarantees given)	-3	-9
- Caption 170 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	2	3
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration and exit incentives)	-19	-49
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for sale of NTV)	-9	10
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Solidarity fund for the reimbursement of subordinated bondholders)	-6	13
+ Caption 180 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-4	-4
+ Caption 190 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-3	-3
+ Caption 200 (partial)	Other operating expenses (income) (Valuation effects of other assets)	-26	-
+ Caption 220 (partial)	Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	6	214
- Caption 220 (partial)	Profits (Losses) on equity investments (impairment of non-controlling interests)	-	-225

(millions of euro)

Captions		2019	2018 Restated
Other income (expenses)		**-45**	**419**
Caption 220	Profits (Losses) on equity investments	-56	193
Caption 250	Profits (Losses) on disposal of investments	-	3
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	-	13
+ Caption 200 (partial)	Other operating income (expenses) (non-recurring expenses)	-50	8
+ Caption 30 (partial)	Interest margin (Cost of funding of discontinued operations)	-	-18
- Caption 220 (partial)	Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	-6	-214
+ Caption 220 (partial)	Profits (Losses) on equity investments (impairment of non-controlling interests)	-	212
- Caption 220 (partial)	Profits (Losses) on equity investments (impairment of controlling interests)	67	232
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	-	-10
Income (Loss) from discontinued operations		**88**	**71**
Caption 290	Income (Loss) after tax from discontinued operations	64	48
+ Caption 270 (partial)	Taxes on income from continuing operations (discontinued operations)	24	23
Gross income (loss)		**2,740**	**4,766**
Taxes on income		**-169**	**-272**
Caption 270	Taxes on income from continuing operations	34	-39
- Caption 270 (partial)	Taxes on income from continuing operations (discontinued operations)	-24	-23
- Caption 270 (partial)	Taxes on income from continuing operations (Other net provisions for risks and charges - Solidarity fund for the reimbursement of subordinated bondholders)	2	-5
- Caption 270 (partial)	Taxes on income from continuing operations (Charges for integration)	-27	-20
- Caption 270 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-45	-63
- Caption 270 (partial)	Taxes on income from continuing operations (Profits (Losses) on equity investments) - Impairment of controlling interests)	-	-2
- Caption 270 (partial)	Taxes on income from continuing operations (Charges concerning the banking industry)	-	-23
- Caption 270 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-113	-99
- Caption 270 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - Charges for the stability of the banking system)	4	2
Charges (net of tax) for integration and exit incentives		**-51**	**-53**
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Charges for integration	-6	-
+ Caption 160 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-34	-41
+ Caption 160 b) (partial)	Other administrative expenses (Charges for integration and exit incentives)	-28	-129
+ Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Solidarity fund for the reimbursement of subordinated bondholders)	6	-13
+ Caption 170 b) (partial)	Net provisions for risks and charges (Charges for integration and exit incentives)	19	49
+ Caption 180 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	-16	-29
+ Caption 190 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	-30	-23
+ Caption 200 (partial)	Other operating expenses (income) (Recovery of costs from Group companies)	13	108
+ Caption 270 (partial)	Taxes on income from continuing operations (Other net provisions for risks and charges - Solidarity fund for the reimbursement of subordinated bondholders)	-2	5
+ Caption 270 (partial)	Taxes on income from continuing operations (Charges for integration)	27	20
Effect of purchase price allocation (net of tax)		**-91**	**-127**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-100	-110
+ Caption 80 (partial)	Profits (Losses) on trading (Economic effect of purchase price allocation)	-	5
+ Caption 190 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	-9	-8
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	-27	-77
+ Caption 270 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	45	63

(millions of euro)

Captions		2019	2018 Restated
Levies and other charges concerning the banking industry (net of tax)		**-225**	**-250**
Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss - Charges concerning the banking industry	13	-
+ Caption 160 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-347	-305
- Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss (Charges concerning the banking industry)	-	-65
+ Caption 270 (partial)	Taxes on income from continuing operations (Charges concerning the banking industry)	-	23
+ Caption 270 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	113	99
+ Caption 270 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - Charges for the stability of the banking system)	-4	-2
Impairment (net of tax) of goodwill and other intangible assets		**-67**	**-217**
Caption 240	Goodwill impairment	-	-
+ Caption 220 (partial)	Profits (Losses) on equity investments (impairment of controlling interests)	-67	-232
- Caption 220 (partial)	Profits (Losses) on equity investments	-	13
+ Caption 270 (partial)	Taxes on income from continuing operations (Profits (Losses) on equity investments) - Impairment of controlling interests)	-	2
Net income (loss)		**2,137**	**3,847**

Other attachments

Fees for auditing and services other than auditing pursuant to Article 149-duodecies of Consob Regulation 11971

(millions of euro)

Type of service	INTESA SANPAOLO		GROUP COMPANIES(*)	
	KPMG	KPMG Network	KPMG	KPMG Network
Independent audit (**)	9.71	-	10.54	-
Release of attestations (***)	1.65	-	1.99	-
Other services:				
agreed audit procedures	*0.16*	-	*0.52*	-
consolidated non-financial statement	*0.12*	-	*0.06*	-
TOTAL	**11.64**	**-**	**13.11**	**-**

(*) Group companies and other consolidated subsidiaries.

(**) Including costs for statutory audit and voluntary audit. Costs for audit of non-consolidated funds for about 7.7 million euro are not included

(***) Including audit costs, on a voluntary basis, for "Pillar 3" disclosure

Amounts net of VAT and reimbursed expenses and Consob contribution

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

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

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term ‘positions’ refers solely to financial instruments and commodities.

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

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

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

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

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

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

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

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

Bookrunner
See Lead manager and Joint lead manager.

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

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

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

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

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

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

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

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

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

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

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Forward Rate Agreement
See "Forwards".

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

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

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

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

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

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

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

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

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

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

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

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

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

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

Significant increase in credit risk “SICR”
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:
- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;

exposures are more than 30 days past due, used as a backstop rather than a primary driver

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

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

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

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

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

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

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

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

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

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

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

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

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

LCRE: Low Credit Risk Exemption
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date.

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner
Lead bank of a bond issue syndicate. The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

Liquidity Coverage Ratio (LCR)
It aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that may be converted into cash to meet its liquidity needs within a period of 30 days under conditions of severe stress. The liquidity coverage ratio is equal to the ratio of liquidity reserves to net outflows of liquidity over a stress period of 30 calendar days.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

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

Loss Given Default (LGD)
It represents the percentage of loans that are estimated to be irrecoverable in the event of default by the debtor.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

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

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

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

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

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

Net Stable Funding Ratio (NSFR).
It is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. Net stable funding requirement is equal to the ratio of the stable funding available to the entity to the stable funding required by the entity and is expressed as a percentage.

Non-performing
Term generally referring to loans for which payments are overdue.
Covered bond
See "Covered Bond".

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Expected credit loss
It is calculated as the product of the Probability of Default (PD) and Loss Given Default (LGD) multiplied by the exposure value (EAD). It represents the ratio of the amount expected to be lost on the exposure, over a time horizon of one year, as a result of a potential default by the counterparty and the amount of the exposure at the time of default.

Lifetime expected loss
Expected credit loss that results from all possible default events over the expected life of a financial instrument.

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See "Syndicated lending".

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to

the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

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

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

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

Indirect customer deposits
The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

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

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
Risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on 10-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

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

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

RTS (Regulation Technical Standards)
Regulatory technical standards

Risk-Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

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

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

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

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

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

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

SPPI TEST
One of the two classification drivers (the other is the “business model”) that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as “basic lending arrangements” in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.

Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

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

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

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

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

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life;
- goodwill acquired in a business combination;
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 capital ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

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

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

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

Vega 01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

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

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank’s contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank’s exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional ‘maturity factor’ may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

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

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

Wealth management
See “Asset management”.

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

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

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Financial calendar

Approval of the Interim Statement as at 31 March 2020:	5 May 2020
Approval of the half-yearly report as at 30 June 2020:	4 August 2020
Approval of the Interim Statement as at 30 September 2020:	3 November 2020