Annual Report 2017

Consolidated Financial Statements

Parent Company's Draft Financial Statements

This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Ordinary Shareholders' Meeting
of 27 April 2018

Report and consolidated financial statements
of the Intesa Sanpaolo Group 2017

Report and Parent Company's
financial statements 2017

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,731,984,115.92 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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BANCAPULIA

BANCA CR FIRENZE

BANCA IMI

Banca Nuova

BANCA PROSSIMA PER LE IMPRESE SOCIALI E LE COMUNITÀ

BANCO DI NAPOLI

CASSA DEI RISPARMI DI FORLÌ E DELLA ROMAGNA

CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA

CASSA DI RISPARMIO DEL VENETO

CARISBO

FIDEURAM INTESA SANPAOLO PRIVATE BANKING

MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,222	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	4
	Banca IMI	1
	Banca 5	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
603	CR del Veneto	297
	CR in Bologna	153
	CR del Friuli Venezia Giulia	88
	CR di Forlì e della Romagna	77
	Fideuram	56
	Banca Prossima	16
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
606	Banca CR Firenze	289
	Fideuram	41
	Banca Prossima	10
	Banco di Napoli	4
	Banca Apulia	2
	Mediocredito Italiano	2
	Banca IMI	1
	Banca Nuova	1

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
96	Banco di Napoli	549
	Banca Apulia	92
	Fideuram	27
	Banca Prossima	20
	Banca Nuova	13
	Mediocredito Italiano	2

ISLANDS

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
209	Banca Nuova	72
	Fideuram	10
	Banca Prossima	9
	Mediocredito Italiano	1

Figures as at 31 December 2017

Product Companies

INTESA SANPAOLO VITA

Bancassurance and Pension Funds

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EURIZON ASSET MANAGEMENT

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The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

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

AMERICA

Direct Branches	Representative Offices(1)
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

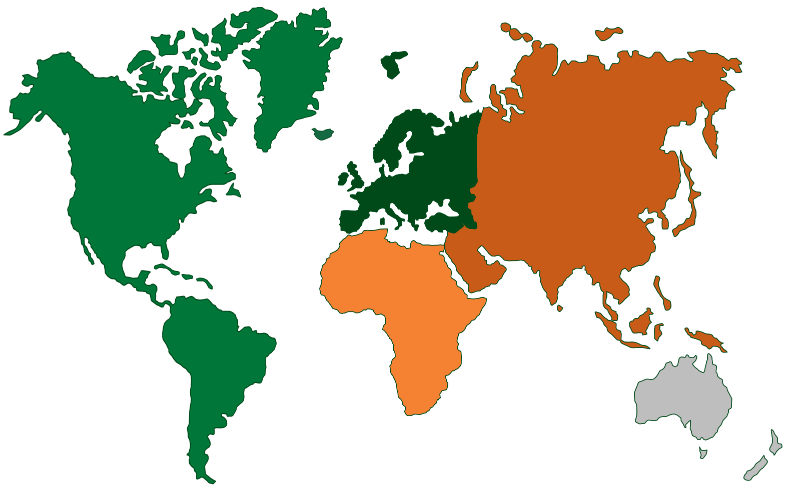
Representative Offices
Sydney

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(3)
Istanbul	Moscow
London	
Madrid	
Paris	
Romania(2)	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	32
	Veneto Banka Albania	15
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	54
Croatia	Privredna Banka Zagreb	195
	Veneto Banka Croazia	6
Czech Republic	VUB Banka	1
Hungary	CIB Bank	76
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram	1
	Intesa Sanpaolo Bank Luxembourg	1
Romania	Intesa Sanpaolo Bank Romania	30
Russian Federation	Banca Intesa	37
Serbia	Banca Intesa Beograd	158
Slovakia	VUB Banka	230
Slovenia	Intesa Sanpaolo Bank	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex-Bank	50
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	172

Figures as at 31 December 2017
(1) The Representative Office of Santiago ceased to operate on 17 January 2018
(2) 19 branches in Romania from the Aggregate Set of Veneto Banca
(3) International and Regulatory Affairs

Product Companies

CONSUMER FINANCE HOLDING
PBZ CARD

Consumer Credit, E-money and Payment Systems

EURIZON ASSET MANAGEMENT
FIDEURAM ASSET MANAGEMENT IRELAND
VÚB ASSET MANAGEMENT

Asset Management

CIB LEASING
INTESA LEASING Beograd
PBZ LEASING
VÚB LEASING

Leasing

INTESA SANPAOLO LIFE

Insurance

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

Board of Directors

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

Manager responsible for preparing the company's financial reports	Fabrizio DABBENE
Independent Auditors	KPMG S.p.A.

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

Letter from the Chairman

Dear Shareholders,

Moments of tension were not lacking in 2017. However, nationalist drives with reflections on elections, in Europe, hotbeds of war and nuclear threats in other areas did not prevent the acceleration of global growth, at 3.7% according to the International Monetary Fund.

After years of monetary easing, the Federal Reserve and the Bank of England adopted restrictive approaches in response to a possible future overheating of the US economy and the effects on prices of the depreciation of the pound sterling. The ECB recorded an improvement in economic conditions in the Euro area, but in the absence of significant inflationary pressures, limited its action to the gradual reduction of the Quantitative Easing.

The Italian GDP grew by 1.5%, the highest rate since 2010, outperforming expectations. The main contribution came from domestic demand, especially investments, and net foreign demand, a sign of increased competitiveness: exports actually grew by 7.4% despite the strengthening of the euro. Unemployment remains high, especially among young people: this is a problem that must be dealt with, and a resource to mobilise for growth.

The refinement of the one-tier corporate governance model, adopted by your Bank in 2016, simplified and increased the efficiency of decision-making processes, at a time when the move to the Single Supervisory Mechanism (SSM) required commitment and attention to satisfy the expectations of the new Supervisor. Another change is the “Non- financial Statement”, in which the issuer documents its environmental, social and governance conduct. Our commitment to culture, environmental sustainability, charity initiatives in favour of those in need and inclusion and financial education is thus illustrated according to internationally recognised methods.

Your Bank was called upon to provide significant support to the stability of the entire Italian banking system: the contributions to the Resolution Funds, Interbank Deposit Guarantee Scheme, the Voluntary Fund, the Atlante Fund and the Italian Recovery Fund (former Atlante II), resulted in a total outlay of almost 2 billion euro over the last two years. Moreover, in June 2017, as part of a complex transaction involving the government in the forms illustrated in detail in the report on operations, we acquired certain assets, liabilities and legal relationships of Banca Popolare di Vicenza and Veneto Banca: we took on 50 billion euro in payables, of which 24 billion euro due to deposit holders and 10 billion euro guaranteed by the government. We ensured the continuity of 28 billion euro in outstanding loans with customers and businesses in the local areas. Only your Bank was capable of carrying out this essential operation for the Italian economic and social system, without incurring damages. Through all of these measures, we avoided additional resolution proceedings, which would have resulted in greater immediate mandatory outlays, also on our part, greater charges for the government, the collapse of the economic system, and additional, greater future burdens for all sound banks.

The pro-active management of credit and the recovery of non-performing loans, assigned to our personnel as top priority, characterised our method of handling the issue of non-performing loans. Thus, just in 2017 we have facilitated the return to performing status of 21,000 companies.

Excluding the public contribution of 3,500 million euro relating to the Venetian banks to offset the impacts on capital ratios, the Intesa Sanpaolo Group ended 2017 with consolidated net income of 3,816 million euro, up 23% compared to 2016. The achievement of this result, the highest since 2007, was primarily due to trading and the decrease in operating costs (with a cost-income ratio of 50.9%, among the best in the European banking scenario). A significant contribution was also provided by the excellent results of the Private Banking and Asset Management Divisions, along with those of the International Subsidiary Banks Division.

The year 2017 successfully completed the 2014-2017 Business Plan, in a challenging macroeconomic scenario marked by interest rates at record lows and a slower-than-expected recovery in the GDP, due to product innovation, improvement in customer service and permanent development of the Group's human resources. The development of multi-channel services continued, with the establishment of Banca 5® (following the acquisition of Banca ITB), with additional investments in mobile banking services, with the growth on online branches and their integration with the physical network. The process of simplifying the corporate structure of the Group continued, along with rationalising the bank's geographical presence, with clear reductions in costs.

Intesa Sanpaolo has developed an efficient, resilient business model, with a low risk profile, while maintaining high liquidity (already in line with the Basel 3 requirements for 2018) and capitalisation at the top end of the sector, fulfilling the commitment to distribute a total of 10 billion euro in cash dividends over the timeframe of the Plan. The Group's contribution to the real economy grew: in 2017, your Bank granted about 50 billion euro in medium-long term loans to fund the investments of Italian households and businesses, continuing the positive trend that marked the last four years. The economic value generated in 2017 - 21 billion euro - was distributed as follows: 76.6% to stakeholders, of which 37.3% to the people that work for us, 17.3% to Shareholders, and the remainder to suppliers, the government, entities, institutions and communities.

Starting from these results, the new 2018-2021 Business Plan aims to maximise the value of the Bank, based on three pillars: significant de-risking at no cost to shareholders, cost reduction through further simplification of the operating model, and growth in revenues. Revenues are expected to grow in P&C insurance, private banking, asset management, corporate banking and the strengthening of the network of the international subsidiary banks: these initiatives will be supported by development of personnel and digitalisation processes. With the new Business Plan, your Bank aims to become a leader in Europe, also through new instruments specifically aimed at generating a positive impact on the society in which it operates.

This year Intesa Sanpaolo will participate in the EBA EU-Wide Stress Test 2018, which will include the effects of the adoption of the new financial reporting standard IFRS 9. Based on the results of the simulations, which will only be published at year-end, we expect a positive result. With a fully loaded pro-forma CET 1 at 14% (13% after the First-Time Adoption of IFRS 9), Intesa Sanpaolo was - already at the end of 2017 - considerably above the regulatory requirement at consolidated level starting from the year that has just begun.

Considering Group consolidated net income of 7,316 million euro (3,816 million euro net of the aforementioned public contribution) and Parent Company net income of 4,882 million euro, a proposal has been made to the Ordinary Shareholders' Meeting to distribute cash dividends amounting to 3,419 million euro, equal to 20.3 eurocents per ordinary share and 21.4 eurocents per savings share, before tax.

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.

The Consolidated financial statements as at 31 December 2017 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 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.

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 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.

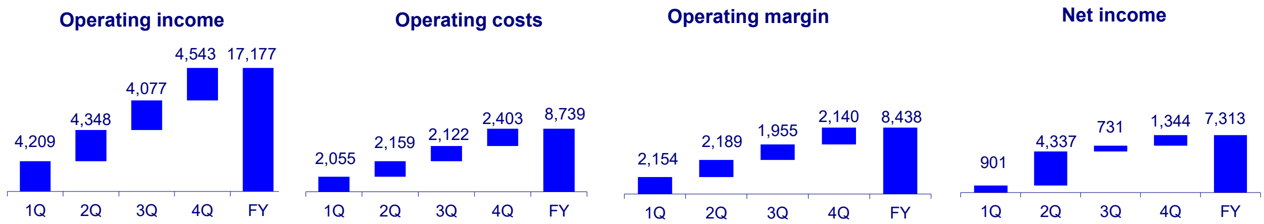
Report on operations

Overview of 2017

Income statement figures and alternative performance measures

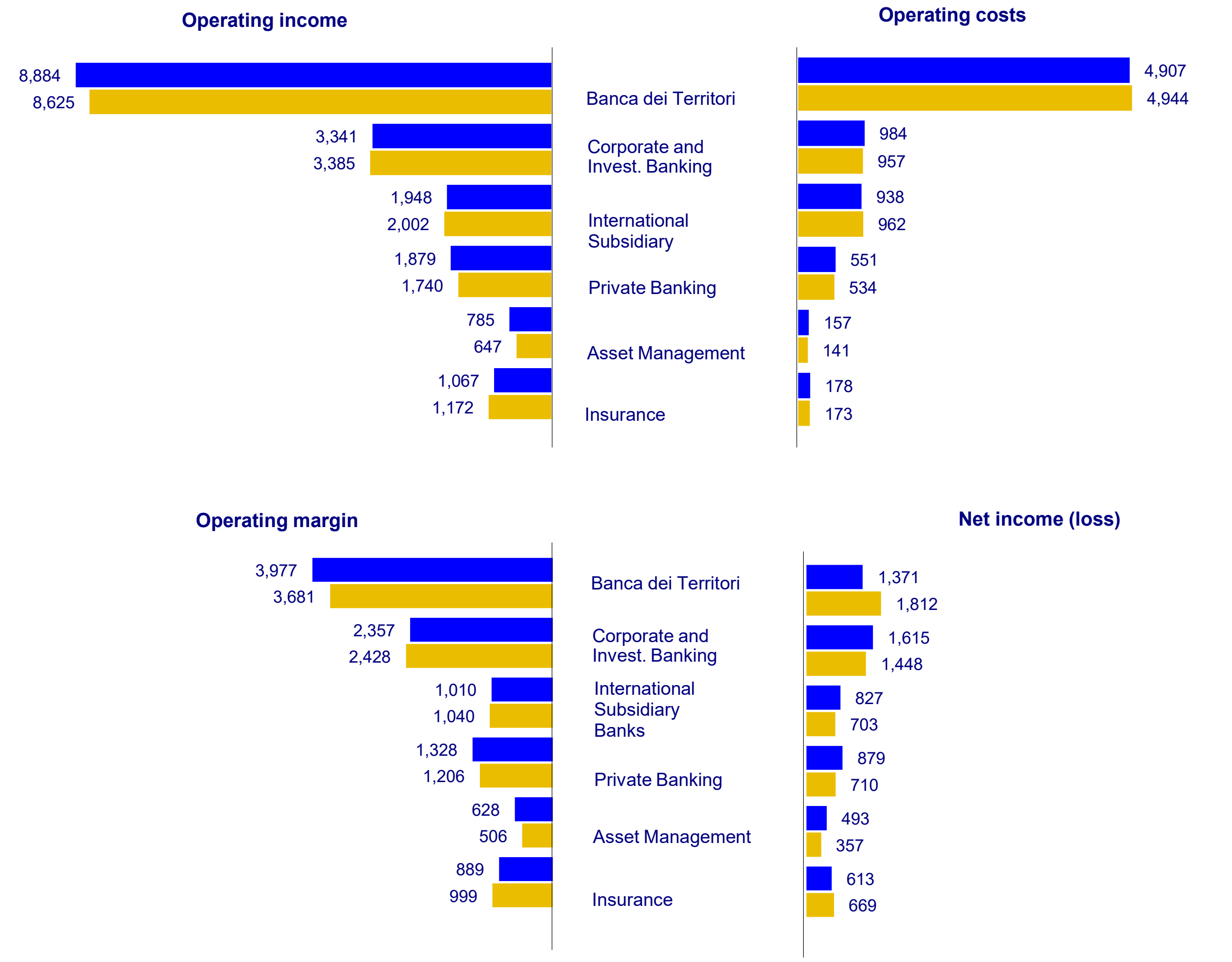
Consolidated income statement figures (millions of euro)				**Changes** (Net of the Aggregate Set) **amount**	**%**
Net interest income	7,111	153	7,294	-183	-2.5
Net fee and commission income	7,735	108	7,331	404	5.5
Income from insurance business	933		995	-62	-6.2
Profits (Losses) on trading	1,341	-30	1,190	151	12.7
Operating income	17,177	266	16,975	202	1.2
Operating costs	-8,739	-471	-8,702	37	0.4
Operating margin	8,438	-205	8,273	165	2.0
Net adjustments to loans	-3,253	-51	-3,708	-455	-12.3
Income (Loss) after tax from discontinued operations	-		952	-952	
Net income (loss)	7,313	3	3,111	4,202	

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

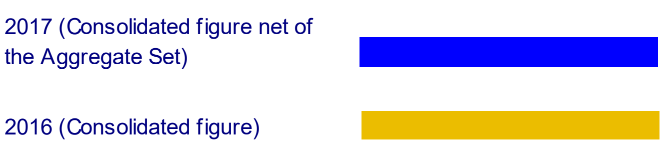


2017 (Consolidated figure net of the Aggregate Set)
2017 (Figure of the Aggregate Set)
2016 (Consolidated figure)

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



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have temporarily been allocated to the Corporate Centre and have not been restated.



Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)	31.12.2017	31.12.2016	**Changes** (Net of the Aggregate Set) amount	%
Financial assets	258,302	255,411	-4,862	-1.9
of which: Insurance Companies	152,578	142,543	10,035	7.0
Loans to customers	410,746	364,713	11,459	3.1
Total assets	796,861	725,138	21,716	3.0
Direct deposits from banking business	423,474	393,805	-6,410	-1.6
Direct deposits from insurance business and technical reserves	152,403	144,098	8,305	5.8
Indirect deposits:	518,443	468,855	34,057	7.3
of which: Assets under management	337,998	314,081	22,987	7.3
Shareholders' equity	56,205	48,911	5,159	10.5

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

	Loans to customers 31.12.2017	Loans to customers 31.12.2016	Direct deposits from banking business 31.12.2017	Direct deposits from banking business 31.12.2016
Banca dei Territori	196,814	188,317	175,277	173,599
Corporate and Invest. Banking	109,399	98,183	111,940	112,661
International Subsidiary Banks	28,637	26,492	35,538	32,978
Private Banking	9,637	9,597	30,581	27,540
Asset Management	361	298	6	8
Insurance	22	26	0	0

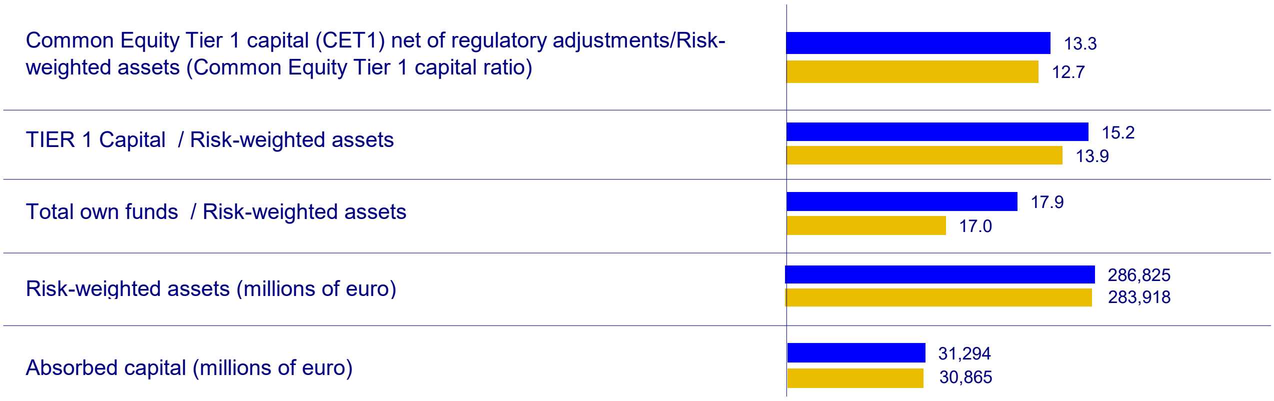
Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have temporarily been allocated to the Corporate Centre and have not been restated.

31.12.2017 (Consolidated figure including the Aggregate Set)

31.12.2016 (Consolidated figure)

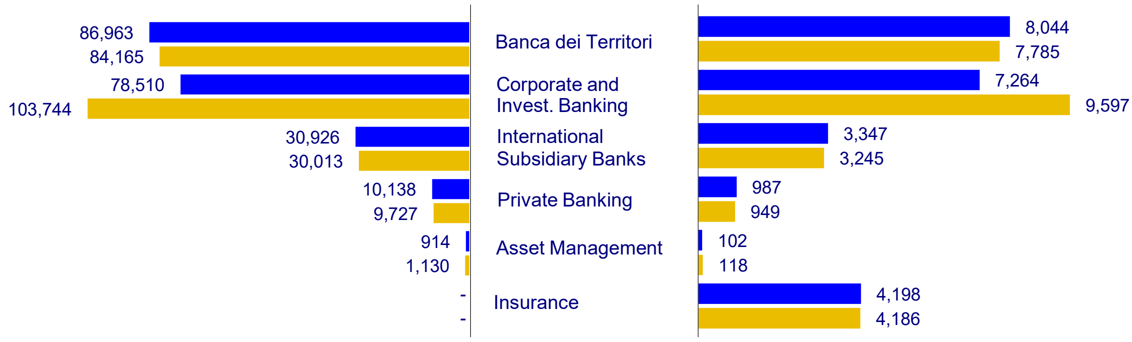
Alternative performance measures and other measures

Consolidated capital ratios (%)



Risk-weighted assets by sector (millions of euro)

Absorbed capital by sector (millions of euro)



Information on the stock	2017	2016
Number of ordinary shares (thousands)	15,859,787	15,859,787
Share price at period-end - ordinary share (euro)	2.770	2.426
Average share price for the period - ordinary share (euro)	2.678	2.220
Average market capitalisation (million)	44,820	37,152
Shareholders' equity (million)	56,205	48,911
Book value per share (euro) [(a)]	3.376	2.941

Long-term rating	2017	2016
Moody's	Baa1	Baa1
Standard & Poor's	BBB	BBB-
Fitch	BBB	BBB+
DBRS	BBB (high)	A(low)

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have temporarily been allocated to the Corporate Centre and have not been restated.

[(a)] Book value per share does not consider treasury shares.

31.12.2017
(Consolidated figure including the Aggregate Set)

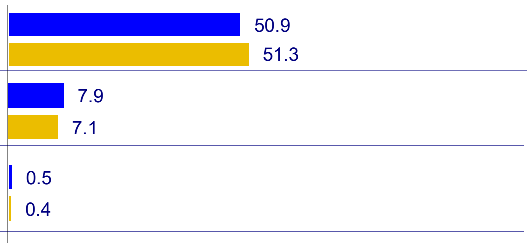
31.12.2016 (Consolidated figure)

Consolidated profitability ratios (%)

Cost / Income [(a)]

Net income / Shareholders' equity (ROE) [(b)]

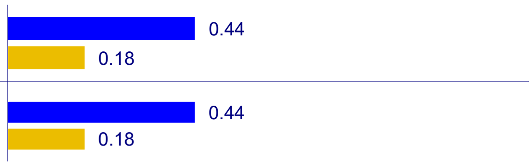
Net income / Total assets (ROA) [(c)]



Earnings per share (euro)

Basic earnings per share (basic EPS) [(d)]

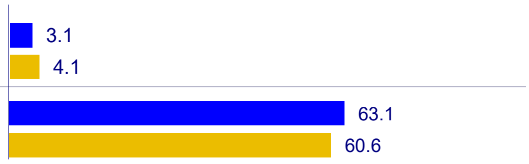
Diluted earnings per share (diluted EPS) [(e)]



Consolidated risk ratios (%)

Net bad loans / Loans to customers

Cumulated adjustments on bad loans / Gross bad loans to customers



Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

[(a)] For 2017, the figure is net of the Aggregate Set.

[(b)] Ratio of net income to shareholders' equity at the end of the period. Net income for 2017 does not take account of the government contribution to cover the impacts on the ratios of the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period. In 2017 the previously mentioned government contribution is included. The figure for 2016 was recalculated on a like-for-like basis.

[(c)] Ratio between net income and total assets.

[(d)] 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.

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

Operating structure	31.12.2017	31.12.2016	Changes amount
Number of employees [(e)]	**96,892**	**88,884**	**8,008**
Italy	72,741	64,080	8,661
Abroad	24,151	24,804	-653
Number of financial advisors [(e)]	**5,136**	**5,032**	**104**
Number of branches [(f)]	**5,843**	**5,163**	**680**
Italy	4,694	3,978	716
Abroad	1,149	1,185	-36

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

[(e)] The figures as at 31.12.2017 include the personnel of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca (8,661 employees in Italy, 216 abroad and no financial advisor). The figures for comparison have not been restated.

[(f)] Including Retail Branches, SME Branches and Corporate Branches. The figures as at 31.12.2017 include the branches of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca (783 in Italy and 40 abroad). The figures for comparison have not been restated.

31.12.2017 (Consolidated figure including the Aggregate Set where not specified otherwise)

31.12.2016 (Consolidated figure)

Executive summary

Intesa Sanpaolo in 2017

Economic trends in 2017

In 2017, world economic growth strengthened its pace and became more widespread. Growth in international trade intensified. Inflation rebounded, partly driven by the strong recovery in oil prices, but was still moderate. In the US, the economy picked up again, pushing the unemployment rate below 4%. In addition, a tax reform was approved at the end of the year, which could fuel stronger growth in domestic demand. In response to the increasing risk of the economy overheating, the Federal Reserve tightened its monetary policy stance. Growth in the emerging economies also picked up pace, with Asia continuing to be the most dynamic region. The recovery in oil and other commodity prices supported economic activity in Latin America, which has come out of recession. In Central and South-Eastern Europe, GDP growth is estimated to have accelerated, particularly in the Czech Republic, Hungary, Slovenia and Romania. The Eurozone witnessed stunning growth during the year, far above the standards of recent years and the forecasts. Recoveries in exports and fixed investments more than offset the marginal slowdown in consumption. Economic growth across all countries in the Eurozone drove employment figures up and the unemployment rate down. Italy has also fully participated in the improved European economic climate and the recovery underway. Increased confidence in the demand outlook has started to generate a recovery in investment. Year-on-year GDP growth reached 1.7% in the third quarter and the consensus estimates for 2017 and 2018 have been revised upwards. Employment growth continues to be sufficient to drive down the unemployment rate. In terms of public finances, accelerating recovery in the primary budget surplus was insufficient to significantly lower the debt-to-GDP ratio, which is practically unchanged according to the European Commission estimates.

The European Central Bank began to adapt its monetary policy stance to improvements in economic conditions and the balance of risks. After an initial reduction in securities purchases from 80 to 60 billion euro, the ECB extended its purchase programme to the period January-September 2018, though with a halved monthly volume. The ECB continues to forecast a rise in official rates only once the asset purchase programme has been wound up. The monetary policy led to a strengthening of the exchange rate and a rise in medium/long-term interest rates. The ten-year BTP yield rose slightly, ending the year at 2.0%, just above the level at the end of 2016 (1.83%). The spread with German bonds came under pressure for a short time during the French electoral campaign, after which it fell to a low of 133 bps in December, ending 2017 at 157 bps. The euro/dollar exchange rate rose between January and September, gaining 14% to end the year at 1.20.

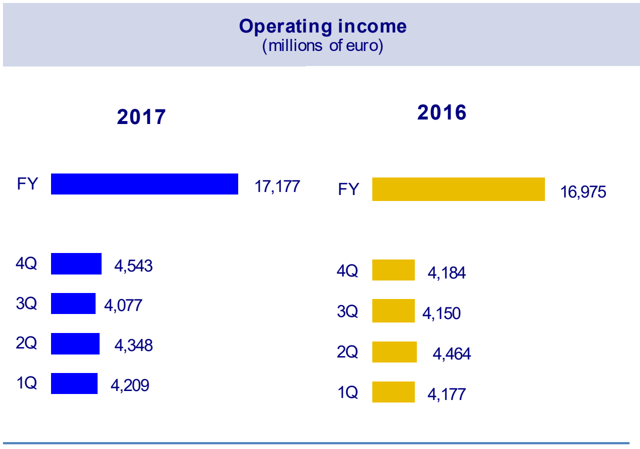
In the Italian banking system, bank interest rates continued to fall slightly. The average interest rate on new loans to businesses remained stable until the summer and then fell moderately in the fourth quarter. Rates on mortgage loans to households also reached new lows in the fourth quarter. In this context, lending rates continued to fall, although at a slower pace than in the previous year. The cost of funding also continued to fall, due in part to the reduced weight of bonds. However, the spread between lending and funding rates fell slightly in terms of annual averages.

Loans continued their moderate growth, again driven by mortgage loans to households for home purchase and consumer credit. However, mortgage lending, despite remaining high, was down year-on-year. This trend was consistent with the more moderate pace of residential property trading. Despite favourable credit conditions, loans to businesses remained disappointing, slowed down by low financing requirements, partly satisfied through bond issues, with an improvement only seen towards the end of the year. Non-performing loans decreased, thanks to the more favourable economic situation and the sales and securitisations carried out by the banks. From the end of 2016 to November 2017, the stock of net bad loans fell by 21 billion euro, or 24%, and by over 1.2 percentage points in relation to total loans, to 3.7%. The formation rate for new non-performing loans fell below pre-crisis levels. As regards funding, 2017 confirmed the previous trends of growth in deposits, driven by current accounts, and fall in bonds, which are feeling the effects of investor portfolio reallocations. On the whole, customer deposits remained stable compared to 2016. For assets under management, 2017 was a very good year for mutual funds, whose inflows more than doubled compared to 2016, also thanks to the introduction of the individual savings plan funds (*Piani Individuali di Risparmio* - PIR), which achieved considerable success.

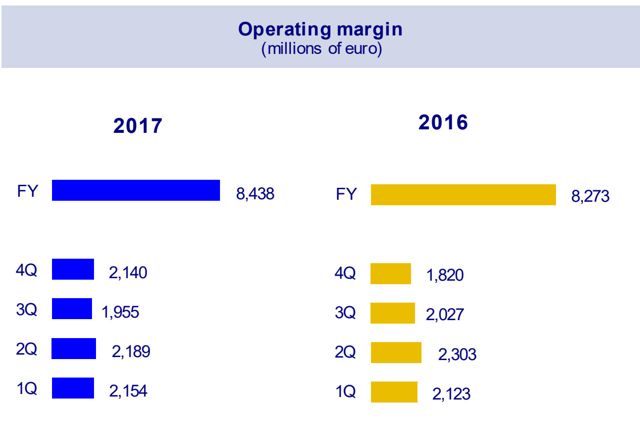
The results for 2017

The consolidated results for 2017 reflected the effects of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The figures and comments below refer to the components net of the effects of the "Aggregate Set", unless otherwise specified.

The income statement for the year closed with net income of 7,316 million euro (7,313 million euro net of the effects of the acquired Aggregate Set).
The significant net income figure was in part due to the recognition, in June 2017, of the 3.5 billion euro public contribution assigned by the Italian government to offset the impact on the Group's capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The contribution will ensure a phased-in Common Equity Tier 1 Ratio of 12.5% to the risk-weighted assets (RWA) of the Aggregate Set.
Net of the above public contribution, the consolidated net income for 2017 would have been 3,816 million euro, up by around 23% compared to 2016. This was despite the significant charges incurred to support the stability of the banking industry, which in 2017 totalled 637 million euro (935 million before tax), compared to 559 million euro in 2016 (820 million before tax).
On the other hand, the recognition of the gain from the sale of Allfunds Bank had a positive impact of 802 million euro (811 million euro before tax).



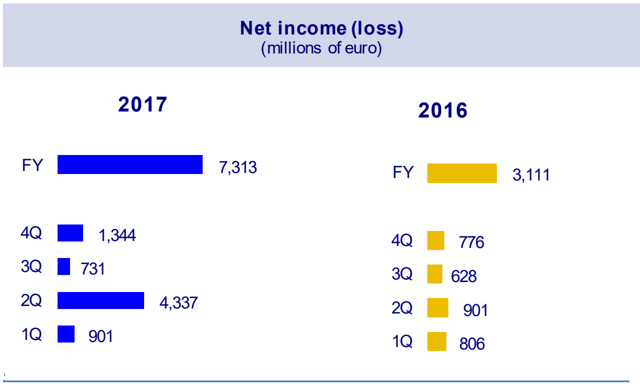
Looking at the breakdown of the cost and revenue items – without considering the contributions of the Aggregate Set – the income statement shows net interest income of 7,111 million euro (excluding 153 million euro relating to the Aggregate Set), down on 2016 (-2.5%), essentially due to the sharp fall in the differentials on hedging transactions and lower interest on financial assets, which fully offset the positive performance of interest income on customer dealing.
The contribution of net fee and commission income, which makes up around 45% of operating income, increased significantly (+5.5% to 7,735 million euro, excluding 108 million euro deriving from the Aggregate Set), thanks to the positive performance of management, dealing, and consultancy activities (+12%), attributable to the positive performance of the various operations: dealing and placement of securities (approximately +36%), portfolio management (approximately +12%) and distribution of insurance products (approximately +9%).
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, showed a decrease (approximately -6.2%, to 933 million euro), especially due to a lower contribution from the net investment result.
Profits on trading activities yielded an increase (approximately +13% to 1,341 million euro, excluding losses of 30 million euro relating to the Aggregate Set) compared to the corresponding figure for 2016. This was primarily due to trading profits, partly as a result of the gains on the sale of units of UCIs (Undertakings for Collective Investment) and AFS securities and despite the lower dividend received on the stake held in the Bank of Italy (from 121 million euro for 2016 to 10 million euro for 2017).



Other operating income (57 million euro, excluding 35 million euro relating to the Aggregate Set, compared to 165 million euro for 2016), was down due to the lower contribution of investments carried at equity, which are included in this caption together with other income and expenses from continuing operations.
In relation to the above dynamics, operating income amounted to 17,177 million euro, up 1.2% compared to 2016.
Operating costs (8,739 million euro, excluding 471 million euro deriving from the Aggregate Set) were essentially stable (+0.4%), as a result of a slight increase in personnel expenses (+1.2%) and a reduction in administrative expenses (-2.4%), mainly due to the savings achieved on general structure costs and other costs.
Conversely, amortisation and depreciation increased (+4.9%), due to amortisation of intangible assets as a result of investments made.

The cost/income ratio for the year, excluding the contribution of the Aggregate Set, was 50.9% compared to 51.3% for 2016.
As a result of the revenue and cost performance, the operating margin amounted to 8,438 million euro (excluding the negative contribution of 205 million euro deriving from the Aggregate Set), up 2% on the previous year.
Net adjustments to loans decreased (approximately -12.3%, to 3,253 million euro, excluding 51 million euro relating to the Aggregate Set), primarily due to lower net adjustments on unlikely-to-pay loans. The annualised cost of credit – expressed as the ratio of net adjustments to net loans – decreased (80 bps) and was much lower than the value at the end of 2016 (102 bps).

Net provisions and net impairment losses on other assets decreased significantly overall compared to 2016 (215 million euro compared to 422 million euro). More specifically, there was a decrease in net provisions (around -16% to 148 million euro) as well as in net impairment losses on assets other than loans (67 million euro compared to 245 million euro).
Other income includes realised gains and losses on investments and income and expenses not strictly correlated to continuing operation and amounted to 4,746 million euro (355 million euro in 2016). As reported above, the figure includes the 3.5 billion euro public contribution assigned by the Italian government to offset the impact on the Group's capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The contribution will ensure a phased-in Common Equity Tier 1 Ratio of 12.5% to the risk-weighted assets (RWA) of the Aggregate Set. Net of that contribution, the amount of this caption is 1,246 million euro and includes the gain on the sale of Allfunds Bank (811 million euro) and the positive effect from the disposal of a stake in NTV (Nuovo Trasporto Viaggiatori) and the fair value measurement of the remaining stake (109 million euro) and the investment in Bank of Qingdao (190 million euro), no longer included under entities subject to significant influence.
During the year, there was no profit or loss from discontinued operations, compared to the profit of 952 million euro realised in 2016 and related to Setefi and ISP Card.
As a result of the trends described above, gross income amounted to 9,716 million euro (excluding the negative contribution of 259 million euro deriving from the Aggregate Set) compared to 5,450 million euro for 2016, up by around 14% excluding the above-mentioned public contribution and the contribution of the Aggregate Set.
Taxes on income came to 1,553 million euro, with a tax rate of 16% (25% excluding the public contribution received, as reported above).
Charges for integration and exit incentives were recorded in a specific caption for a total of 121 million euro (150 million euro in 2016), excluding charges of 179 million euro deriving from the Aggregate Set and relating to the amount by which the estimated integration costs exceeded the public contribution received, as well as from a fund created for Group customers who lost part of their savings on their investments in the shares of the former Venetian banks.

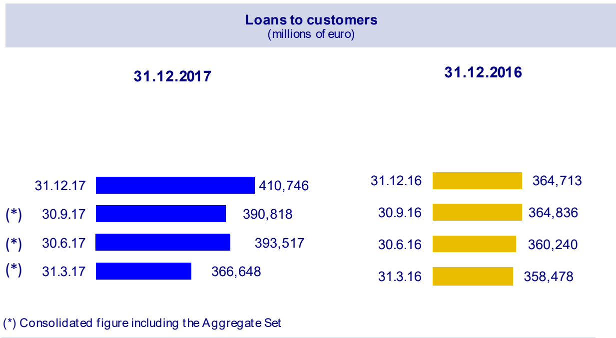


This reclassified income statement caption also includes, net of tax, the 1,285 million euro public contribution assigned by the Italian government to cover integration and rationalisation charges in relation to the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the provisions allocated to cover the related charges.
The economic effects of price purchase allocation amounted to -51 million euro in 2017 compared to -112 million euro in 2016 (327 million euro taking into account the positive effect of 378 million euro relating to the recognition of badwill of million euro 363 million euro, following the Purchase Price Allocation (PPA) required by IFRS 3 on the assets and liabilities acquired from the Venetian banks, and the effects pertaining to the second half of 2017 (15 million euro) connected to the amortisation of the differences between the fair value and the book value identified as a result of the aforementioned PPA.

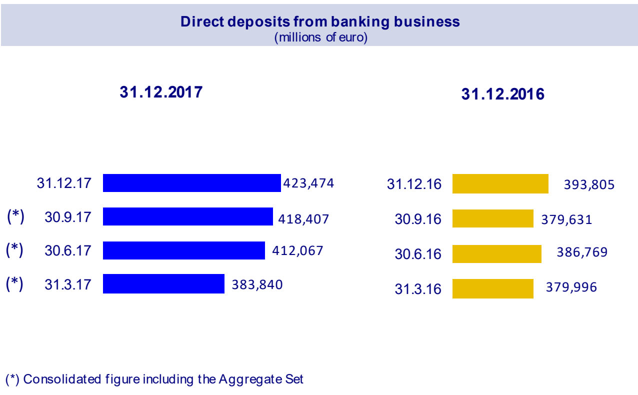
As previously indicated, and also excluding the effects of the Aggregate Set (12 million euro), the charges aimed at maintaining the stability of the banking industry had an extensive impact. These amounted to 637 million euro for the Group, net of tax (935 million euro before tax) compared to 559 million euro in 2016 (820 million before tax), and consisted of charges for ordinary contributions to resolution and deposit guarantee funds (198 million euro net of tax, equal to 284 million euro before tax), charges deriving from the further impairment of the Atlante Fund investment (301 million euro net of tax, equal to 449 million euro before tax), as well as charges relating to Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato, whose restructuring was approved by the Management Board of the Voluntary Scheme for the purpose of their subsequent sale to Cariparma (103 million euro net of tax, equal to 154 million euro before tax).
After recording minority interests of 41 million euro, the income statement for 2017 closed with net income of 7,313 million euro (7,316 million euro including the effect of the Aggregate Set), compared to 3,111 million euro for 2016.

The income statement for the fourth quarter of 2017, in comparison to the previous quarter, and net of the effect of the Aggregate Set, shows an increase in operating income (+11.4% to 4,543 million euro). In detail, net interest income for the fourth quarter was substantially in line with the third quarter (-0.4%), essentially due to the positive performance of customer dealing which more than offset the fall in interest on financial assets and non-performing assets, while net fee and commission income showed significant growth (approximately +11%) largely attributable to higher commissions on management, dealing and consulting activities, but also due to higher contributions from commercial banking activities and other net fee and commission income.
Income from insurance business in the fourth quarter of 2017 showed a decline compared to the third quarter (approximately -19%), and was driven down by the lower technical margin, which was only partially offset by an improved net investment result.
As regards trading, the figure for the fourth quarter (542 million euro) showed a significant increase compared to the third quarter (208 million euro) partly related to the sale of several AFS securities.
Operating costs for the fourth quarter were up compared to the third quarter (approximately +13%) with increases in personnel expenses (around +11%, mainly attributable to the variable component), as well as administrative expenses (approximately +18%, related to seasonality effects) .
In relation to revenue and cost trends, the operating margin for the fourth quarter was higher than the margin in the third quarter (approximately +10% to 2,140 million euro).

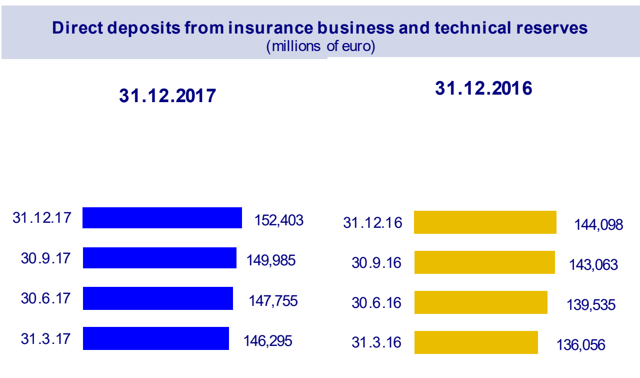
Net adjustments to loans in the fourth quarter were significantly higher than in the third quarter (1,175 million euro compared to 646 million euro). Net provisions and net impairment losses on other assets increased as well.
Other income in the fourth quarter amounted to 861 million euro compared to 72 million euro for the third quarter, essentially attributable to the gain recognised on the sale of Allfunds Bank (811 million euro).
After the recognition of taxes on income (290 million euro), charges for integration and exit incentives (48 million euro), the effects of purchase price allocation (14 million euro), levies and other net charges concerning the banking industry (+2 million euro), as well as minority interests (2 million euro), the income statement for the fourth quarter closed with net income of 1,344 million euro (1,428 million euro including the effect of the Aggregate Set, which was positive by 84 million euro), compared to 731 million euro for the previous quarter.



With regard to balance sheet aggregates, as at 31 December 2017, loans to customers of the Group – including the amounts related to the Aggregate Set of the former Venetian Banks – reached 411 billion euro, up 3.1% on a like-for-like basis (i.e. excluding the Aggregate Set). This was due to the positive performance of commercial banking loans (+16.5 billion euro, or +5.7%) and reverse repurchase agreements (+1.5 billion euro), only partly offset by the decline in loans represented by securities (-1.6 billion euro) and non-performing loans (-4.9 billion euro). Commercial banking loans also benefited from the inclusion within this caption of the loan granted by Intesa Sanpaolo to the former Venetian Banks in compulsory administrative liquidation for a total amount of 6.4 billion euro, to cover the imbalance between the acquired assets and liabilities.



Total direct deposits from banking business – including the amounts deriving from the Aggregate Set of the former Venetian Banks – amounted to 423 billion euro: on a like-for-like basis (i.e. excluding the Aggregate Set), direct deposits were down by 6.4 billion euro (-1.6%) compared to the end of December 2016, with varying performance among the main deposit types. In particular, there were decreases in bonds (-22.2%) and in repurchase agreements (-23.8%). In contrast, there were increases in current accounts and deposits (+5.3%) and, albeit on smaller absolute values, in other deposits (around +22%) and certificates of deposit (around +24%).



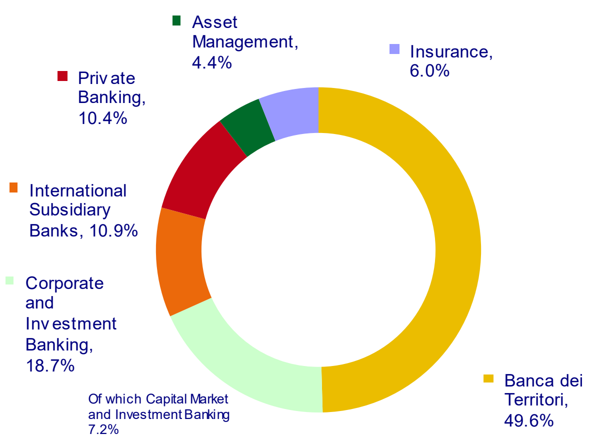
Direct deposits from insurance business, which include technical reserves, were also up and amounted to 152 billion euro at the end of December 2017 (+5.8% compared to 31 December 2016). The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 11 billion euro (+19.2%), entirely as a result of the contribution from unit-linked products. Conversely, technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased by 3.1% since the beginning of the year, due to the decrease in mathematical reserves and other reserves of the life insurance business.

As at 31 December 2017, indirect deposits – including the contribution of the former Venetian banks – amounted to 518 billion euro, up by 34.1 billion euro (+7.3%) compared to the end of 2016 on a like-for-like basis (i.e. excluding the Aggregate Set). Given the favourable conditions of the financial markets, the performance was determined by the increase in both assets under management, mainly driven by mutual funds and insurance segment products, and assets under administration.
Assets under management increased (annual change of +7.3%, excluding the Aggregate Set), mainly due to the performance of net inflows.
In particular, mutual funds increased (excluding the Aggregate Set, +12.7 billion euro, or 12%). Insurance products posted an increase of 7.8 billion euro (+5.9%). In 2017, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 22.3 billion euro.
Portfolio management schemes and pension funds also posted growth (+1.9 billion euro and +0.7 billion euro, respectively). Dealings with institutional customers were essentially stable.
Assets under administration recorded an increase of 11.1 billion euro net of the Aggregate Set (+7.2%), attributable to securities and third-party products in customer portfolios and dealings with institutional customers.

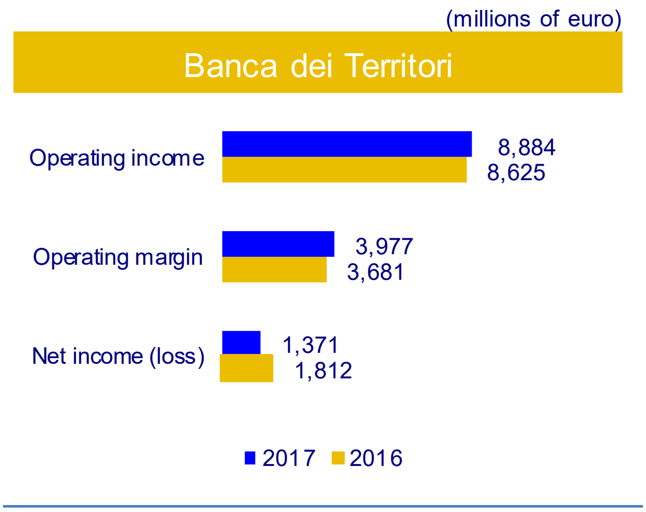
Results of the Business Units

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre - which is responsible for guidance, coordination and control of the entire Group - as well as for the Capital Light Bank (CLB) business unit, and the Treasury and ALM operations.
The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 50% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 19%), commercial banking activity abroad (approximately 11%), private banking activity (10%), insurance activity (approximately 6%) and asset management (approximately 4%).
Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary. With regard to the former Venetian banks, the income statement contribution for the second half of 2017 and the balance sheet balances as at 31 December 2017 are temporarily allocated in full to the "Corporate Centre (Aggregate Set)" and will be broken down into the various divisions once the processes are integrated starting from 2018.

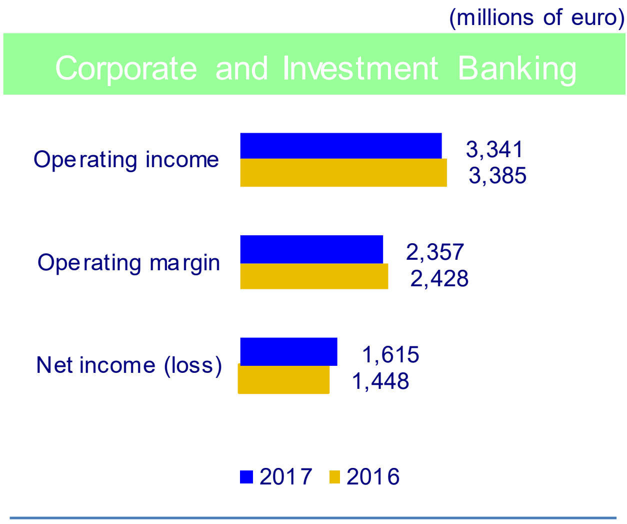
Operating income:
Breakdown by business area (1)



(1) Excluding Corporate Centre

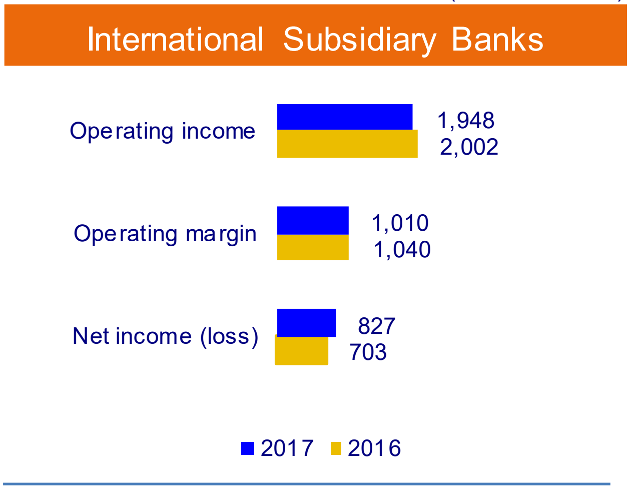


In 2017, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 8,884 million euro, which represents over half the Group's consolidated revenues, up 3% compared to the previous year. In further detail, there was an increase in net fee and commission income (+8.7%), mostly on those coming from the asset management segment and protection products.
Net interest income recorded a decline (-2.1%) driven by the lower contribution from the hedging of core deposits. Among the other revenue components, other net operating income showed positive performance, while profits on trading were essentially stable (-1.4%). Operating costs, equal to 4,907 million euro, were down slightly on 2016 (-0.7%) due to the savings on administrative expenses and on personnel expenses. The operating margin amounted to 3,977 million euro (+8%). In contrast, gross income, at 2,328 million euro, was down (-10%), despite lower adjustments to loans, due to the lack of extraordinary income recognised in 2016 related to the sale of the investment in VISA Europe and the sale of Setefi. After taxes of 909 million euro, charges for integration of 45 million euro and the effects of purchase price allocation for 3 million euro, the Division's net income was 1,371 million euro (-24.3%).
Loans to customers of the Banca dei Territori Division came to 196,814 million euro at the end of 2017, up (+8.5 billion euro, or 4.5%) essentially as a result of the increase in medium/long-term loans.
Direct deposits from banking business, equal to 175,277 million euro, were up 1% on the end of December 2016 thanks to the increase in amounts due to customers, mainly in the personal and corporate segments, which more than offset the fall in bonds.



In 2017, the Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – posted a slight fall in operating income compared to 2016 (-1.3% to 3,341 million euro).
In detail, net interest income was up (+10% to 1,592 million euro), mainly due to the greater contribution from customer dealing. Net fee and commission income was down (-16.7% to 925 million euro) mainly due to the performance of the commercial banking and investment banking segment. Profits on trading (805 million euro) were substantially stable. Operating costs were up (+2.8% to 984 million euro), primarily due to higher personnel expenses as a result of the increase in the average workforce.
As a result of the revenue and cost dynamics described, the operating margin came to 2,357 million euro (-2.9%). However, gross income, equal to 2,287 million euro, was up (+8%), due to lower adjustments to loans, as well as the proceeds from the partial disposal of the stake in NTV and the fair value measurement of the remaining equity investment following its reclassification under companies not subject to significant influence. The Division's income statement closed with net income of 1,615 million euro (+11.5%).
With regard to intermediated volumes, loans to customers, totalling 109,399 million euro at the end of December 2017, were up by 11.2 billion euro (+11.4%) year-on-year, partly due to increased levels of repo transactions by Banca IMI, while direct deposits from banking business, at 111,940 million euro, remained essentially stable (-0.6%).

(millions of euro)



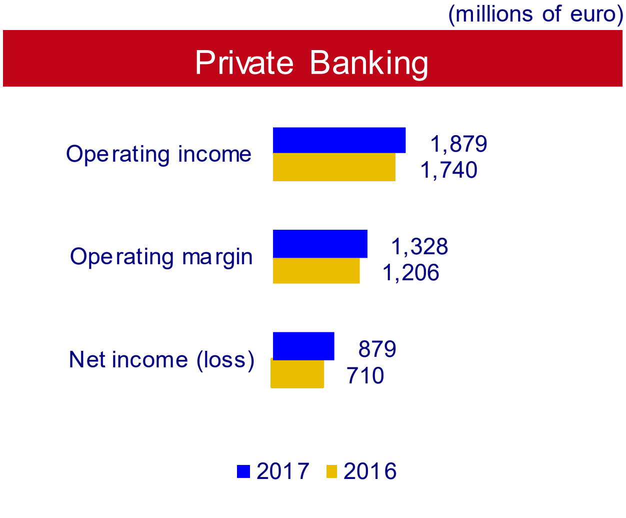
The International Subsidiary Banks Division is responsible for the Group's activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking. In 2017, the operating income came to 1,948 million euro, down 2.7% compared to the previous year, attributable to the effects of the devaluation of the Egyptian pound. In detail, net interest income came to 1,346 million euro, representing a fall (-5.7%), while net fee and commission income, at 493 million euro, was up (+2.1%). Profits on trading, amounting to 177 million euro, were up significantly (+63.9%).

Operating costs of 938 million euro were down (-2.5%). As a result of the above revenue and cost trends, the operating margin came to 1,010 million euro (-2.9%). Gross income, amounting to 1,006 million euro, increased (+10.2%), benefiting from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence.

The Division closed 2017 with net income of 827 million euro, up compared to 703 million euro for 2016 (+17.6%).

The Division's intermediated volumes grew compared to the end of December 2016 (+7.9%) owing to positive performance of loans to customers (+8.1%) and direct deposits from banking business (+7.8%), in both amounts due to customers and securities issued.

(millions of euro)

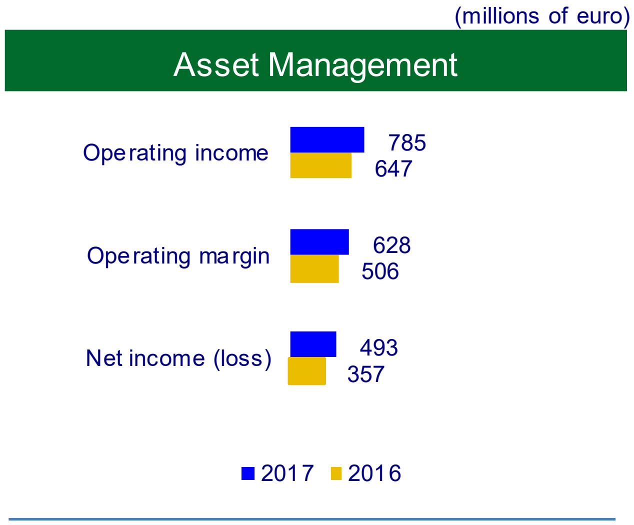


The Private Banking Division serves the top customer segment (Private and High Net Worth Individuals), creating value by offering excellent products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria,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

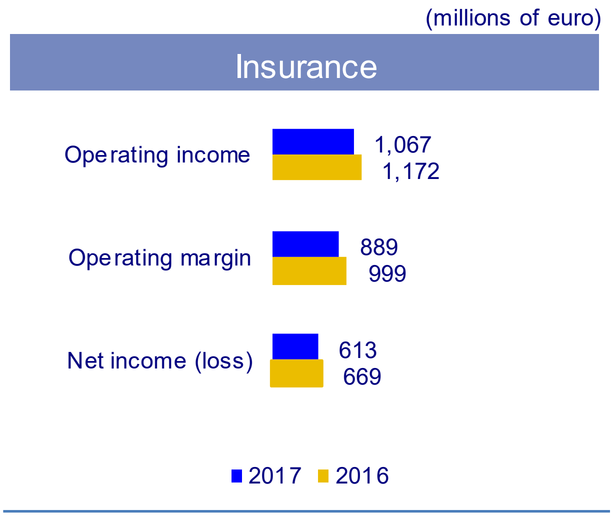
In 2017, gross income amounted to 1,308 million euro, an increase (+12%) on the previous year, mainly as a result of higher operating income, particularly net fee and commission income, as well as lower provisions.

Operating costs moved in the opposite direction (approximately +3%), due to the increase in personnel expenses related to the strengthening of the workforce, only partially offset by a reduction in administrative expenses. Net income was 879 million euro (+169 million euro, or +23.8%).

As at 31 December 2017, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 182.7 billion euro (+16.7 billion euro compared to the end of 2016). That performance was due to higher net inflows and, to a lesser extent, the effect of performance on assets. The assets under management component amounted to 114.7 billion euro, up by 10.5 billion euro (+10.1%) compared to 31 December 2016.



The Asset Management Division – whose mission is to develop 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 – posted operating income of 785 million euro in 2017, up on 2016 (+21.3%) thanks to the strong performance of net fee and commission income (+26.6%).
Operating costs rose (+11.3%) due to personnel and administrative expenses, as a result of the change in the operational structures triggered by the increase in volumes under management, as set out in the Division's development plan.
As a result of the revenue and cost trends, the operating margin came to 628 million euro, up 24.1%. The Division closed the income statement for 2017 with net income of 493 million euro (+38.1%).
The assets managed by the Division totalled 253 billion euro at the end of 2017, an increase (+6%) on the end of 2016, mainly as a result of net inflows (+10.2 billion euro), especially in the mutual funds component (+9.8 billion euro), which more than offset the outflows relating to the retail sale of portfolio management schemes (-1.2 billion euro).



The Insurance Division oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers.
In 2017, the Division reported income from insurance business of 1,077 million euro, showing a decline (-8.7%) compared to the previous year, primarily due to the lower contribution of the financial component.
In the presence of an increase in operating costs, due to personnel expenses as a result of the higher average workforce associated with business development, income before tax from continuing operations stood at 887 million euro, a decrease of 121 million euro (-12%) compared to 2016. The income statement closed with net income of 613 million euro (-8.4%).
Direct deposits from insurance business, amounting to 152,691 million euro, increased by 8.4 billion euro (+5.8%) compared to the end of December 2016, as a result of higher financial liabilities for the insurance segment designated at fair value.

Highlights

Acquisition of certain assets, liabilities and relationships of Banca Popolare di Vicenza in compulsory administrative liquidation and Veneto Banca in compulsory administrative liquidation

Description of the transaction

Effective as of 26 June 2017, Intesa Sanpaolo (ISP) signed a business sale contract with the liquidators of Banca Popolare di Vicenza (BPVi) and Veneto Banca (VB) - the "Banks in compulsory administrative liquidation" - concerning the acquisition, for a token price of one euro, of certain assets and liabilities and certain legal relationships (hereinafter also the Aggregate Set) of the two Banks in compulsory administrative liquidation (the "Contract"). On 25 June 2017, the two banks had been placed under the compulsory administrative liquidation proceedings, as envisaged by the Consolidated Law on Banking in accordance with Decree Law 99 of 25 June 2017 concerning "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A." (Venetian Banks Decree), converted into Law 121 of 31 July 2017.
ISP was awarded the contract through an open and transparent procedure involving several potential buyers. The outcome of the competitive procedure was announced on 21 June 2017. The process led to the submission of two bindingoffers. Intesa Sanpaolo's offer proved the better of the two in its ability to ensure business continuity and minimise the components left with the two banks in compulsory administrative liquidation.
Under the terms of the Contract – which require the existence of several essential elements, also after its execution, including the regulatory framework forming the basis of the transaction – ISP acquired an Aggregate Set, which does not include the liabilities indicated in Article 52, paragraph 1, letter a), points i), ii), iii), and iv) of Legislative Decree 180/2015, the non-performing loans (bad loans, unlikely-to-pay loans and past-due exposures), the amounts payable to the shareholders and the subordinate bondholders of the former Venetian banks resulting from the sale of those financial instruments, as well as all the shareholdings (except for some specifically identified holdings), the negative effects arising after the sale originating from

disputes related to events or circumstances that occurred prior to the sale, and the other assets and liabilities and legal relationships not identified in the Contract as “Included Assets” and “Included Liabilities”. With specific regard to the investments, the Aggregate Set, subject to receipt of the related authorisations, includes the investmentsin Banca Apulia S.p.A. (excluding its investments in Apulia Pronto Prestito S.p.A. and Apulia Previdenza S.p.A.), in Banca Nuova S.p.A., in SEC Servizi S.c.p.a., in Servizi Bancari S.c.p.a., and in the former subsidiary banks of Veneto Banca based in Moldova, Croatia and Albania.
The Aggregate Set also includes high-risk performing loans of around 3.7 billion euro. However, ISP will have the right to give these back to the banks in compulsory administrative liquidation, should conditions occur, during the period up to the approval of the financial statements as at 31 December 2020, requiring that these loans be classified as bad loans or unlikely-to-pay loans. As mentioned, the Aggregate Set does not include the entire portfolio of non-performing loans (bad loans, unlikely-to-pay loans, and past due exposures) of the Banks in compulsory administrative liquidation and of the investees acquired by ISP.
Given that the Aggregate Set does not include the entire shareholders' equity of the Banks in compulsory administrative liquidation, the accounting recognition of the assets and liabilities transferred included a “balancing” entry in the form of a receivable from the Banks in compulsory administrative liquidation (referred to as the “Imbalance of the Aggregate Set”), which was later converted into a loan secured by the government up to a maximum amount of 6,351 million euro (to be repaid over 5 years at an interest rate of 1%) granted by ISP to the Banks in compulsory administrative liquidation.
The terms and conditions of the contract, in the framework set by the Decree Law and the ministerial decrees issued in relation to the transaction, require that the acquisition by ISP must be fully neutral in terms of the ISP Group’s Common Equity Tier 1 ratio and dividend policy. Specifically, they provide for:

- a public cash contribution to cover the impact on the capital ratios, leading to a phased-in Common Equity Tier 1 ratio of 12.5% to risk-weighted assets (RWA) acquired. This contribution, which amounts to 3,500 million euro not subject to taxation, was recorded as income in the income statement, in accordance with IAS 20, and was assigned to ISP on 26 June 2017;
- an additional public cash contribution to cover integration and rationalisation charges in relation to the acquisition. These charges include, in line with the commitments undertaken by ISP with the Directorate-General for Competition of the European Commission, those relating to the closure of around 600 branches and the use of the solidarity allowance mechanism in relation to the exit, on a voluntary basis, of around 3,900 people of the Group resulting from the acquisition. These charges also relate to other actions to be taken to safeguard jobs, such as redeploying and retraining people. Also this contribution, which amounts to 1,285 million euro not subject to taxation, was recorded as income in the income statement, in accordance with IAS 20, and was assigned on 26 June 2017. This amount was set aside in a specific fund, considering the tax effects related to its use, and is therefore neutral for the year’s net income;
- public guarantees, 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, aimed at neutralising the risks, obligations and commitments resulting from the breach of the representations and warranties made by the Banks in compulsory administrative liquidation. Under the Contract, the transfer to ISP does not include the disputes and the liability in relation to the sale of shares or subordinated and/or convertible bonds, including those brought by parties who participated/did not participate in, or were excluded from the so-called “Offers for Settlement” and from the “Welfare Incentives”.

Decree Law 99/2017 introduced specific tax rules governing the transfer to ISP of the assets and liabilities of BPVi and VB. The rules are substantially designed to ensure for the acquiring bank a limited “continuity” in the tax treatment of the subjective positions of the sellers (as regard tax credits from the conversion of Deferred Tax Assets (DTAs), the tax value of the assets, liabilities, and rights included in the sets acquired, income components with deferred taxation, tax losses, and the guarantee fees for non-eligible DTAs), and the “neutrality” of transfers and public contributions, as a result of which they will not generate tax liabilities for the acquiring bank. Specifically:

- assets and liabilities, including tax assets and tax liabilities, are transferred to the acquirer at the tax value they had for the sellers (in practice, at the effective date of the transfer, the acquirer is assigned the same tax position held by the sellers);
- the DTAs of the selling banks are also transferred to the acquirer, except for those strictly and specifically connected to assets/liabilities not included in the Aggregate Set, along with the tax credits resulting from converted DTAs;
- similarly, the tax losses of the sellers are transferred to the acquirer;
- the transfer of the assets and liabilities is not subject to VAT and subject to a fixed registration, mortgage and cadastral tax of 200 euro;
- the contributions paid to the acquirer by the Ministry for the Economy and Finance to cover the capital requirement generated by the acquisition and support corporate restructuring measures are non-taxable for IRES and IRAP purposes, whereas the expenses incurred by the acquiring bank for the aforementioned restructuring will be deductible for tax purposes.

As regards anti-trust authorisations, on 10 July 2017 the Italian Competition Authority announced its decision not to investigate the arrangement, thereby authorising the deal.
With regard to the investments included in the Aggregate Set, it should be noted that the timing for the formulation of the offer and the execution of the Contract did not allow the Parties to request and obtain the necessary authorisations from the European Central Bank for the transfer of control by the execution date. As at 31 December 2017, authorisations had been received for all the subsidiaries included in the Aggregate Set, except for Eximbank (Moldova): a local legislative measure aimed at facilitating the sale of the NPLs of that subsidiary to VB in compulsory administrative liquidation came into force in January 2018; in the absence of the sale of the NPLs (which is still subject to the satisfaction of several conditions precedent) the change of ownership cannot be registered, which under the local legislation would allow the new owner to exercise the rights as shareholder and therefore of control over the company.
Accordingly, as at 31 December 2017, Eximbank was recognised under the investments that are not consolidated on a line-by-line basis.

To determine the final imbalance of the Aggregate Set and definitively calculate the amount of the public contribution paid by the government, the Ministry for the Economy and Finance and ISP appointed a board of three independent experts, selected in accordance with the Venetian Banks Decree, which conducted the due diligence envisaged by the Decree and the Contract of 26 June 2017.
Law 121 of 31 July 2017 converted the Venetian Banks Decree, without any substantial amendments. As a result, the termination clause was cancelled, according to which the contract would have been ineffective and the assets/liabilities/legal relationships acquired would have needed to be returned to the banks in compulsory administrative liquidation, if the Venetian Banks Decree had not been converted into law, or it was converted with amendments and/or integrations that made the transaction more onerous for ISP, and was not fully enacted within the time limits set by law.

Due diligence in accordance with the Contract and Acknowledgement Agreements
As mentioned above, the Contract signed on 26 June 2017 provided for the appointment, by the Banks in compulsory administrative liquidation jointly with ISP, of a board of three independent experts (the "Panel of Experts"), engaged to conduct a specific due diligence review for the purpose of producing a precise inventory of the assets and liabilities included in the Aggregate Set transferred to ISP, and determining the final Imbalance and therefore the amount of the Loan from ISP to the Banks in compulsory administrative liquidation.
The Panel of Experts, whose work should have been completed by 30 September (deadline later extended to 15 November 2017), was established at the beginning of September 2017.
Due to the complexity of the survey and analysis work for the due diligence by the Panel of Experts, a longer period of time was needed for its completion. Specifically, the Panel of Experts completed its work and notified the Parties of the determination of the Imbalance of the Aggregate Set on 21 December 2017.

On 4 February 2018, the Panel of Experts issued its final report on the due diligence review, which, as envisaged by the Contract, contained the precise and detailed inventory of the entries constituting the final accounting position of the assets and liabilities included in the Aggregate Set at the date of execution. The content of the report confirmed the information already provided to the Parties on 21 December 2017.
During the course of its work, the Panel of Experts submitted to the Parties several queries and possible interpretations of the Contract in relation to aspects that had arisen during the due diligence review.
In order to clarify these aspects between the Parties, an Acknowledgement Agreement of the Contract (the "First Acknowledgement Agreement") was signed on 19 December 2017.
In view of the fact that the Liquidators of the Banks in compulsory administrative liquidation are required to submit the deeds of sale of assets and liabilities (and any subsequent amendments to those deeds) and, in any case, the deeds of special administration referred to in Article 35 of the Bankruptcy Law (including any settlement-related deeds) to prior authorisation by the Bank of Italy, with the opinion of the Supervisory Committee, the First Acknowledgement Agreement was subject to the condition precedent of obtaining the related necessary opinions, consents and authorisations on or before 10 January 2018. This condition was satisfied on 10 January 2018 and the First Acknowledgement Agreement thus became fully effective.
The Imbalance, determined following the due diligence, amounted to 6,403 million euro, and, after the additional subsequent transfer of several marginal entries to the Banks in compulsory administrative liquidation, the final Imbalance came to 6,400 million euro, as shown in the overall statement of financial position for the Aggregate Set presented below:

(millions of euro)

ASSETS		LIABILITIES	
Financial assets held for trading	2,079	Due to banks	10,386
Financial assets designated at fair value through profit and loss	2	Due to customers and securities issued	36,050
Financial assets available for sale	4,579	Financial liabilities held for trading	1,476
Investments held to maturity	1,103	Financial liabilities designated at fair value through profit and loss	184
Due from banks	3,795	Tax liabilities	108
Loans to customers	28,583	Liabilities associated with non-current assets held for sale and discontinued operations	0
Investments in associates and companies subject to joint control	2	Other liabilities	1,815
Property, equipment and intangible assets	349	Technical reserves	0
Tax assets	1,982	Allowances for specific purpose	147
Non-current assets held for sale and discontinued operations	0	Investees shareholders' equity items	9
Other assets	1,300		
Total assets (A)	**43,774**	**Total liabilities (B)**	**50,174**
Final Imbalance (B) - (A)	**6,400**		

The amounts shown above do not take account of the adjustments and reclassifications made upon the Purchase Price Allocation (PPA) in accordance with IFRS 3, details of which are provided below.
In addition, compared to the figures shown in the table above, the assets and liabilities of the Aggregate Set included in ISP's consolidated financial statements as at 31 December 2017 include accounting figures, for a total amount of 14 million euro, which the due diligence had established as belonging to the Banks in compulsory administrative liquidation, for which the related transfers had not yet become effective at the year end.
These accounting figures, largely related to NPLs of the international subsidiaries in the Group's financial statements as at 31 December 2017, were reclassified to "Non-current assets held for sale and discontinued operations" in accordance with

guidelines provided in IFRS 5, because they were transferred to the Banks in compulsory administrative liquidation after the year end.
In addition, as specified above, the Aggregate Set consolidated as at 31 December 2017 did not take account of the transfer of the assets and liabilities of Eximbank (Moldova), which the due diligence had allocated to the Bank in compulsory administrative liquidation for a net book value of 33 million euro, because the authorisation process was still underway at the end of the year. As at 31 December 2017, Eximbank was recognised under the investments not consolidated on a line-by-line basis.
The tables below show the reconciliation between the assets and liabilities of the Aggregate Set, based on the results of the due diligence conducted by the Panel of Experts, and the assets and liabilities of the former Venetian banks considered as the "Aggregate Set" for the reclassified balance sheet presented in the Report on operations.

(millions of euro)

Assets	Aggregate Set post due diligence	Loan to the banks in compulsory administrative liquidation (to offset the Imbalance)	Reversal contribution Eximbank (Moldova)	Reclassification of assets/liabilities to be transferred back (Addendum)	Reclassification of high-risk loans	Reclassifications for accounting/reporting standards alignment	Aggregate Set Figure
Financial assets held for trading	2,079	-	-	-	-	-6	2,073
Financial assets designated at fair value through profit and loss	2	-	-	-	-	-	2
Financial assets available for sale	4,579	-	-4	-	-	1,103	5,678
Investments held to maturity	1,103	-	-	-	-	-1,103	-
Due from banks	3,795	-	-26	-	-	-	3,769
Loans to customers	28,583	6,400	-81	-14	-314	-	34,574
Investments in associates and companies subject to joint control	2	-	62	-	-	-	64
Property, equipment and intangible assets	349	-	-19	-	-	-	330
Tax assets	1,982	-	-	-	-	-	1,982
Non-current assets held for sale and discontinued operations	-	-	-	14	314	-	328
Other assets	1,300	-	-99	-	-	6	1,207
Imbalance	6,400	-6,400	-	-	-	-	-
Total Assets	**50,174**	**-**	**-167**	**-**	**-**	**-**	**50,007**

Liabilities and Shareholders' Equity	Aggregate Set post due diligence	Loan to the banks in compulsory administrative liquidation (to offset the Imbalance)	Reversal contribution Eximbank (Moldova)	Reclassification of assets/liabilities to be transferred back (Addendum)	Reclassification of high-risk loans	Reclassifications for accounting/reporting standards alignment	Aggregate Set Figure
Due to banks	10,386	-	-10	-	-	-	10,376
Due to customers and securities issued	36,050	-	-155	-	-	184	36,079
Financial liabilities held for trading	1,476	-	-	-	-	65	1,541
Financial liabilities designated at fair value through profit and loss	184	-	-	-	-	-184	-
Tax liabilities	108	-	-1	-	-	-	107
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-
Other liabilities	1,814	-	-1	-	-	-65	1,748
Technical reserves	-	-	-	-	-	-	-
Allowances for specific purpose	147	-	-	-	-	-	147
Investees shareholders' equity items	9	-	-	-	-	-	9
Total Liabilities and Shareholders' Equity	**50,174**	**-**	**-167**	**-**	**-**	**-**	**50,007**

The figures shown in the tables above do not take account of the adjustments made during the PPA in accordance with guidelines provided in IFRS 3.

For completeness, you are reminded that the first accounting recognition of the Aggregate Set transferred to ISP took place in the Group Half-yearly Report at 30 June 2017. At that time, it was noted that the values of the assets and liabilities acquired, together with the amount of the contribution to cover the impacts on the capital ratios, were to be considered as provisional, because the verification of the balance sheet figures transferred to ISP was still underway as at that date. In addition, as at 30 June 2017, the figures referring to the former Venetian banks recognised in the accounts did not include the transfer of the subsidiaries of BPVi and VB included in the Aggregate Set, because ISP had not yet received the necessary authorisations from the competent authorities as at that date.

The high-risk loans

The Contract identifies high-risk loans as the positions that at the date of execution were classified or classifiable, by the former Venetian banks, as "Retail and SME loans" with a PD of over 4.25% and "Corporate loans" with a PD of over 8.50%.
Without prejudice to the inclusion within the high-risk loans of the positions already classified as such by the Banks in compulsory administrative liquidation or by the subsidiaries at the date of execution, additional performing loans included in the Aggregate Set were identified, based on particular criteria, that were classifiable as high-risk loans. These related to positions that did not have a rating or required a downgrade of the rating assigned, because the level of risk of certain counterparties had not been fully recorded and/or updated due to the incomplete implementation of the rating systems and processes.
The Panel of Experts completed the checks on the loans classifiable as high-risk on 21 December 2017 and identified an overall scope of high-risk loans with a net value of 3,692 million euro.
Please note that, under the terms of the Contract, ISP has the right to transfer the high-risk loans reclassified as "bad loans" and "unlikely-to-pay loans" back to the Banks in compulsory administrative liquidation (with a specific guarantee from the government), up to the date of approval of the financial statements at 31 December 2020, for an amount equal to the gross book value of the reclassified high risk-loans, net of (i) provisions at the date of execution and (ii) 50% of the value

adjustments that, based on the IAS/IFRS, ISP would have been required to make if the obligation for the purchase of the related loans by the Banks in compulsory administrative liquidation had not existed.
The high-risk loans reclassified as “bad loans” and/or “unlikely-to-pay loans” by the end of 2017, which will be transferred back during the contractually agreed time windows, have been reclassified to discontinued operations in accordance with IFRS 5 in the financial statements at 31 December 2017.

Determination of the Public Contribution
As already reported, ISP has been awarded a public contribution to cover the capital absorption resulting from the acquisition of the Aggregate Set, which is accompanied by the estimated effects of the application of the new IFRS 9 in relation to the Aggregate Set.
This Contribution was quantified at a maximum amount of 3,500 million euro to cover the impact on the capital ratios, which will lead to a phased-in Common Equity Tier 1 ratio of 12.5% to the risk-weighted assets (RWA) acquired.
The Panel of Experts quantified the amount of the public contribution to cover the capital absorption by the Aggregate Set at 3,660 million euro. However, the contribution awarded to ISP has a maximum limit of 3,500 million euro, based on the provisions of Article 4 of Decree Law 99/2017.

The loan offsetting the Imbalance granted to the Banks in compulsory administrative liquidation
As already reported above, the accounting imbalance (the “Imbalance”) between the assets and liabilities transferred was offset by the inclusion within the Aggregate Set of a “balancing” entry in the form of a receivable from the Banks in compulsory administrative liquidation. This receivable was subsequently converted into an interest-bearing loan granted by ISP to the Banks in compulsory administrative liquidation (at a fixed interest rate of 1% per annum and with a maximum duration of 5 years and an option for early repayment based on the collection of the loans excluded from the Aggregate Set and repayment in full at maturity) for an overall amount equal to the Imbalance of the Aggregate Set. The obligations of the Banks in compulsory administrative liquidation resulting from the above-mentioned loan are secured by an independent, first demand government guarantee, for a maximum total amount of 6,351 million euro. The credit claims for principal and interest resulting from the above loans, for the part covered by the government guarantee, are subordinate to the preferential claims, have equal standing to the corresponding government recourse claim and have priority over all the other claims. For the part not covered by the government guarantee, ISP's claim is included at a lower level in the payments waterfall envisaged by Article 4, paragraph 3, of Decree Law 99/2017.
Based on the final amount of the Imbalance, the total loan commitment is 6,400 million euro, of which 3,203 million euro to BPVi in compulsory administrative liquidation and 3,197 million euro to VB in compulsory administrative liquidation. On 31 December 2017, the loan was disbursed for a total of 6,352 million euro (3,202 million euro to BPVi in compulsory administrative liquidation and 3,150 million euro to VB in compulsory administrative liquidation), because, at the year end, the transfers had not yet become effective for several assets and liabilities, for a total net amount of 48 million euro, that were transferred back in January 2018 and mainly related to the NPLs of the international subsidiaries and the assets and liabilities of Eximbank, which the due diligence had allocated to the Banks in compulsory administrative liquidation.
As agreed between the Parties in the Second Acknowledgement Agreement, from 26 June 2016 until 31 December 2017, interest accrued at a rate of 1% of around 33 million euro that was not added to the principal amount of the loan, but will be repaid on a preferential basis.
With regard to the government guarantee for 6,351 million euro, the Decree of the Ministry for the Economy and Finance issuing the guarantee was enacted on 17 January 2018. The Decree envisages that the guarantee will remain in place until the principal and interest payment obligations have been completely fulfilled and that its amount will be progressively reduced as the Banks in compulsory administrative liquidation fulfil those obligations. Given that the amount of the loan and the related interest not covered by the guarantee can only be repaid if the Banks in compulsory administrative liquidation have available liquidity (resulting from the realisation of the assets) after having paid the preferential claims and repaid several debts due to the government, the determination of the fair value on initial recognition of the loan took account of the future cash flows that are expected to be received, discounted at an appropriate market rate, as required by IFRS 13. With regard to the estimate of the repayment of the principal on maturity, the guaranteed amount (6,351 million euro) was considered, net of the sums received as interest that will reduce that amount.
Based on the calculations made, a write-down of the principal amount of the loan of 245 million euro was determined, which was recognised within the PPA process.

Accounting treatment of the acquisition
The acquisition of certain assets and liabilities of BPVi and VB qualifies, solely for accounting purposes, as a business combination and has been recognised based on the provisions provided in IFRS 3. This standard requires each business combination to be accounted for using the “acquisition method” whereby the 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 the acquisition date.
The “acquisition method” involves the Purchase Price Allocation (PPA) process, whereby the excess between the consideration trasferred for the acquisition (represented by the fair value of the transferred assets, the liabilities assumed or the equity instruments issued by the acquirer) and the fair value of the assets and liabilities acquired must be recognised as goodwill. Conversely, if the fair value of the assets and liabilities acquired is higher than the consideration trasferred, the acquirer will measure a gain on a bargain purchase (badwill) that shall be recognised in the income statement. With regard to the PPA process, first of all, it should be noted that, based on the provisions of the Contract, the consideration trasferred by ISP for the acquisition is a total of 1 euro in exchange for the transfer to ISP of a “balanced” Aggregate Set (net assets equal to zero), without corresponding equity component, including a “balancing entry” in the form of a loan to the Banks in compulsory administrative liquidation.
You are reminded that this transaction, following the acquisition, was recognised on a provisional basis for the Half-yearly Report at 30 June 2017 and the Interim Statement at 30 September 2017, as permitted by IFRS 3, which gives the acquirer a period of 12 months to determine the final fair value of the assets and liabilities acquired. In the 2017 financial statements, the transaction has been recognised on a final basis following the completion of the PPA process.

The assets and liabilities included in the Aggregate Set transferred to ISP, in relation to which the PPA process identified differences between the fair values at the acquisition date and the previous book values, as stated in the due diligence conducted by the Panel of Experts, mainly consisted of:
- loans to customers and banks;
- loans represented by securities;
- investments;
- property and other assets;
- amounts due to banks and customers;
- debts consisting of bonds issued;
- allowances for risks and charges.

As reported above, the PPA process also included the write-down of the Loan granted to the Banks in compulsory administrative liquidation as an offset to the Imbalance.
In addition, as required by IFRS 3, DTAs were recognised on previoustax losses of the former Venetian banks, which had not already been accounted for in the Aggregate Set transferred to ISP, also considering that the Decree Law 99/2017, converted by Law 121/2017, introduced specific tax provisions aimed at transferring the tax losses of the sellers to the acquiring bank. The DTAs were recognised within the PPA up to the limit of the available estimated future taxable income. Intangible assets were also recognised relating to the asset management relationships, which had not been previously recognised by the former Venetian banks.
In determining the fair value of the assets and liabilities acquired, maximum use was made, where possible, of parameters observed on markets and, for some measurements, of fairness opinions prepared by independent experts.

As reported above, the contractual terms for this transaction involved the transfer to ISP, at a price of 1 euro, of a "balanced" Aggregate Set (net assets equal to zero), with the use of a "balancing figure" in the form of a loan to the Banks in compulsory administrative liquidation (converted on 31 December 2017 into a 5-year loan at an interest rate of 1%).
Consequently, the fair value differences emerging during the PPA are automatically reflected as badwill (overallgains higher than overall losses) or goodwill (overall losses higher than overall gains). Based on the calculations carried out, an overall net gain was identified for the assets and liabilities acquired, with the consequent recognition of a badwill amount of 363 million euro. The badwill was recognised in the income statement, as required by IFRS 3, under the caption 220 "Other operating income (expenses)" of the official Bank of Italy consolidated format (Circular 262) and the caption "Effect of purchase price allocation (net of tax)" of the reclassified income statement.
The table below provides more details regarding the PPA process and the determination of the badwill:

(millions of euro)

Purchase cost [(1)]	**-**
Shareholders' equity [(2)]	**-**
Difference to be allocated (A) - (B)	**-**
Fair value differences of assets acquired and liabilities assumed	
Loans to customers and banks	322
Other financial assets	-2
Investments in associates and companies subject to joint control	-31
Property, equipment and intangible assets	40
DTAs on tax losses	423
Discontinued operations (high-risk loans)	-33
Due to banks	-43
Due to customers and securities issued	-294
Allowance for risks and charges	-17
Total fair value difference recognised at acquisition date (before tax)	**365**
Tax effects, minority interests and consolidation adjustments	-2
Total net capital gain on assets and liabilities acquired	**363**
Badwill recognised in income statement	**363**

[(1)] Amounting to 1 euro based on the provisions of the Sale Contract
[(2)] The Aggregate Set was "balanced off" (net assets at zero)

In 2017, starting from the date of acquisition, the effects for the period connected to the amortisation of the differences between the fair value and book values identified during the PPA were transferred to the income statement. The impact on the 2017 income statement was positive by an amount, net of the related tax effect, of 15 million euro.

As required by IFRS 3 in the event of the recognition of badwill in the income statement, a reassessment was conducted of the measurement process already carried out, aimed at verifying the completeness and correctness of the process of

identification and measurement of all the assets acquired and the liabilities assumed. The analyses confirmed the correctness and reasonableness of the conclusions reached.
For more details about the PPA process, see Part G of the Notes to the consolidated financial statements.

Lastly, it should be noted that the transaction for the acquisition of the Aggregate Set also resulted in a charge that, in compliance with the IFRS 3, was not recognised within the PPA, but should nevertheless be considered jointly with the badwill as an effect of the transaction on the Group's income statement. Specifically, these consisted of the integration charges exceeding the government contribution.
In this regard, it is specified that, within the transaction for the acquisition of the former Venetian Banks, ISP was awarded a public cash contribution to cover the integration and rationalisation charges related to the acquisition. This contribution, accounted for based on IAS 20, amounted to 1,285 million euro, not subject to tax, and was paid to ISP on 26 June 2017. ISP simultaneously established an allowance for integration charges to which the amount received as the contribution was allocated, before tax, also taking account of the results of the queries submitted. The amount allocated was 1,894 million euro. Based on the correlation with the Contract, the charges covered by the government contribution were identified and among these a component exceeding the amount of the public contribution also emerged. In addition, other charges connected to the transaction were identified that, due to their nature, were not included in those covered by the contribution. The charges not covered by the contribution, amounting to a total of 106 million euro net of the tax effect, were recognised in the 2017 income statement.
Lastly, in the press release of 10 October 2017, a commercial initiative was announced aimed at customers that meet particular requirements and were shareholders of the Venetian banks. The offer to these customers consists of the assignment of units in a mutual fund, with a ceiling of 100 million euro allocated in 5 annual tranches in the period 2018-2022. This is an initiative of a purely charitable nature (which ISP is not obliged to carry out) aimed at strengthening confidence in the banking system among people within particular income brackets who lost their savings as a result of the past events involving the former Venetian banks, which ISP is not in any way involved in and for which it is not (nor cannot be held) liable. The outlay for this commercial offer has been recognised as a charge in income statement in accordance with the requirements of IAS 37, through the establishment of a specific Allowance for Risks and Charges for the entire amount allocated. Taking into account the related tax effect, the total net charge in the 2017 income statement amounts to 73 million euro.

Other highlights

In January 2017, Intesa Sanpaolo launched a 1.25 billion euro Additional Tier 1 issue targeted at professional investors and international financial intermediaries, with characteristics in line with the CRD IV regulation. It is listed on the Luxembourg Stock Exchange as well as the usual Over-the-Counter market.
The Additional Tier 1 issue is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be early redeemed by the issuer after ten years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 7.75% per annum, payable semi-annually in arrears every 11 January and 11 July of each year, with the first coupon payment on 11 July 2017. The compounded yield to maturity is 7.90% per annum, equivalent to the 5-year Mid Swap Rate in Euro reckoned at the moment of issuance, plus a spread equal to 719.2 basis points. In the event that the early redemption rights are not utilised on 11 January 2027, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

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

As regards the stake in the Bank of Italy's share capital, in 2017 further stakes equal to a total of approximately 5.80% of the capital of the Bank of Italy were sold - at nominal value, coinciding with the carrying value - for a price of approximately 435 million euro. Following the completion of the transaction, the Group's stake in the Bank of Italy's share capital decreased to 27.04%. In this regard, following the end of the year, further stakes equal to a total of approximately 1.51% of the capital of the Bank of Italy were sold - at nominal value, coinciding with the carrying value - for a price of approximately 113 million euro. Following the completion of the transaction, the Group's stake in the Bank of Italy's share capital decreased to 25.53%.

For some time Intesa Sanpaolo has held an investment of 15.37% in the capital of the Chinese Bank of Qingdao (BQD). This was Intesa Sanpaolo's first investment on the Chinese market (2007), and was followed by additional investments in asset management through Eurizon Capital, which owns 49% of Penghua Fund Management, and the establishment in 2016 of its own operating company in wealth management, Qingdao Yicai Wealth Management Co. Ltd. (Yi-Tsai), whose shareholders are the parent company, Fideuram – Intesa Sanpaolo Private Banking and Eurizon Capital.
Intesa Sanpaolo has strongly contributed to developing the Chinese bank's business through a Framework Agreement and a Co-operation Agreement concerning reciprocal consulting and coordination on matters pertaining to appointments of managers, transactions on capital and/or extraordinary transactions, strategic plans and limits to investments by Intesa Sanpaolo in other Chinese commercial banks, while granting an exclusive as foreign banking investor in the capital of

BQD. Cooperation has also been developed through direct appointment by Intesa Sanpaolo of several top managers of the bank.
In 2015 the Chinese bank began the process for listing on the Hong Kong stock exchange, which was completed with the IPO reserved for new shareholders, carried out in December 2015.
Following the listing and the dilution of Intesa Sanpaolo's equity interest, Intesa Sanpaolo and BQD were compelled to significantly revise the previous Co-operation Agreements and align them with the limits permitted by local laws on listed companies. In March the two banks signed a new Co-operation Agreement which, different to the previous one, which had set out precise commitments for the counterparties, exclusively envisages a type of commercial co-operation, without binding obligations of the parties, mainly between BQD and the recently established newco set up by Intesa Sanpaolo (Yi-Tsai). The managers appointed by Intesa Sanpaolo, in the meantime, were also re-assigned to other positions as part of the Group's business relating to the Chinese market.
As a result of the changed relationship between Intesa Sanpaolo and BQD, the investment, which was previously classified under investments subject to significant influence, was reclassified to financial instruments available for sale, as the requirements of IAS 28 to classify the investment under associates ceased to exist. As a result of that reclassification, the investment was designated at fair value (equal to the stock exchange price) at the time of the reclassification, resulting in the recognition of a positive effect on the income statement of 131 million euro gross (128 million euro net of taxes), to which the release of reserves for foreign exchange differences accrued since the start of the investment (equal to 58 million euro) and AFS reserves for 1 million euro must be added.

In 2008 Intesa Sanpaolo invested in the Nuovo Trasporto Viaggiatori (NTV), acquiring an initial stake of 20%, which was later raised, through the subscription of new rights issues, to 24.46%, for a total amount of 92 million euro. NTV was established in December 2006 as an alternative rail transport provider to Trenitalia, offering services on the country's high-speed rail network. The economic and financial difficulties faced by the company in its first few years of business led, over the years, to the need to write down the investment in the consolidated financial statements of Intesa Sanpaolo. As at 31 March 2017, the investment was carried at equity for a value of approximately 13 million euro and was classified as an investment subject to significant influence in accordance with IAS 28.
On 29 June 2017, Intesa Sanpaolo sold a 4.74% stake in NTV to the Luxembourg fund Peninsula Investments II S.C.A. for approximately 24 million euro. The disposal generated a net gain of approximately 21 million euro. More recently, thanks to its positive business performance, NTV had the opportunity to optimise its capital structure through the refinancing of its debt, most of which was held with the Intesa Sanpaolo Group. The refinancing initiative primarily involved the placement of a 550 million-euro bond, which enabled NTV to close its finance lease exposure with the Group, thereby reducing the share of NTV debt held by the Intesa Sanpaolo Group significantly from 86% to 21%.
Following the disposal of the 4.74% stake in NTV, which reduced the stake held by Intesa Sanpaolo in NTV to 19.72%, and the new structure of the company's financial exposure, the investment was reclassified to financial instruments available for sale (AFS), given that the conditions envisaged by IAS 28 for the classification of the investment as subject to significant influence no longer held. The original NTV shareholder's agreement initially signed by the shareholders, under which Intesa Sanpaolo enjoyed veto rights, expired in 2013 and has since not be renewed. As required by IAS/IFRS, the remaining equity investment in NTV was remeasured at its fair value upon reclassification (corresponding to the pro-rata share held of the comprehensive value of the company as at the date the stake was sold), which resulted in the recognition of an additional gain of 87 million, net of tax, in the income statement. Overall, the partial disposal of the stake in NTV and the reclassification of the remaining equity investment to the AFS portfolio had a positive impact of 108 million euro, net of tax, on the consolidated income statement of Intesa Sanpaolo.

Intesa Sanpaolo holds 19.89% of the Atlante Fund, a closed-end alternative investment fund managed by the asset management company (SGR) Quaestio Capital Management. The purpose of the fund is to invest in banks with capital ratios lower than the minimums set by the SREP which, thus, on request by the Supervisory Authorities, carry out capital strengthening measures through capital increases and enhancement of Non-Performing Loans (NPLs). The Atlante Fund has collected commitments totalling 4.249 billion euro, 845 million euro of which refers to Intesa Sanpaolo. As at 31 December 2017, Intesa Sanpaolo had paid in a total of 779 million euro, corresponding to 92% of the total commitment, and had a residual commitment to the Atlante Fund of 66 million euro. However, the carrying amount of the units of the fund in Intesa Sanpaolo's 2017 Financial Statements is around 103 million euro, as a result of the impairment loss of 449 million euro recognised on the fair value of the units in 2017, due to the events involving the Venetian banks, in which the fund had invested. Considering the 227 million-euro impairment loss posted in the bank's income statement for 2016, the Atlante Fund generated a comprehensive charge of 676 million euro in Intesa Sanpaolo financial statements, gross of the tax effect (i.e. 87% of the total amount paid in to date) and 454 million euro net of the tax effect.
In July 2016, the asset management company Quaestio Capital Management launched another closed-end alternative investment fund named Italian Recovery Fund (former Atlante II Fund), reserved exclusively for professional investors for the purpose of investing in NPL transactions made by Italian banks, which raised a total of 2,480 million euro. The Atlante Fund subscribed a total commitment in the Italian Recovery Fund initially amounting to 800 million euro and subsequently increased by an additional 45 million euro, for a stake of 34.1%. Intesa Sanpaolo has also invested directly in the fund, with an initial payment commitment of 155 million euro, which was increased, in 2017, by a further 40 million euro, reaching a stake of 7.9%. Also considering the stake held indirectly through the Atlante Fund, Intesa Sanpaolo holds a total of 14.6% of the Italian Recovery Fund. In 2017, the Italian Recovery Fund carried out three different investment transactions through the purchase of senior and mezzanine notes originating from securitisations of non-performing loans ("Project Cube", "Project Este" and "Project Berenice") and, in January 2018, it made a commitment to purchase 95% of the mezzanine tranche of the securitisation of Banca Monte dei Paschi di Siena's bad loans. As a result, the Italian Recovery Fund has become the largest investor in the Italian NPL market and one of the major worldwide investors in this sector. The four securitisations of non-performing loans it is currently involved in amount to around 31 billion euro gross, for a total investment of around 2.5 billion euro. As at 31 December 2017, Intesa Sanpaolo had paid in a total of around 99 million euro, corresponding to 51% of the total commitment, and had a residual commitment to the Italian Recovery Fund of 96 million euro. However, the carrying amount of the units of the fund in Intesa Sanpaolo's 2017 Financial Statements is 98 million euro, because 1 million euro,

relating to expenses incurred for the structuring of transactions that were subsequently not completed, was already included in the 2016 income statement.
In terms of valuation, since the units of the funds are classified under investments available for sale (AFS), they must be measured at fair value. The valuations conducted by the expert appraiser engaged by the asset management company, which took into account the expected cash flows from the securitisation notes subscribed by Italian Recovery Fund and the recent issue of the notes, estimated the current value of the assets held by the fund to be in line with the subscription price. Consequently, as at 31 December 2017, the fair value of the units held by Intesa Sanpaolo in the two funds was in line with their book value.

In May, Intesa Sanpaolo launched a 750 million euro Additional Tier 1 issue targeted at international markets, with characteristics in line with the CRD IV regulation. It is listed on the Luxembourg Stock Exchange as well as the usual Over-the-Counter market.
The Additional Tier 1 issue is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be early redeemed by the issuer after seven years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears every 16 May and 16 November of each year, with the first coupon payment on 16 November 2017. The compounded yield to maturity is 6.348% per annum, equivalent to the 7-year Mid Swap Rate in Euro reckoned at the moment of issuance, plus a spread equal to 585.6 basis points. In the event that the early redemption rights are not utilised on 16 May 2024, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

On 25 May, Intesa Sanpaolo signed an agreement for the sale of a portfolio of bad loans to Christofferson, Robb & Company and Bayview Asset Management Fay with a nominal amount of around 2 billion euro at a price in line with their net book value and without any significant impacts on the capital ratios. The sale was completed on 30 May 2017, with legal effect, and consequent derecognition of the portfolio sold, from 19 June. The portfolio sold consisted of around 9,000 loan positions that are mainly unsecured and long past due.

On 26 July 2017, Burlington Loan Management DA, on one hand, and Pirelli & C. S.p.A., Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Fenice S.r.l., on the other hand, (the “sellers”) entered into an agreement for the purchase, by an Italian newco (Lavaredo S.p.A.) designated by Burlington, of a total of 611,910,548 shares of Prelios S.p.A. held by the sellers, at a price of 0.105 euro per share. The sellers and Burlington subsequently executed, on 2 August 2017, an amendment agreement by virtue of which the price agreed for the purchase and sale of the shares was set at 0.116 euro per share, with an increase of 10.48%. Accordingly, the total price, paid by the purchaser to the sellers in one instalment on 28 December 2017, on the completion date of the purchase, was a total of 70,981,624 euro, of which 13,659,289 euro paid to Intesa Sanpaolo.
Following the completion of the acquisition of the shareholding, Lavaredo launched a mandatory takeover bid on all the outstanding ordinary shares of Prelios, pursuant to and for the purposes of Article 106, first paragraph, of Legislative Decree no. 58 of 24 February 1998, as amended.

On 23 August 2017, Intesa Sanpaolo and the shareholders of Morval Vonwiller Holding SA reached an agreement for the sale to Intesa Sanpaolo of the Swiss group of the same name, including Banque Morval SA, which has been operating in Switzerland as an asset management company since 1974. After obtaining its banking licence in 1989, the company became Banque Morval SA. With head offices in Geneva and offices in Lugano, Banque Morval specialises in wealth and fund management through the Morval Vonwiller Holding Group. Through Banque Morval and the other companies of the Group, Morval Vonwiller Holding SA offers all the services of a banking organisation that specialises in wealth and fund management. The agreement is in line with Intesa Sanpaolo’s strategic plan to strengthen its presence on international markets in the field of private banking. Morval Vonwiller’s presence in Geneva will permit Intesa Sanpaolo’s Private Banking Division, currently present in Lugano, London and Luxembourg, to further expand its geographic footprint outside Italy. The transaction is subject to obtaining all necessary regulatory authorisations. This process is expected to be concluded by the first quarter of 2018.

On 13 September 2017, Intesa Sanpaolo and UniCredit completed the sale of 2,971,186 ordinary shares equal to 11.176% of the ordinary share capital of Eramet S.A., a French mining and metal processing company, equal to the respective entire investments held by the two banks in the company. Specifically, Intesa Sanpaolo sold 7.114% of the capital, which was posted under Assets available for sale. The transaction, realised through accelerated book-building targeted at Italian qualified investors and international institutional investors, closed with a final price of 57 euro per share.

On 18 September 2017, an ordinary share buy-back programme was launched and concluded. The programme executes a plan that assigns, free of charge, ordinary shares of Intesa Sanpaolo to the Group’s employees; this covers the share-based incentive plan for 2016 reserved for Risk Takers who accrue 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, accrue “relevant bonuses”, as approved by the Intesa Sanpaolo Shareholders’ Meeting of 27 April 2017. Several subsidiaries also terminated their purchase programmes of the Parent Company’s shares to be assigned, free of charge, 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.
Specifically, on the day of execution of the programme, the Intesa Sanpaolo Group purchased a total of 8,091,160- Intesa Sanpaolo ordinary shares, through Banca IMI (which was responsible for the programme execution), representing approximately 0.05% of the ordinary share capital and total share capital of the Parent Company (comprising ordinary shares and savings shares), at an average purchase price of 2.937 euro per share, for a total countervalue of 23,762,245 euro.

The Parent Company purchased 4,263,325 shares at an average purchase price of 2.937 euro per share, for a value of 12,520,115 euro.

On 21 September 2017, the offering period relating to the subordinated Tier 2 bond issue targeted at qualified investors and high net worth individuals on the domestic market ended with the assignment of a nominal amount of 723.7 million euro. It is a 7-year, floating-rate bond issue to be redeemed in whole at maturity. The coupon, payable quarterly in arrears on 26 March, 26 June, 26 September and 26 December of each year, from 26 December 2017 to 26 September 2024, is equal to 3-month Euribor plus 190 basis points per annum. The offer price was set at 100%. The settlement date was 26 September 2017. The minimum denomination of each bond is 100,000 euro.

On 29 September 2017, Intesa Sanpaolo and other Group companies contributed a series of properties to two closed-end real estate funds managed by InvestiRE SGR. At the same time, the contributing companies sold 70% of the units of the two funds receiving the contributions to third-party investors. A put & call agreement was signed for the full sale, within 18 months and at the same conditions, of the remaining 30% of the units of the two funds. A portion of the properties contributed was then leased by the same Group companies that contributed them.

On 21 November 2017, Intesa Sanpaolo finalised the sale of its entire stake held in Allfunds Bank to funds affiliated with Hellman & Friedman, a leading private equity investor, and GIC, Singapore's sovereign wealth fund, for a consideration of around 930 million euro. This sale followed on from the agreement reached with the buyers in March 2017.
Allfunds Bank is a multimanager distribution platform for asset management products targeted at institutional investors. Before the finalisation of the transaction, it was 50%-owned by Eurizon Capital SGR (in turn, 100%-owned by Intesa Sanpaolo) and 50% by AFB SAM Holding (Santander Group).
In the consolidated financial statements of the Intesa Sanpaolo Group the investment was considered a joint venture pursuant to IFRS 11 and was consolidated at equity. The finalisation of the transaction generated a positive contribution of around 802 million euro to the Intesa Sanpaolo Group's consolidated net income (811 million euro gross of the tax effect) in the fourth quarter of 2017.

On 21 December, Intesa Sanpaolo reached an agreement with the Trade Unions, which follows on from what had been previously agreed in relation to the acquisition of certain assets and liabilities of the former Venetian Banks (Banca Popolare di Vicenza and Veneto Banca). Specifically, the agreement stipulates the Group's willingness to:
- accept all the applications it has received with regard to voluntary exits, submitted by around 7,500 people under the Solidarity Allowance, with the last exits to take place by 30 June 2020;
- hire 1,000 new personnel on indefinite-term contracts, with a focus on the branch network, on disadvantaged areas of the country, on new professions, including the hiring of people in protected categories (compulsory employment) and taking into account people currently employed on fixed-term contracts;
- hire 500 new personnel on mixed contracts, each hired on a part-time indefinite-term contract and on a self-employed basis, to perform the role of financial advisor having previously been enrolled on the register of financial advisors.

Therefore, the total voluntary exits will involve around 9,000 people. In detail:
- 1,500 people from the Intesa Sanpaolo Group who already fulfil the pension requirements, by 31 December 2018;
- 1,000 people from the former Venetian Banks and 3,000 people from the Intesa Sanpaolo Group under the Solidarity Allowance, by 30 June 2019, in accordance with the contract signed on 26 June 2017 for the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca;
- 3,500 people from the Intesa Sanpaolo Group under the Solidarity Allowance, by 30 June 2020.

The new hires are in addition to the 150 hires already agreed on with the trade unions on 1 February 2017 and to around 100 hires on indefinite-term contracts reserved for people on fixed-term contracts working at the Aggregate Set of the former Venetian Banks as at 25 June 2017.
The agreement is expected to result in overall savings in personnel expenses of around 675 million euro per year on a fully operational basis (starting from 2021).

With regard to levies and other charges concerning the banking industry, in particular, after Crédit Agricole-Cariparma formally expressed its interest in acquiring the investment in CR Cesena and in two other banks in relation to which early intervention measures have been adopted by the Voluntary Scheme (Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato), on 21 December 2017 the Voluntary Scheme signed an agreement with Crédit Agricole-Cariparma for the recapitalisation and sale of three banks, as well as the subscription of junior and mezzanine notes with underlying NPLs of those banks.
To finance this operation, in the third quarter the Voluntary Scheme approved an increase in its financial allocation of 95 million euro (from 420 million euro remaining at the end of 2016 to 515 million euro), part of which was used for the recapitalisation of the banks prior to the sale (470 million euro, gross of the receipt of 130 million euro from Cariparma) and 170 million euro for the subscription of the securitised notes for a total outlay of 634 million euro, with the remaining 6 million euro consisting of cash and cash equivalents held by the Voluntary Scheme.
At the closing of the transaction, the gross total charge for the Group – including the charges of the former Venetian banks – amounted to 166 million euro (111 million euro net of tax) of which 127 million euro as the loss on the sale of the three banks and 39 million euro as the full write-down of the junior note subscribed. This, compared to the estimated gross charge of 159 million euro (107 million euro net of tax), recognised in the third quarter, resulted in a higher net impact on the income statement of 4 million euro.

On 22 December 2017 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2018. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.065% under the transitional arrangements for 2018 and 9.25% on a fully loaded basis.

This is the result of:
- 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 an additional Pillar 2 capital requirement of 1.5% made up entirely of Common Equity Tier 1 ratio;
- additional requirements, entirely in terms of Common Equity Tier 1 ratio, relating to:
  - a Capital Conservation Buffer of 1.875% under the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019,
  - an O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021,
  - a countercyclical capital buffer of 0.08%.

On 28 December 2017, Intesa Sanpaolo completed the sale of the entire share capital of the subsidiary Infogroup to Engineering, a leading Italian company in the digital transformation field, for a cash consideration of around 61 million euro, which followed on the agreement reached with the buyer in July 2017.
Infogroup is a key ICT partner for the Intesa Sanpaolo Group and for major banking, industrial and commercial groups. The sales agreement includes, among other things, the establishment of a commercial agreement between Infogroup and the Intesa Sanpaolo Group, and maintaining employment levels.

With regard to subsequent events, on 3 January 2018, Intesa Sanpaolo announced an invitation to the holders of government-guaranteed senior notes issued by the former Venetian banks (Banca Popolare di Vicenza and Veneto Banca), for a total principal amount of 3 billion euro (maturing 3 February 2020) and 1.75 billion euro (maturing 2 February 2020), both outstanding, to submit offers to sell their Notes to ISP for cash at a purchase price set at 101.20 euro. Intesa Sanpaolo holds 1.75 billion euro and 0.4 billion euro respectively of the outstanding amounts.
At the expiration deadline, Notes for an aggregate principal amount of 1,703,300,000 euro were validly offered for sale, comprising an aggregate principal amount of 823,500,000 for the notes maturing on 3 February 2020 and an aggregate principal amount of 879,800,000 euro for the notes maturing on 2 February 2020.
The purchase consideration amounted, respectively, to 833,382,000 euro (plus accrued interest of 1,868,521.50 euro) and 890,357,600 euro (plus accrued interest of 2,008,231.48 euro).

On 5 February 2018, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation into Intesa Sanpaolo of Banca Nuova, a company forming part of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

On 6 February 2018, the Board of Directors of Intesa Sanpaolo approved the Group's 2018-2021 Business Plan. The Plan envisages that the Group will continue to prioritise strong and sustainable value creation and distribution, while maintaining a very solid capital position and significantly reducing the risk profile at no extraordinary cost to shareholders. It also confirms Intesa Sanpaolo's role as a real-economy bank with sustainable profitability, which creates value for all its stakeholders. More information is provided below in the section "The new 2018-2021 Business Plan".

Alongside the approval of the 2018-2021 Business Plan, the Board of Directors also resolved to submit a Long-term Incentive Plan for the approval of shareholders, who will be summoned to the Meeting scheduled for 27 April 2018. The Incentive Plan is based on Intesa Sanpaolo S.p.A. financial instruments and is reserved for all Group employees in Italy. The Incentive Plan is a tool facilitating a broad-based shareholding in the capital of the Bank, aimed at enhancing the role of employees as key enablers in the achievement of the Business Plan's results, and consists of two systems:
- with regard to top management, risk takers and key managers, it provides for the assignment of equity call options on Intesa Sanpaolo ordinary shares (POP – Performance-based Option Plan);
- with regard to all the other Group employees, it provides for: i) the assignment of new ordinary shares of Intesa Sanpaolo deriving from a share capital increase without payment and, as an alternative choice for employees, ii) the opportunity to subscribe to an Investment Plan in a certain proportion to the number of shares received free of charge. This Incentive Plan is based on new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees and at a discounted issue price (LECOIP 2.0 – Leveraged Employee Co-Investment Plan).

In detail, the POP Incentive Plan stipulates that performance conditions must be applied for incentives to be actually awarded, in relation to specific key objectives to be achieved over the course of the Business Plan. It does not envisage any protection of the initial assignment to the employee. The related documentation will be made available to shareholders and the public in accordance with the regulations in force and within the period of time provided by law.
The Incentive Plan is subject to authorisations being received from the competent authorities.
Assuming all employees subscribe to the Incentive Plan, the total number of ordinary shares to be issued in the capital increase without payment and in the capital increase with payment is estimated to be equal to a maximum number representing around 3.5% of the ordinary share capital following the increase and 3.4% of the total share capital (comprising the ordinary shares and the savings shares) of Intesa Sanpaolo following the increase.

Also on 6 February, the Board of Directors of Intesa Sanpaolo resolved to submit a proposal to the Shareholders' Meeting for the mandatory conversion of savings shares into ordinary shares, on the basis of a conversion ratio of 1.04 ordinary shares per each savings share, without any payment of cash adjustments and along with the concurrent removal of the indication of the nominal value of the shares from the Articles of Association.
Therefore, the Board of Directors called the Extraordinary Shareholders' Meeting, on single call, to take place at 10:00 on 27 April 2018, in order to resolve upon the following agenda: "Mandatory conversion of savings shares into ordinary shares and concurrent removal of the indication of nominal value for the shares of Intesa Sanpaolo from the Articles of Association. Amendment of Articles 5 and 29 and removal of Article 30 of the Articles of Association. Pertinent and consequent resolutions."
The Board of Directors also called the Special Meeting of Savings Shareholders, on single call, to take place at 16:00 on 27 April 2018 and in any case at the end of the Meeting of Ordinary Shareholders, in order to resolve upon the following agenda: "Approval, pursuant to Article 146, paragraph 1, letter b) of Legislative Decree no. 58 of 24 February 1998, of the

resolutions of the Extraordinary Shareholders' Meeting concerning the mandatory conversion of the Company's savings shares into ordinary shares of the same Company, as well as the removal of the indication of the nominal value of the shares from the Articles of Association and the relative amendments to the Articles of Association. Pertinent and consequent resolutions."

The effectiveness of the Conversion, should it receive the approval of the Extraordinary Shareholders' Meeting, will be conditioned upon:

a) the approval of the Conversion by the Special Savings Shareholders' Meeting;
b) the authorisations of the European Central Bank required under the current legal and regulatory framework, for the purposes of the amendments to the Articles of Association, the inclusion of the ordinary shares that are issued in connection with the conversion in the CET 1 and the possible purchase by the Company of own shares at the end of the liquidation procedure relating to withdrawing shareholders;
c) the amount owed to those who elect to exercise the withdrawal right not exceeding 400 million euro at the end of the pre-emption and pre-emptive rights offering period concerning any offer to the Intesa Sanpaolo shareholders of the shares held by the withdrawing savings shareholders pursuant to Art. 2437-quater, par. 1 and 2 of the Italian Civil Code.

The conversion ratio has been set by the Board of Directors on the basis of, inter alia, the report of an independent expert and includes an implied premium on the savings shares' price equal to:

- 3.4% in relation to the last stock exchange closing price of 5 February 2018;
- 3.3% in relation to the average price registered in the past month;
- 4.4% in relation to the average price registered in the past 3 months.

Since the resolution approving the conversion implies an amendment to the Company's Articles of Association regarding voting and participation rights, the savings shareholders who do not take part in the approval of the related resolution of the Special Savings Shareholders' Meeting will be entitled to exercise the right of withdrawal pursuant to Art. 2437, par. 1 (g) of the Italian Civil Code. The liquidation value of each savings share was calculated in accordance with Art. 2437-ter of the Italian Civil Code and set by the Board of Directors at Euro 2.74, equal to the arithmetic average of closing prices of the savings shares on the market in the six months prior to the date of publication of the notice of call of the Special Savings Shareholders' Meeting (6 February 2018). The Articles of Association do not derogate from the abovementioned legal criteria.

Should any of the aforesaid savings shareholders exercise the withdrawal right, it will be necessary to liquidate their shareholdings in accordance with the liquidation procedure provided under Article 2437-quater of the Italian Civil Code. In the context of this procedure, the Company may be required to repurchase the shares from the withdrawing shareholders that are not purchased by the other shareholders or possibly placed on the market at their liquidation value. For this reason, the Board of Directors will propose among the items on the agenda for the Extraordinary Shareholders' Meeting set for 27 April 2018 also the authorisation of the sale of shares that may be purchased in the light of this procedure, in order to allow the Company to liquidate an investment which would be otherwise fully deducted from shareholders' equity and CET 1 (Common Equity Tier 1) Capital due to their quality as own shares. The maximum amount of shares which are the subject matter of said authorisation will be equal to the number of ordinary shares resulting from the conversion which will be purchased by the Company at the end of the possible liquidation process in connection with the shares remaining at the end of the pre-emption/pre-emptive offer.

Please note that:

- the ordinary shares that will be issued to service the conversion will bear regular dividend rights;
- it is foreseen that the date of effectiveness of the Conversion – where the relevant conditions have been fulfilled – shall fall after the ex-right date of dividends relating to the financial year ended 31 December 2017 (set for 21 May 2018); said dividend shall therefore be distributed to both ordinary and savings shareholders in accordance with the Articles of Association in place prior to the Conversion (Art. 29.3 of the Articles of Association);
- the withdrawal procedure will commence and will conclude after the ex-right date of the dividends relating to the financial year ended 31 December 2017, and the savings shareholders who exercise the Withdrawal Right – as well as those who do not exercise such right – will receive such privileged dividend in accordance with Art. 29.3 of the Articles of Association currently in force.

The Conversion will be directed at all holders of savings shares. Its effective date shall be agreed with Borsa Italiana and made publicly available on the website of the Company and in at least one national daily newspaper, in accordance with Art. 72, par. 5, of the Issuers' Regulation – CONSOB resolution no. 11971/1999 With the same notice, the Company will provide details on the methods of assignment of the ordinary shares resulting from the conversion ratio and on the management of any fractions of shares resulting from the conversion ratio. On the same date, the savings shares shall be revoked from listing on the Mercato Telematico Azionario, organised and managed by Borsa Italiana S.p.A., and the ordinary shares resulting from the conversion will be listed on the Mercato Telematico Azionario, organised and managed by Borsa Italiana S.p.A..

The Conversion is aimed at rationalising and simplifying the capital structure of Intesa Sanpaolo, as well as simplifying the Company's corporate governance by aligning all shareholder rights. Furthermore, with respect to the capital requirements provided under the supervisory regulations, it is worth noting that the nominal value of the savings shares – unlike that of ordinary shares – is not included in the CET 1 (Common Equity Tier 1) capital but is included in Additional Tier 1 capital. Therefore, assuming a scenario in which all savings shares are converted, the CET 1 ratio of the Intesa Sanpaolo Group would register – on the basis of the figures as at 31 December 2017 and all other terms being equal – an increase equal to 18 bps. Such increase would instead be equal to 3 bps if withdrawals entail the Company to incur the maximum costs provided in the conditions upon which the effectiveness of the Conversion is subject and should the ordinary shares remaining post-Conversion (and therefore purchased by the Company) not be sold.

Should all of the savings shares be converted into ordinary shares, the voting rights of the ordinary shareholders will be diluted by approximately 5.8%. In the instance of maximum costs being incurred by the Company following the exercise of withdrawal rights (without placement of the shares purchased in the context of the abovementioned liquidation procedure on the market), said dilution will instead be equal to approximately 4.9%.

The economic dilution, following the increase in the total number of shares due to the conversion ratio of 1.04 ordinary shares per each savings share, would be equal to approximately 0.2% in the case of all of the savings shares being converted into ordinary shares, while the Conversion would be accretive by approximately 0.7% in the case of maximum costs being incurred by the Company following the exercise of withdrawal rights without placement of the shares purchased on the market.

The 2014-2017 Business Plan

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

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

The 2014-2017 period was characterised by a very challenging macro-economic environment. In particular, market interest rates reached record lows (annual average 1M Euribor at -0.37% in 2017) and GDP recovery was slower than expected. In this context, the Group successfully implemented the 2014-2017 Business Plan, distributing 10 billion euro in cumulative cash dividends, while also strengthening its level of capitalisation and supporting the real economy.
A number of initiatives were implemented from both the organisational standpoint as well as with regard to product innovation, improvement of customer service and development of Intesa Sanpaolo's human capital.

a) New Growth Bank
The "Sviluppo Clienti Base" (base customers development) project led to the creation of a commercial organisation of around 3,500 people who, during the four years of the Plan, increased the per capita profitability of around 5 million base customers from 70 euro to 129 euro per year. In line with the Group's digitalisation strategy, several customer journey campaigns were also promoted, supported by a customer awareness raising initiative aimed at spreading the use of digital channels.
The Multichannel Bank Project involves the integration of physical and remote banking channels. It aims to give customers greater flexibility and autonomy in managing their relationships with the Bank, and give managers the possibility of providing a more personalised and specialist offering of services. In 2017, the activities focused on operations from mobile phones, with the release and development of apps for specific customer segments, the development of the Online Branches and their integration into the physical network, the release of the Digital Identity, the extension of the remote offering of insurance products and the restyling of the home banking website.
The establishment of Banca 5 S.p.A., following the acquisition of Banca ITB, forms part of the strategy for the development of multichannel banking and the base customers, as it enables:
- the leveraging of the existing network of approximately 21,000 accredited points of sale to expand cross-selling to Group customers and acquire new customers (tapping into a potential customer base of some 25 million customers, of which 12 million are already customers of Banca ITB's partner points of sale);
- the creation of a "proximity bank", focused on instant banking, which is complementary and with a lighter cost structure versus the existing branch network, which is increasingly specialised in advisory and high value-added services.

The Plan envisaged the development of new professional areas that have synergies with the core banking business, such as real estate brokerage and e-commerce, with a view to generating new sources of fee and commission income and seizing new cross-selling opportunities. On the real estate front, Intesa Sanpaolo Casa is now fully operational. The company has a staff of 235 agents and operates through a network of 27 physical agencies, 14 satellite agencies, an agency for financial institutions (insurance companies, asset management companies, funds, etc.), and an on-line agency, in addition to specialist partners (Habitissimo and CasaClima), offering customers services that range from brokerage and interior renovation to check-ups and studies for energy redevelopment measures. The year 2017 closed with ~900 properties sold and ~800 sale mandates. With regard to e-commerce, in the food and wine sector the "Destination Gusto" website was launched, a portal with a catalogue of around 1,200 products offered by 250 quality producers, while in the tourism sector, the "Destination Italia" website is now operational in both the B2B market (from March 2017) and the B2C market (from October 2017).
Another project is the SME Finance Hub, which aims to integrate the specialist business finance skills of Mediocredito Italiano into Banca dei Territori operations. In terms of organisation, initiatives revolved around the centralisation of various governance functions at the Parent Company. Initiatives on the commercial front included the launch of Nova+ for Industry 4.0, with subsidised credit lines for innovative entrepreneurial projects, the establishment of the unit dedicated to monitoring covenants, the development of subsidised credit in support of the investments of SMEs (e.g. AL VIA, Social Economy, SMEs and Bank Lending, Tourism 2017, Supply Chain and District Contracts), the development of the Confirming project at national and international level, the introduction of MCI to the main private equity funds operating in the SME segment, the addition of staff with specific expertise in the Advisory and Structured Finance services, and the launch of commercial initiatives on the Network aimed at generating Extraordinary Finance opportunities, with a focus on several key sectors (e.g. food & beverages).
The entire Banca dei Territori network was involved in the "Insieme per la Crescita" (Together for Growth) project, aimed at disseminating commercial best practice to increase customer satisfaction and improve the network's performance. During the

year, courses and meetings were organised with the operational staff in the commercial structures and new online communication, sharing and support tools were launched. In particular "Vividigitale Colleghi" was extended to all the Regional Governance Centres to spread knowledge of specific products and services and to support the management of customers in the transition to the new Internet Banking service.
The "Global Transaction Banking" (GTB) project assigns to a single product company the strategic coordination of Group activities in the field of transactions, with a view to supporting business growth through product innovation, excellence in commercial support, and a pro-active development of partnerships. During the year, the Department expanded the offering and harmonised the transaction banking activities carried out by the Group's Divisions, in addition to being involved in the integration project for the Venetian Banks, for the part under its responsibility. Developments on the commercial front included the launch of the first 7 GTB desks to support the main International Branches/Hubs in the TB offering (Cash and Trade) and the development of the Direct Marketing (customer centricity pilot project for Hong Kong, London, New York, Singapore, Shanghai and Frankfurt). The development activities were supported by a public relations plan, which included the organisation of workshops abroad and participation in international and national events. Initiatives with a longer-term perspective of technological and financial innovation included the launch of proof of concept on blockchain technology and artificial intelligence.
Efforts to expand the range of products and services offered by Banca IMI focused on three main areas: asset-backed trading in the commodities market for Corporate customers; financing, structuring and support for securitisations and NPL management; and the collaboration with Intesa Sanpaolo Private Banking in the offering of products and services to Ultra High Net Worth Individuals (UHNWI) which are usually reserved to professional investors.
On the international front, further progress was made on the development of the International Network, with a view to strengthening the Group's competitive edge in terms of commercial offering and geographical coverage.
The companies operating in Private Banking (Banca Fideuram, ISPB, Sirefid and ISB Suisse) were aggregated into a single hub, which aims to strengthen leadership in Italy and consolidate the Group's status as a big player in Europe through the development of the product range, the evolution of the service model and the technological instruments supporting advisory activities, the development of synergies with the other Group structures and the intensification of international operations. During the year, new investment products were launched, including the PIR-compliant funds and the new "Fideuram Vita Sintonia" policy, the first multi-line insurance product in Italy with a capital protection mechanism, and the range offered by the London branch was expanded. As regards the service model, Fideuram's branch set-up was revised (90% cashless operations at branches thanks to the automation of low-service content processes), 9 Credit Hubs were activated, and the advanced advisory services (SEI for the Fideuram network and VIEW for the ISPB network) and the "Alfabeto" interactive digital advisory platform were further developed. The service model was completed with the set-up of the services aimed at HNWI customers (branch network and Central Service Hub) and the launch of the cooperation with Intesa Sanpaolo Casa, which will enable the expansion of the services offered to customers by leveraging synergies within the Group. Lastly, at international level, the project was initiated for the creation of a Swiss hub with the acquisition of the Morval Vonwiller group (a Swiss boutique investment house with around 3 billion euro of assets under management).
The Asset Management Division has set itself three main objectives: ensuring the excellence of the support to the Group networks through the prompt creation of products that are always in line with the market situation, becoming a centre of reference for institutional customers and promoting extra-captive distribution on the domestic as well as international markets. During the year, the Division operated on several fronts. Work for the Banca dei Territori, Private Banking and Insurance Divisions consisted of the development of the offers, with the launch of new investment solutions, the improvement of the quality of after-sales support and the contribution to sales networks' training and education programmes on the basis of specific requirements of the individual structures. The strengthening of sales efforts aimed at extra-captive customers continued and new institutional customers were acquired in Europe and Latin America. The activity at international level intensified with the opening of Eurizon branches in Paris and Frankfurt, the start-up of asset management operations in Hong Kong and the expansion of Eurizon SLJ Capital Ltd's operations. In the Chinese market the activity was particularly intense, with the continued development of Penghua Fund Management and the establishment of the organisational structure of YiCai Wealth Management Co. Ltd. in Qingdao (China), which is due to become operational in the first quarter of 2018. The stake held in Allfunds Bank S.A. was sold on 21 November 2017.
The Insurance Division worked on both strategic and commercial aspects. At strategic level, additional guidelines where established for the development of the Group's insurance business, together with the continuation of the "Information Driven Insurer" project, aimed at streamlining the information assets of the insurance companies and increasing the effectiveness of business intelligence. On the commercial front, in the Life Business, capital-efficient life policies (Class III and multi-line products) were promoted and new products were launched (e.g. unit-linked and multi-line products with capital protection), while, in the Non-Life Business, a further boost was given to the Division's activities towards both companies and private individuals, including the expansion of the offering for small and medium enterprises and the development of synergies with the "Sviluppo Clienti Base" (base customers development) project. The work was also completed for the dematerialisation of the contracts for all the non-life products and the remote offering functions were released for all the main products. Lastly, the pilot work was completed for the introduction of specialist professionals dedicated solely to the sale of Non-Life products and for the sale of Motor, Head of Household Civil Liability and Accident and Injury products through the online branch.

b) Core Growth Bank

The Banca dei Territori Division continued to work on the development of three projects aimed at optimising the service model: Full Potential (Retail), Investment House (Personal), and Business-Entrepreneur (Enterprises).
As regards the "Full Potential" project, work continued on the rationalisation measures for the network and the transformation of the branch layout.
Within the "Investment House" project, work continued on the MiFid II compliance requirements, the expansion of the product range, the activation across the entire network of the advanced advisory services (Valore Insieme), the enhancement of the remote offering (particularly for the sale of policies) and the development of training initiatives.
Work on the "Business-Entrepreneur" project involved three main areas: support for the international expansion of businesses, partnership with customers to support the establishment of their business strategies, and the development of a service model for businesses (e.g. Extraordinary Finance, portfolio guarantee operations, supply chain development).

The “Commercial Excellence” project aims to improve service quality for high-value customers by basing work with customers on personalised interviews, the use of flexible and integrated (multichannel) contact systems, and the adoption of advanced technologies to extend the automated management of commercial processes. In 2017, work continued on the process and product innovation for retail mortgages and personal loans, the automation of low-service content operations, and the dematerialisation and contractual simplification with the digitisation of payments to the Public Administration (F24 tax payments, Virtual Stamp Duty, pagoPA services, and SIOPE+ testing).
Service improvement projects for the various customer segments are supported by the new organisational model of the Banca dei Territori Division: in all of the regional governance centres, three specialised “commercial areas” have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.
Within the framework of the Asset Light project, the Corporate & Investment Banking Division aims to develop an “originate-to-distribute” model to improve the Division’s capital ratios and further strengthen engagement with institutional investors.
In 2017, the “Increasing the Business with International Customers” project was reorganised with the aim of maximising the synergies between the relationship management for Corporate customers and the investment banking activities of Banca IMI in the development of international business. Having completed the redesign of the Division’s international vision in terms of customers, products and geographic coverage and set the order of priorities and action plan for each of the initiatives, the project has entered into the final stage, consisting of the launch and start-up of the initiatives.
The project focused on the “Selective Growth of the Italian Corporate sector”, is aimed at adopting a suitable strategy for expanding business with customers selected on the basis of their growth prospects and their asset and financial stability. During the year, initiatives were also launched to increase the market shares in lending, global markets and global transaction banking, by expanding the customer base, increasing product penetration and developing funding synergies with Intesa Sanpaolo Private Banking.
Within the Corporate area, work continued on the commercial development targeted at Financial Institutions customers, in cooperation with Banca IMI, with the objective of consolidating the Group’s position in certain segments and product areas already covered (Italian Banks and Trade Finance) and improving its penetration in the International Subsidiary Banks, Asset Management, Insurance, Investment Banking, and Transaction Banking segments. Particular focus was given to the “international growth” project for the development of the international business and the enhancement of the dedicated coverage.
The International Subsidiary Banks Division is engaged in a vast programme of reviewing the operational model that envisages strengthening governance, optimising the monitoring processes and support for extending best practices, and harmonising the service models, commercial offering and IT systems. As regards the reorganisation of the Division, all the main project streams (including Digical, Nexus, Loans Programme, Covenant project, the IFRS 9 and BFD projects, Cooperation, and Constellation) are continuing according to the established plans. With regard to the commercial strategy, work continued on the extension and adaptation of the Parent Company’s commercial policies to the individual international subsidiary banks.
The Proactive Loan Management project resulted in the application of a new work method which, thanks to the ongoing monitoring of customer positions, and the prompt identification of situations at risk, has contributed to stemming the deterioration of credit quality. In 2017, also owing to these loan management programmes, ~21,000 businesses returned their loans to performing status from non-performing status (~73,000 from 2014), a success that confirms Intesa Sanpaolo’s intention to be a bank that supports the real economy and which is always committed to seeking sustainable growth.
In accordance with ECB instructions, in 2016 Intesa Sanpaolo initiated measures to keep the stock of NPLs in check. In March 2017, a three-year NPL Plan was approved, aimed at bringing the NPL ratios back down to pre-crisis levels, through a coordinated action plan structured for each of the business units involved. The plan takes a holistic approach by tackling all categories of NPLs and involves all business owners in the Group. The plan activates all the levers that can help achieve its stated objectives, while also providing suitable mechanisms for the coordination of efforts and the monitoring of outcomes delivered.
The 2014-2017 Business Plan envisaged the progressive simplification of the corporate structure of the Banca dei Territori Division, with the aim of achieving a significant reduction in the number of legal entities, from 17 banks at the end of 2013 to just 6 banks. The first corporate transaction involved the merger of Banca di Credito Sardo and CR Venezia, 100%-owned, into Intesa Sanpaolo (effective for legal purposes from 10 November 2014). The mergers by incorporation of Banca di Trento e Bolzano and Banca Monte Parma into Intesa Sanpaolo took effect on 20 July 2015. The merger by incorporation of Cassa di Risparmio di Rieti, Cassa di Risparmio di Civitavecchia and Cassa di Risparmio della provincia di Viterbo into Intesa Sanpaolo concluded with effect from 23 November 2015. The merger by incorporation of Banca dell’Adriatico into Intesa Sanpaolo was completed (taking legal effect on 16 May 2016). The Casse di Risparmio dell’Umbria banks were incorporated into Intesa Sanpaolo on 21 November 2016. On 7 November 2017, the procedures were initiated for the merger by incorporation of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo (effective July 2018). On 21 December 2017, the Board of Directors of Intesa Sanpaolo approved the project for the merger by incorporation of Banco di Napoli into Intesa Sanpaolo (effective February 2019). On the same date, the Board of Directors of Cassa dei Risparmi di Forlì e della Romagna approved the project for its merger by incorporation into Intesa Sanpaolo (effective November 2018). On 27 December 2017, the project for the merger by incorporation of Banca Nuova into Intesa Sanpaolo (effective from April 2018) was filed with the Turin Company Register.
Lastly, in 2017 the rationalisation of the local presence led to the closure of 114 branches (for a total of 838 closures since 2014, net of three new openings).

c) Capital Light Bank
The Business Plan identifies a clear strategy for optimising capital and liquidity, while deleveraging non-core Group assets through the Capital Light Bank Division. Compared to the start of the year, the stock of assets contributed with the launch of the 2014–2017 Business Plan was reduced by approximately 6.2 billion euro, bringing total deleveraging since 2014 to approximately 23.3 billion euro. In particular, the Sherazade transaction led to the sale of consumer credit NPLs of around 620 million euro (including the former Accedo component). In Ukraine, the loan portfolio of Pravex was shored up (NPL ratio down to 1.4% from over 75% at the start of the year). At the same time, the organisational structure was rationalised, reducing the workforce by around 300 people. In Hungary, as part of the Bad Bank programme, the sale was completed of a package of retail NPLs (“Lara” transaction). At the same time, the continuation of the ordinary collection/sale of individual

positions led to a total deleveraging of around 830 million euro since the start of the year. In 2017, the business activity of Intesa Sanpaolo REOCO, the Group company which has the mission of extracting the most value from repossessed properties and safeguarding the Bank's assets, generated a total benefit for the Group of approximately 15 million euro. The ordinary business of Provis, instead, led to total deleveraging of around 540 million euro since the start of the year. Other initiatives saw the conclusion of the consumer credit rationalisation project through the merger by incorporation of Accedo into Intesa Sanpaolo. In the last quarter, activities continued for the sale of non-strategic investments, with the full sale of the equity interest held in NB Renaissance Partners and F2I.

d) People and investments as key enablers
The objective of reskilling 4,500 people and reallocating them to high priority initiatives in the Group was achieved in 2016, more than a year ahead of the deadline set by the Business Plan. This enabled the Bank to maintain the employment levels, helping to strengthen the sense of belonging to the company while preserving the know-how and professional expertise within the Group.
The structures responsible for governing innovation are now well established as a centre of expertise within the Group. It works constantly with the business divisions to steer its work, guaranteeing the optimisation of innovation investments and the identification of concrete solutions that can be applied to the benefit of customers.
With regard to investments as enablers, the "Projects" section of this Executive Summary provides a brief description of the project initiatives that have had the greatest developments in the year, with particular reference to projects with cross-cutting impacts across the Group.

The new 2018-2021 Business Plan

Intesa Sanpaolo achieved excellent results during the 2014-2017 Business Plan and laid the foundations for being highly competitive in the years to come, through a major transformation of its model business and significant investments in digital technology.
In a new scenario significantly impacted by recent industry trends, including regulatory developments, Intesa Sanpaolo aspires to become the number one Bank in Europe in all the key indicators that will form the basis for future success in the banking industry: (i) asset quality; (ii) profit quality; and (iii) level of efficiency.
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 solid fundamentals and values and the proven ability of a results orientated delivery machine, effectively steered by our People and supported by a state-of-the-art digital platform.

The new 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for Shareholders and to build the #1 Bank in Europe on solid fundamentals and values.
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 2018-2021 Business Plan's top priority is the effective management of NPLs and will be achieved, without a negative impact on value distribution to Shareholders, through the implementation of several initiatives:
- carve-out of a state-of-the-art loan recovery platform, to improve recovery rates and extend the scope of activities;
- readiness for future NPL disposals at a price in line with book value;
- "Pulse", a new way of managing retail early delinquency, and positioning as one of the leading operators in early delinquency recovery;
- scale-up of proactive credit portfolio management, aimed at significantly reducing the Group's Unlikely to Pay level and optimising its risk-return profile.

As a result of these initiatives, the risk profile will further improve in 2021, with best-in-class cost of risk and a very low NPL stock.
The importance of the de-risking work for Intesa Sanpaolo is reflected in the sizing of the designated units involved, which were already strengthened during the last Business Plan and will be further reinforced during the new plan.

The second pillar aims to strengthen Intesa Sanpaolo's position as a European leader in cost management, through:
- workforce reduction and renewal, to be achieved through voluntary exits and new hires, redeployment of excess capacity towards higher value-added jobs and gradual deployment of the new "*Lavoro misto*" flexible work contract[1];
- optimisation of the branch strategy, by continuing the streamlining of local coverage with the closure of additional branches and the development of Banca 5 (former "Banca ITB");
- proactive management of the real estate portfolio, to optimise the physical presence in Italy and harness the potential value of the Group's assets, through the creation of a new headquarters in Milan ("ISP City") and the disposal of redundant spaces throughout Italy;
- reduction of the Group's legal entities, through their merger into the Parent Company;
- reduction in administrative expenses by strengthening best practice in cost management and creating a dedicated unit at Group level, reporting directly to the CEO.

[1] Two parallel contracts in place for the same person, one part-time contract as a bank employee and one as a financial advisor.

The third pillar of the Business Plan seeks to increase operating income by capturing significant business opportunities in all the Divisions:
- becoming one of the top four Italian P&C insurance companies and the number one in retail non-motor;
- consolidating the domestic leadership in private banking and expanding further in other geographical areas, also by leveraging the increasing customer digitalisation, with the aim of becoming the fifth largest Private Bank in Europe for assets under management and reinforcing its current position in third place in Europe for gross profit;
- enhancing asset management operations in Europe, through the strengthening of Eurizon Capital and possible partnerships with industry players;
- increasing the penetration in assets under management, for the Banca dei Territori Network, by strengthening the advisory model and introducing new digital features and innovations to the service model;
- significantly developing operations with Businesses and Corporates, through a distinctive offering and service model;
- establishing a new focused strategy for the International Subsidiary Banks, aimed at optimising the international presence and maximising synergies within the Group;
- developing a major presence in the Chinese wealth management market, which in the medium-to-long term will significantly contribute to the Group's earnings, through various initiatives for Yi Tsai, Penghua and Bank of Qingdao.

The first enabler is our People, who continue to be Intesa Sanpaolo's most important resource and who will benefit from a series of dedicated initiatives:
- strengthening of employee commitment through long-term incentive programmes linked to the main Business Plan indicators;
- promotion of inclusion and continuous open listening to personnel;
- international programme for young talent, to enhance the middle management community through tailored training programmes and career paths;
- training and learning programmes, scaling up the Group's digital learning platform and increasing the number of training hours. This will enable the redeployment of excess capacity to higher value-added activities in line with the Plan priorities;
- work flexibility programmes, with a significant increase in the use of smart working;
- organisational empowerment, with the implementation of a new international HR platform aimed at ensuring internal fairness, in addition to the extension of the "Management Succession Plan".

The second enabling factor is the completion of the digital transformation, by leveraging the significant investments made in the previous Business Plan, focusing on the development of:
- a multi-channel customer platform, aimed at providing a state-of-the-art digital offering to all the customer segments;
- digitalisation of processes and products;
- data management and cyber security;
- Advanced Analytics, also by leveraging partnerships with leading start-ups in the areas of Machine Learning and Artificial Intelligence;
- an innovation culture within the Group, by strengthening dialogue with FinTechs and industry leaders in emerging technologies, incubating new ideas, and scaling up venture investments (managed through Neva Finventures).

Based on the guidelines set out in the 2018-2021 Business Plan and the strategic pillars *(i)* "*Significant de-risking at no cost to Shareholders*", *(ii)* "*Cost reduction through further simplification of the operating model*" and *(iii)* "*Revenue growth capturing new business opportunities*", enabled by our People and Digital Technologies, Intesa Sanpaolo has set itself the following targets for 2021:
- Net income of 6 billion euro (14.6% ROTE);
- Operating income of 20.8 billion euro;
- Best-in-class Cost/Income, at 45.4%;
- Cost of risk at pre-crisis levels (~40bps);
- Gross NPL ratio at ~6% and Net NPL ratio below 3%, in line with the levels of the major European competitors;
- Very solid capital position, with Fully Loaded CET1 Ratio down from 14% in 2017 (~13% including the IFRS 9 FTA impact) to ~13% in 2021 (with ~(80) bps impact of Basel IV after 2021 offset by business evolution);
- Cash dividend payout ratio gradually moving from 85% in 2018, to 80% in 2019, 75% in 2020 and 70% in 2021.

The 2018-2021 Business Plan will enable the Bank to be competitive in the new macroeconomics scenario and to maintain its leadership in Italy, while also strengthening its competitiveness at international level. Intesa Sanpaolo has already established a unique business model, with a low risk profile. Through the new Business Plan, the Bank will further strengthen the distinctiveness of its business model, achieving a unique risk profile in terms of illiquid assets, and will continue its transformation into a wealth management and protection company, also expanding its leadership to the area of insurance protection.

The successful implementation of the Business Plan will enable Intesa Sanpaolo achieve the objective of generating a return above the cost of capital over the Plan horizon. In addition, the objective of strong and sustainable value creation will enable value distribution to all the stakeholders, with a contribution of over 300 billion euro to the real economy:
- to Shareholders, through dividend payouts;
- to households and businesses, through new medium/long-term lending to the real economy (around 250 billion euro cumulative);
- to employees, through wages (around 24 billion euro cumulative) and significant number of training hours (~46 million cumulative);
- to suppliers, through purchases and investments (around 11 billion euro cumulative);
- to the public sector, through tax generated (around 13 billion euro cumulative);

to the non-profit sector, through new loans in support of social ventures (around 0.7 billion euro cumulative) and social impact initiatives.

Projects

In 2017, the Group's spending for projects was around 1.2 billion euro, in line with the previous year. Projects concerned the following macro-areas:
- Regulatory Projects, to meet regulatory requirements, which represent approximately 28% of total expenses, up on 2016;
- Maintenance, IT Transformation and Operating Excellence Projects, to adjust/upgrade systems to next-generation technologies, which represent approximately 23%;
- Major Transformation projects, also in the area of Digitalisation, representing around 22%;
- Other Business initiatives, representing approximately 11%;
- Projects aimed at extending/integrating the target model to all Group entities (systems, processes and procedures), which have an impact of approximately 16%.

The component of innovation, which is transversal across all the areas mentioned above, includes development initiatives regarding:
- customers, including through new services and products via digital distribution channels;
- the bank, reconsidering the traditional operating model, promoting new professions and new models of cooperation;
- the country's economic activity, facilitating its growth and sustainability using approaches differentiated by industry, which capture and stimulate the production and technological innovation under way.

The main activities carried out are shown below, with specific reference to those that have a transversal impact on the Group.

Integrated Multi-channel Platform
The aim of the Group's multichannel strategy is to redefine the customer experience, by integrating all the physical and virtual channels, through the simplification of processes and more effective and efficient communication. Initiatives in 2017 included the release of the processes for the sale of personal loans and current accounts to new customers from the showcase website and the start of the analyses for the extension of the multi-channel processes to the Business segment. The new process for the sale of credit cards to new customers was also released in the second half.
In December, the sale of the new "*prestito diretto*" product (special-purpose personal loan for the purchase of goods and services sold by companies that have signed specific agreements with the Bank) was launched on the Internet banking channel, with the issue of the rules relating to the granting of the new product.

Digitisation of Group Core Processes
The digitisation of the Core Processes was launched through the Group's "Digital Factory" in the second half of 2015 with the goal of upgrading the operating model, accelerating innovation and digitising processes, disseminating a new way of working based on internal and external cooperation and co-creation, starting from the customers' perspective.
In 2017, work was completed for the processes of Business & Corporate Proactive Lending, Specialist International Lending, Remote Banking Contracts, Online Branch, Presentation of Portfolios and Mortgages to the Bank's Personnel. Work also continued on the processes relating to Retail Management and Proactive Lending, Seizures, Authorisations, Collation and Non-Performing Loans. Lastly, three new processes were activated:
- Digital Wallet and payments engine, to provide a solution, built into IntesaSanpaolomobile's App, that will give simple and immediate access to all the digital services for payments and the sending of cash between private individuals;
- Insurance Wallet, aimed at creating a product that can be activated at branches and on a self-service basis and is continuously available through the multi-channel and mobile platforms, to cover customer insurance needs in the area of protection and P&C;
- Industrial Dialogue: a workgroup set up in December to develop an instrument for the Relationship Managers to help them improve the effectiveness of the business customer relationship management and industrial dialogue.

Big Financial Data (BFD)/Big Data Engine
The operational phase of the project was launched with the goal of structural improvement of management of all of the Bank's data by defining and implementing technological and organisational interventions.
The Big Data Factory activities continued in 2017 (involving inter-departmental teams working in a co-location environment on a Digital Factory model), and are now focusing more on priority business chains.
To this end, a specific Big Data Engine programme was initiated in the first half, focused on the use of the data and on the updating/supplementation of the main BFD Governance Areas. The objective is to achieve a shared target architecture design through a structured project aimed at tapping into key interdepartmental engines used by the business chains and at redesigning specific engines to feed data directly from the BFD.

G20 Reforms Project
The G20 Reforms project is intended to guarantee the adaptation of the operating model for the Group in order to respond to the regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments.
In relation to the EMIR - European Market Infrastructure Regulation, in 2017 work was completed for the transition to the target regulatory reporting system (FCHub) for all the asset classes and for the entire Group, except for the International Subsidiary Banks, whose release is planned for 2018.
Following the entry into force of the MiFID II Directive (January 2018) which adds Forex Forward and Forex Swap products to the scope of the EMIR, the functional analyses were examined and the necessary implementations were made across the entire value chain affected.
In relation to the Dodd Frank Act, the preparations were carried out for the alignment of the IT systems and processes in response to two no action letters from the US CFTC – Commodity Futures Trading Commission. The documentary framework

(policies and procedures) was updated during the year, following the requests for certification of the documentation from the US Regulator (NFA – National Futures Association).
In relation to the Volcker Rule, the work was completed for the preparation and publication of the documentary framework. The development work was also completed for the automatic monitoring of the positions held in structured funds and products for Banca IMI and Intesa Sanpaolo.

IFRS 9
At the end of 2015, the Intesa Sanpaolo Group initiated a project for the implementation of IFRS 9 - Financial Instruments, the new financial reporting standard that replaced IAS 39 from 1 January 2018. The introduction of IFRS 9 will impact the methods of classification and measurement of financial instruments and the calculation logics and methods of value adjustments. Given the pervasive impacts of IFRS 9, both on business and under an organisational, application and reporting point of view, the project was aimed at understanding the various areas of influence of the Standard – grouped under "Classification & Measurement", "Impairment", and "Hedge Accounting"; determining its impact in qualitative and quantitative terms, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of the subsidiaries of which it is composed.
For a detailed description on the projects and their results, see the information provided in the chapter on the Accounting Policies.

Cyber Security Program
The programme, which ran over the two-year period 2016/2017, aimed to increase the Group's maturity through more efficient and effective threat management, as well as strengthen the capabilities and structures needed to mitigate the risk induced by cyber attacks. The key activities completed during the year included the progressive implementation of the *ISBC Integrated Control Model;* the identification and sharing of the guidelines for upgrading the methodology adopted for *IT risk analysis* with the Enterprise Risk Management Head Office Department and the accompanying 2017 campaign; the evolution of the CERT (Computer Emergency Response Team) measures for the Group; the verification by the Agency for a Digital Italy (AGID) of the full compliance of the Intesa Sanpaolo Certification Authority (release of certificates for digital signatures); the analysis of the EBA RTS technical standards for the regulation of the PSD2 electronic payment services; the consolidation of the Internet Banking Security infrastructure for the protection of business services and the addition of new advanced authentication features (Smart Authentication, OTP Software, Cardless Withdrawals, Push Notifications); the activation of the whitelisting solution on ATMs for the monitoring and real-time blockage of unauthorised software; and the roll-out of the operating model for the new Global Security Operation Center (Global SOC) service.
The new Security Regulatory Framework has also introduced a new flow towards the corporate bodies, the *Security Plan*, within the Integrated Internal Control System Regulations, which, in addition to providing an overall assessment of the state of the Group's IT security, also details the evolution of the threats and opportunities, the strategic objectives and the development and investment plans. The Security Plan will also include the initiatives for the continuation of the Cyber Security Program and the extension of the Remediation Plan.

New Group Register
The aims of this project are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single infrastructure for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels.
The first phase of the pilot companies started at the end of the year, and work also continued on the preparation and planning of the activities for the other legal entities that will migrate in 2018.

Processes Integrated Governance
The project begun in April 2016, with the aim of redefining the processes tree from an end-to-end perspective, the management model in terms of integration with the risks and related controls, a new classification of risks and controls, as well as simplifying the current body of regulations. The initiative also aims to define a method and implement a tool for measuring the performance of the processes, using three indicators (effectiveness, efficiency and quality) to which specific performance indicators are connected for each process being measured. In 2017, the final version of the new processes tree was established, with a total of 264 end-to-end processes out of 370 having been revised and released.

Banca 5 Project
In February, the project work was started for the integration of Banca 5 (former Banca ITB) into the Group, while maintaining its distinctive characteristics. The main priority is the adoption of the regulatory structure, adapting it to Banca 5's specific features where necessary.
With regard to the launch of Banca 5's commercial offering (payment account with debit card, bearer rechargeable card, personal loans, SPID (digital identity), digital non-captive point of sale, small-ticket insurance products) a pilot study was conducted on 5 non-captive points of sale in July and, in conjunction with the participation at the Rimini Meeting (20-26 August, where two instant-issuing devices for the direct on-site production of bearer rechargeable Flash cards with customisable layout were present), an additional 245 non-captive points of sale were activated with a plan for the extension to around 6,000 merchants.

Data Collection on Credit/Credit Risk (AnaCredit)
EU Regulation 2016/867, issued by the ECB on 18 May 2016, introduces a new collection of credit and credit risk data, known as AnaCredit, which requires national central banks to collect harmonised and extremely granular information on loans and guarantees referring, at an initial stage, to counterparties identified as legal entities.
To ensure a framework for the new reporting requirement, a specific project was formally started up in March 2017 and fully included within the ECB regulatory requirements programme. The new requirement represents a major opportunity for the Group to enhance the target IT architectural model for the entire credit risk area, enabling it to perform reporting and management, strategic and innovation roles, and be potentially relieved of predefined updating restraints.

The first set of reporting, for the domestic scope, must be prepared and sent to the Bank of Italy with the reporting date of 30 June 2018. To this end, the target architectural scenario has been defined and the adjustment and contingency solutions needed to ensure compliance with the first regulatory deadlines (June and September 2018) have been identified. The Project forms part of the priority areas of the Big Data Engine Programme within the Big Financial Data initiative.

"Lavoro Misto" flexible work (Minotauro Project)

In the Protocol of 1 February 2017 for the sustainable development of the Intesa Sanpaolo Group, the Parent Company Intesa Sanpaolo and the trade unions agreed on the trial – for the first time in Italy – of an 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 "mixed" 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.
In the second half, the various project initiatives within the Personnel and Organisation Department where completed, which mainly involved personnel recruitment, training and management and the establishment of the organisational and operational model in support of the activities of the personnel hired during the period.
The impacts of the new model were mapped to establish the new roles/responsibilities and processes. The integration procedures for the personnel of the former Venetian banks and the extension of the model to the "existing employees" are currently being defined.

Integration of the Former Venetian banks into Intesa Sanpaolo

This project is aimed at ensuring the complete integration of the former Venetian banks with the monitoring of progress in specific project initiatives/areas.
The project was organised taking into account the need to oversee matters relating to due diligence, urgent and mandatory requirements, integration of the international networks, migration, and alignment to the target model.
With regard to the last two aspects in particular, the analysis of the product catalogue and identification of the related IT gaps and possible alternative non-IT solutions to minimise the changes required to applications have been completed; the geographical planning has been established; the design of the Business and Retail Network has been consolidated; the list of physical consolidations accompanying the migration has been finalised; and all the communications to customers have been prepared. The plan has also been prepared for the training and mentoring at the ISP Branches for the colleagues of the former Venetian banks, based on criteria of geographical proximity, through an ad hoc training platform and procedure simulators to provide training on the Branch operations.
The schedule for the migration to the target system is as follows:

- Pilot Event (*27 November*): integration of four branches of both the former Banca Popolare di Vicenza network and the former Veneto Banca network;
- Big Bang Event (*11 December*): integration of the remaining branches of the former Banca Popolare di Vicenza network and the former Veneto Banca network, with accompanying consolidation of the first 120 branches;
- Merger by incorporation of Banca Nuova into Intesa Sanpaolo (within the first four months of 2018);
- Creation of IT clone for Banca Apulia (within the first four months of 2018).

Work continued according to schedule, and both the pilot event and the weekend migration activities were successfully completed.
The 738 branches involved operated regularly (opening and closing without any problem issues).
In addition, in order to provide adequate support, the mentoring arrangements have been extended beyond the four weeks planned.
Work started on the preparation of the new project structure for the integration of Banca Apulia and Banca Nuova into the target system and the support to the liquidators of the Selling Banks for the establishment of the operating processes with interaction to and from Intesa Sanpaolo was initiated and managed.

Retail Early Warning System Project

The aim of this project is to strengthen and develop the assessment processes for counterparty risk and the "interception" and "classification" of non-performing loans, through the implementation of an Early Warning System (EWS). This system enables:

- the monitoring of a list of impairment triggers for the classification;
- the calculation and monitoring of a set of indicators that reveal signs of deterioration of credit positions.

In the Early Warning System developed, the level of risk of a counterparty is placed on a scale of six colours in increasing order of risk: green, light green, orange, red, light blue, and dark blue.
In 2017, the system was activated for Retail and Retail SME customers, as part of the progressive rollout of the new Early Warning System (EWS) to all the regulatory segments,. In 2018, the EWS will replace the previous instrument with regard to the overall indication of the status of the counterparties and the risk of deterioration in their credit quality in the short term.

Main risks and uncertainties

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

Group liquidity remains high: as at 31 December 2017, both the regulatory indicators (Liquidity Coverage Ratio - LCR and Net Stable Funding Ratio -NSFR), 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 eligible liquidity reserves for the Central Banks – including the components relating to the Aggregate Set of Banca Popolare Vicenza and Veneto Banca – came to 171 billion euro (150 billion euro at the end of December 2016), of which 98 billion euro, net of haircut, was unencumbered (96 billion euro at the end of December 2016). The loan to deposit ratio at the end of December 2017, calculated as the ratio of loans to customers to direct deposits from banking business, came to 97%.

In terms of funding, the widespread branch network remains a stable, reliable source: 74% of direct deposits from banking business come from retail operations (315 billion euro). In addition, 2 billion euro of Additional Tier 1 instruments, 2.5 billion euro of unsecured senior Eurobonds, 1 billion euro of covered bonds, 2.5 billion euro of unsecured senior bonds and 500 million euro of green bonds were placed during the year.

With regard to the targeted refinancing operation TLTRO II, at the end of December 2017, the Group's participation amounted to 57 billion euro, equal to the maximum borrowing allowance (46 billion euro as at 31 December 2016). Including the components relating to the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, the amount as at 31 December 2017 was approximately 64 billion euro.

The Intesa Sanpaolo Group's leverage was 6.4% as at 31 December 2017.

The capital base also remains high. Own funds, risk weighted assets and the capital ratios at 31 December 2017 are calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.
The calculation took account of the risk-weighted assets of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.
At the end of 2017, total Own Funds came to 51,373 million euro, against risk-weighted assets of 286,825 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 17.9%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.2%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.3%.
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, the measurements of the regulatory Solvency Ratio 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 – indicated a ratio of 236% as at 31 December 2017.

The Group’s risk profile remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations.
In relation to market risk, the Group’s average risk profile in 2017 was 69 million euro, compared to an average of around 95 million euro in 2016.

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

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.
With regard to performing loans to customers, including the loans of the Aggregate Set, “collective” adjustments, equal to 1,299 million euro, provide a coverage ratio of 0.4%.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor’s position are promptly recognised, with continuous revision of the values of the loans that already shows signs of distress and of loans with no obvious signs of impairment. All categories of non-performing loans were assessed using the criteria of maximum prudence, as highlighted by the substantial average coverage percentages for bad loans (63.1%) and unlikely to pay positions (28.4%).

Constant attention has been paid to the valuation of financial items. The majority of financial assets are measured at fair value, since classified as held for trading using the fair value option, under assets available for sale, or represented by hedging derivatives.
The fair value measurement of financial assets was carried out as follows: approximately 82% using level 1 inputs, around 14% using level 2 inputs and only close to 4% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (approximately 87%) were measured using the level 2 approach.
As regards the Intesa Sanpaolo Group’s sovereign debt exposure, at the end of December exposure in securities to the Italian government amounted to a total of approximately 76 billion euro, in addition to receivables for approximately 13 billion euro.

The Group banks' exposure in securities amounted to approximately 27 billion euro, of which approximately 13.6 billion euro up to 5 years (approximately 50%), with a duration of about 5 years. On the other hand, the duration of the insurance portfolio is longer, at 6 years, consistently with that of liabilities.
Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 28 million euro during the year, compared to a positive result of 13 million euro for 2016.
For the hedge funds, the investments in this segment in 2017 generated a profit of 16 million euro compared to a loss of 35 million euro for 2016.

As regards taxes, deferred tax assets were posted in the consolidated financial statements for 13,199 million euro, of which 8,746 million euro can be converted into tax credits, along with deferred tax liabilities for 2,145 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 more than sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2017.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly important. Intangible assets with finite useful lives (insurance portfolio), the amounts of which (a total of 187 million euro) are being gradually amortised (with 26 million euro of amortisation recognised in the income statement for 2017) 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. During the year, following the business combination involving the former Venetian banks, an amount of 80 million euro was recognised in the balance sheet for the asset management relationships, allocated to the Banca dei Territori CGU. No indicators of impairment were detected for these intangible assets at the end of the year, in view of the short period of time since their initial recognition and the amortisation for the period already recorded (3 million euro).
As regards intangible assets with an indefinite useful life, represented by goodwill (4,056 million euro) and brand name (1,882 million euro), for the 2017 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. A period of five years was adopted as the forecasting period for this purpose, as in the 2016 Financial Statements, i.e. the five-year period 2018-2022. Specifically, for the first 4 years of that period, the detailed estimates set out in the 2018-2021 Business Plan, approved by the Board of Directors on 6 February 2018, were used. The flows for 2022 were estimated through inertial tracking of the flows for 2021, based on the forecasts relating to the macroeconomic scenario, thus, without considering the effect of managerial leverage. 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 2017, for the purposes of the Terminal Value, 2022, the last year of the analytical forecast, separating out the main 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 120 bps compared to the current year-end values used for the discounting of flows for the "explicit" horizon.
As this valuation method has yielded value 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 were carried out to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses. In particular, the impact on the value in use of an increase in discounting rates of up to 50 bps or a decrease in the growth rate for Terminal value purposes of 50 bps 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 rise in the price of the Intesa Sanpaolo (ordinary) stock over the course of 2017 (up 14%). The performance of the price of Intesa Sanpaolo stock in 2017 moved in line with that of the FTSE MIB index during the same period (around +14%) and the index of Italian banking securities (around +15%). The additional rise in the price in January 2018 brought the value of the stock to a level close to the Group's equity per share. The target prices published by the main investment houses, which were also up significantly on the end of 2016 (+20%), were substantially in line with the Group's equity per share.

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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 2018. 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.

Capital soundness is dealt with briefly in this chapter, whereas a more detailed discussion can be found in Part F of the Notes to the consolidated financial statements.

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 2017 on a going concern basis. The Directors have not detected any uncertainties in the asset 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

In 2017, world economic growth strengthened its pace and became more widespread. Growth in international trade intensified. Inflation rebounded, partly driven by the strong recovery in oil prices, but was still moderate. In many cases, economic figures proved surprisingly positive.
After a weak first half of the year, the US economy picked up again, pushing the unemployment rate below 4% of the labour force. In addition, a tax reform was approved at the end of the year, which could fuel stronger growth in domestic demand in 2018. Faced with the increasing risk of the economy overheating, the Federal Reserve tightened its monetary policy stance. Official interest rates were raised three times in 2017 by a total of 75 basis points, and the Central Bank is signalling to the markets that this pace may be maintained in the current year. The Federal Reserve has also started a gradual reduction in reinvestments of principal payments at portfolio maturity, which will lead to a reduction in the surplus reserves in the banking system. For the time being, however, inflation is still moderate.
The Eurozone witnessed stunning growth during the year, far above the standards of recent years and the forecasts from a year ago. In the third quarter, the latest period with official data available, the change in GDP compared to one year before was 2.8%. Recoveries in exports and fixed investments more than offset the marginal slowdown in consumption. Growth in economic activity across all countries in the Eurozone drove employment figures up and the unemployment rate down to 8.7% in November. Improved confidence figures were favoured by various factors, including general election outcomes in the Netherlands and France, which dispelled the risk of a victory by Euro-sceptic parties and, therefore, of major crisis in the Eurozone. Instead, the outcome of the French general election has raised expectations of fresh stimulus to the Eurozone reform process. The start of negotiations for the United Kingdom’s exit from the European Union did not have any major repercussions, with the exception of the impact on trade flows of a devalued Sterling.
Italy has also fully participated in the improved European economic climate and the recovery underway. In the third quarter, the annual growth rate of GDP reached 1.7%, the highest level after the short-lived rebound in 2010-11. Increased confidence in the demand outlook has also started to generate a recovery in investment. The consensus estimates of average annual GDP growth in 2017 and 2018 have been revised upwards. Employment growth slowed due to the phasing out of extraordinary measures which buoyed growth through 2016, though it remained sufficient to drive the unemployment rate down to 11% in November. Higher energy prices and growth in demand began to impact inflation, which rose temporarily to 2% in April, but then fell again. In terms of public finances, accelerating growth in the primary budget surplus was insufficient to significantly lower the debt-to-GDP ratio, which is practically unchanged according to the European Commission estimates.
The European Central Bank began to adapt its monetary policy stance to improvements in economic conditions and the balance of risks. After announcing an initial reduction in its securities purchase programme from 80 to 60 billion euro as of April, in June the ECB dropped any reference to the likelihood of further interest rate cuts. The ECB later extended the purchase programme to the period January-September 2018, though with a monthly volume halved to 30 billion euro. The ECB continues to forecast a rise in official rates only once the asset purchase programme has been wound up.
The ECB’s monetary policy stance led to a strengthening of the exchange rate and a rise in medium/long-term interest rates. The ten-year Bund yield, which was negative at the end of 2016, had risen to 0.60% at the end of the third quarter and posted an average of 0.39% in the fourth quarter. The ten-year BTP yield rose slightly, ending the year at 2.0%, just above the level at the end of 2016 (1.83%). The spread with German bonds came under pressure for a short time during the French electoral campaign, after which it fell to a low of 133 basis points in December, ending the year at 157 basis points.
The euro/dollar exchange rate rose almost constantly between January and September, gaining an overall 14% to end the year at 1.20.

In the international stock markets the trend was positive overall in 2017, as risk aversion in investors gradually fell and stock prices showed lower volatility.
Various factors contributed to propping up stock markets, including the strengthening of world economic growth, both in the emerging countries and the major advanced economies, and positive economic figures that have led to an upward revision of growth forecasts, particularly for the Eurozone, including Italy. Moreover, in the early part of the year, the political risk posed by elections in the Netherlands and, in particular, France failed to materialise, with pro-euro and pro-European Union political parties emerging from the vote with stronger consensus, which helped lower the risk premium on stocks. Lastly, the visibility of company profits gradually increased during the year, on the back of the improvement in business profits.
After dropping to a relative low in February, stock markets in the Eurozone progressively rose, driven by favourable developments in company earnings. The first quarter of 2017, in particular, delivered several positive surprises, accompanied by frequent confirmation or improvement in guidance for yearly results.
In the second half of the year, European stock markets further consolidated their increases, in the wake of company results that confirmed the steady improvement in earnings margins, despite the strengthening of the euro exchange rate against the dollar, which put a partial brake on growth in some cases.
The Euro Stoxx index was up by 10.1%. The DAX 30 posted a rise of 12.5% at the end of the period, and the CAC 40 performed strongly with an increase of 9.3%, while the IBEX 35 index slightly underperformed, with a rise of 7.4%. Outside the Eurozone, the Swiss market index SMI rose by 14.1%, while the United Kingdom's FTSE 100 index ended 2017 up 7.6%.

In the US, the S&P 500 closed the period with a strong rise (+19.4%), while the Nasdaq Composite Index of technology stocks outperformed with a rise of +28.2%. The overall performance of the main Asian stock markets was positive: the Chinese SSE A-Share benchmark index ended the year up by 6.6%, while the Nikkei 225 index posted a rise of +19.1% for the year.
The overall performance of the Italian stock market was satisfactory, also driven by the recovery in the banking sector (which represents 26% of the FTSE MIB Index) and the progressive improvement in economic growth outlooks and company earnings. The FTSE MIB index closed 2017 up 13.6%, while the FTSE Italia All Share posted a slightly higher increase (+15.6%). Mid-cap stocks performed very strongly, with the FTSE Italia STAR index up 34.7% at the end of the year. The fundamentals were also accompanied by the positive effect of the Individual Savings Plans, which invest a significant proportion of their funds in shares not included in the FTSE MIB benchmark.

The European corporate bond markets ended 2017 positively, with risk premiums (measured as ASW – asset swap spread) down compared to the beginning of the year, although slightly higher than the lows reached in the first sessions of November. Also in 2017, the monetary policies of the central banks (and in particular the ECB's corporate securities purchase programme - CSPP) continued to be among the most important factors supporting the markets. At the end of December, corporate securities purchases by the ECB totalled around 132 billion euro (with a monthly average of 7 billion euro since June 2016), of which around 11% involving securities of Italian issuers, according to the central bank's figures. Markets also benefited from positive macroeconomic fundamentals, with moderate growth coupled with only marginal inflationary pressures.
The key catalyst for markets in the first part of the year were expectations over major general elections due in Europe. After initial uncertainty and rise in volatility, the outcome of French general elections, which allayed fears of a possible surge in anti-euro populist movements, had a strong positive effect on markets, which regained their growth trend.
In the following months, however, market sentiment was driven by the expectation of changes in the ECB's monetary policy, and a possible tapering of its purchasing programme. At its meeting on 26 October, the ECB, despite taking another step towards the normalisation of its monetary policy, actually gave a message to the markets of a much more accommodative stance than previously feared. Indeed, the ECB announced its commitment to continue its purchases in 2018 at a rate of 30 billion euro per month (from 60 billion euro) at least until September, or later, if necessary. The market reaction was positive, with spreads narrowing further in the remainder of the year, except for a short correction in November.

In terms of performance, investment grade securities saw their spreads fall by around 40% from the beginning of 2017, while riskier high yield securities underperformed (-25%) as a result of the increased widening in November.
The effect of the ECB policy – reflected in very favourable funding conditions – and the search for yields by investors had a very positive impact on the primary market, with record volumes both for Investment Grade (IG) and High Yield (HY) issuers. In this regard, a major contribution came from euro-denominated issues made by US companies.

The emerging economies and markets

The economic growth in the emerging countries, which began in the second half of 2016, continued to strengthen in 2017.
According to the most recent IMF estimates (World Economic Outlook, January 2018 Update), in 2017 average GDP growth in the emerging countries rose to 4.7% from 4.4% in 2016. Asia continued to be the most dynamic region, with GDP growing by 6.5%, driven both by China (+6.8%) and India (+6.7%). The recovery in oil and other commodity prices supported economic activity both in Latin America, which came out of a six-quarter recession, and in South Saharan Africa, with GDP growth in the two regions estimated at 1.3% and 2.7%, respectively. In the MENA area, on the other hand, production is estimated to have slowed down to 2.5% in 2017, from 4.9% in 2016, particularly in the hydrocarbon-producing countries, due to the oil extraction cuts decided and the fiscal measures taken by various governments to cope with the fall in revenues following the collapse of oil prices in 2014. This slowdown was only partly offset by stronger performance in the net hydrocarbon importing countries, such as Egypt.
In Central and South-Eastern Europe, GDP growth in 2017 is estimated to have accelerated, particularly in the Czech Republic, Hungary, Slovenia and Romania. Growth was driven by domestic as well as foreign demand. Consumption benefited in particular from improvements in the labour market, thanks to falling unemployment and wage increases. Investment was also supported by the recovery in the private sector and the use of EU structural funds. In Russia, which has come out of recession, GDP growth is expected to be above 1.5% (from -0.2% in 2016). Ukraine is expected to post a figure close to 2% (in line with 2016). The region's economy continues to be affected by persistent geopolitical tensions.
In 2017, the average inflation rate in the emerging countries slowed down to 4.1%, from 4.3% in 2016. In the CIS area, the annual inflation rate at the end of 2017 had fallen to 2.5% in Russia, below the target of 4% indicated by the Central Bank, favoured by the strength of the rouble, but also due to the weak economic performance, whereas in Ukraine the rate had risen to 13.7%. In Egypt, inflation slowed down steadily, after having peaked in July (33%), ending 2017 at 21.9%, thanks to the gradual absorption of pressures linked to the devaluation of the exchange rate at the end of 2016. In the CEE and SEE countries, economic growth led to a general increase in inflation. Slovakia and Slovenia in the CEE area and Bosnia, Croatia and Romania started to see consumer prices rise again in 2017, after a period of deflation in 2016. Within the region, inflation recovery was particularly strong in the Czech Republic and Romania, with rates rising above the targets set by their respective central banks.

In 2017, monetary policy in the Emerging Countries varied across the different areas, according to the different inflation dynamics. New easing measures, with very large rate cuts, were implemented in Brazil (where the Selic rate fell by 675 basis points to 7%) and in Russia (where the minimum rate fell by 225 basis points to 7.75%). Rates also fell in South Africa (from 7% to 6.75% for the official rate) and in India (from 7.2% to 6.5% for the average 3-month MIBOR). In China, on the other hand, the People's Bank of China, mindful of the risks arising from excessive credit growth, favoured a rise in the 90-day interbank rate (the average rose from 3% in 2016 to 4.6% in 2017). After initial easing measures, higher-than-expected inflation also led the Central Bank of Ukraine to raise interest rates by 50 basis points in the second half of the year. Significant interest rate rises (+400 basis points) were also seen in Egypt, aimed at countering inflationary pressures linked to the devaluation of the exchange rate. In the CEE and SEE area, the policy rate in Serbia was reduced by 50 basis points, while in the Czech Republic it was raised by 25 basis points. In Romania, in response to a rise in inflation, the Central Bank tightened the interest rate corridor from +/- 150 to +/- 100 basis points, through an initial measure in December. In the other countries in the region where ISP subsidiaries are based, the monetary policy stance remained accommodative.

With regard to the financial markets, in 2017 the US dollar depreciated overall against the currencies of the advanced countries (Major Index -8.7%) as well as the emerging countries (OITP index -6%). The most significant movements on the dollar were recorded by several currencies in Asia (Korea, Thailand, and Singapore, but also China and India, with the latter achieving earnings above 6%) and in the CEE and SEE countries where ISP subsidiaries are based, which essentially followed the euro, recovering by 13.8% on the US dollar in 2017. In the CIS area, the Russian rouble appreciated by 4.4%, despite the sharp fall in interest rates, driven by the further recovery in oil prices, while the Ukrainian currency depreciated by 3.6%, penalised by uncertainties regarding IMF support due to delays in implementing agreed reforms. The Egyptian pound stabilised, after the major devaluation in 2016 accompanied by the transition to a floating exchange rate system, closing the year up slightly (+1.9%).
The continued strengthening of economic performance, with several major economies out of recession, gave a further boost to stock prices in the emerging markets. The MSCI composite index of emerging markets rose by 27.7% in 2017, recording a higher gain than the +7.2% registered by that index in the previous year and by the S&P (+19%) and EuroStoxx (+10%) indexes in the advanced countries in the same year. Price rises were particularly significant in the Latin American and Asian markets. On the other hand, the markets of the Gulf oil countries were penalised by regional tensions and relatively weak economic growth. In the countries where ISP subsidiaries are based, some markets in Central Eastern Europe performed better than the EuroStoxx, including Hungary (+23%) and the Czech Republic (+17%), whereas the Croatian stock exchange (-7.6%) was affected by difficulties experienced by some major listed companies. In the CIS area, the stock index in Russia remained substantially unchanged in 2017 (+0.2%), after the considerable gains recorded in 2016 (+52.2%), while Kiev was down (-10%), having been penalised by the slow progress of stabilisation policies. In contrast, the strong cyclical performance and economic stabilisation policies pushed up the stock market in Egypt (+21.7%).
The search for yields by international investors, the improvement in the risk profile in several countries and the rise in commodity prices led to a further reduction of the EMBI+ spread for the emerging countries, which fell by 34 basis points to 330 basis points in 2017. The most significant decrease was on the EMBI+ spread of the European countries (-65 basis points to 232 basis points). For the countries where ISP subsidiaries are based, the decrease in the CDS spread was particularly large in relative terms (above one third) in the CIS area (Russia and Ukraine), but also in the SEE area (particularly in Croatia and Serbia) and in the CEE area (particularly in Hungary, Poland and Slovenia). In Serbia, the spread almost halved (down to under 130 basis points), and the country also saw an upgrade in its S&P rating from BB- to BB in 2017. In the countries where ISP subsidiaries are based, Egypt also had a rating increase (from B- to B by S&P).

The Italian banking system

Interest rates and spreads

In 2017, bank interest rates were still slightly lower, despite the rise in mortgage lending rates in the first part of the year and rates applied to businesses on large loans having settled at the lows reached in the past. In contrast, interest rates offered to businesses on smaller loans reached new lows. Overall, the average interest rate on new loans to businesses remained broadly stable until the summer and then fell slightly in the fourth quarter. Compared to Europe, Italian rates on loans to businesses have fallen back below the Eurozone average, also for smaller loans, while for loans of over 1 million euro, lending rates have shown a significantly negative spread since the last quarter of 2015. Rates on mortgage loans to households also reached new lows in the fourth quarter. In this area, lending rates continued to fall, although at a slower pace than in the previous year, driven by the significant drop in short-term lending rates.
Given the lows already reached, the average rate on deposits remained sticky, with only a slight amount shaved off. For overnight deposits, the near-zero levels for interest rates paid to both households and businesses justify the slowdown in the downward trend. The average rate on new time deposits was also stable for most of the year, but started to fall again in recent months. Thanks partly to the steady decrease in the average rate on the stock of bonds and their lower proportion in terms of volumes, the overall cost of customer deposits continued to fall.
However, the spread between lending and funding rates fell slightly compared to the annual averages, as a result of stability for most of the year followed by a reduction at the end of the year. The mark-down on demand deposits improved marginally, but was still negative for the sixth year running. At the same time, the mark-up was further reduced due to the fall in short-term lending rates.

Loans

Bank lending to the private sector confirmed its moderate growth, at a rate of 1% on average per year (figures adjusted for securitisations). The trend was again driven by loans to households, which reached an overall growth rate of 2.8% year-on-year, thanks to both mortgage loans for house purchase and consumer credit. However, mortgage lending, despite remaining at high volumes, was down year-on-year, mainly due to the decrease in subrogations, although new agreements also declined. Fixed-rate loans remained predominant, in the presence of interest rates still at their historical lows. The trend in mortgage loans to households was consistent with the more moderate pace of residential property trading, which slowed down steadily over the year, after the two-digit growth posted in 2016.
Despite the favourable credit supply conditions, lending to non-financial companies continued to be disappointing. In conditions of liquidity considered sufficient or more than sufficient by a large majority of companies, demand for credit remained subdued by low external funding requirements, which were also met by bond issues. Business debt as a

percentage of GDP continued to fall, with loans to businesses only starting to pick up towards the end of the year. The overall development was due to different dynamics depending on sector and company size. In particular, in the second half of the year, growth in loans to the manufacturing sector strengthened and loans to the services sector continued to perform strongly, albeit with a slowdown compared to the first half of the year. In contrast, the major contraction in loans to the construction sector showed no signs of abating. Looking at borrower size, loans to medium and large businesses continued to grow slightly, while loans to small businesses kept declining.

Trends in loans to businesses were shaped by the generally positive supply and demand scenario. According to the lending survey conducted by the Bank of Italy, banks have continued to cautiously reduce their margins and improve contractual terms and conditions, driven by the pressures of competition. In addition, after a shaky start to the year, business demand started to grow again, with a strengthening at the end of the year, particularly for long-term loans, driven by fixed investment needs and low interest rates. At the same time, demand for loans from households for consumer credit and, to a lesser extent, for residential mortgages is still increasing, although the trend for both types of loans has gradually become more moderate compared to the previous year. The outlook is for a further increase in demand in the early part of 2018 for both business and household loans. Businesses assessed credit access conditions to be favourable, expressing the highest score on record since this kind of survey was first initiated with the emergence of the financial crisis in 2008.

Credit quality indices continued to improve significantly, thanks to more favourable economic conditions and the sale and securitisation of bad loans by banks. From the end of 2016 and November 2017, the stock of net bad loans fell by 21 billion euro, or 24%, and by over 1.2 percentage points in relation to total loans, to 3.7%. The formation rate for new non-performing loans fell to even below pre-crisis levels, at 1.7% year-on-year in the third quarter, in terms of total amount in relation to performing loans. More specifically, for loans to businesses the impairment rate fell to 2.6%, 1.4 percentage points less than a year before and in line with the end of 2007.

Direct deposits

Customer deposits in 2017 confirmed the trends observed previously, with growth in deposits driven by the significant increase in overnight deposits. At the same time, the double-digit decline in time deposits continued. The performance of customer deposits continued to benefit from strong growth in overnight deposits of non-financial companies and the solidity of household deposits. Growth in deposits held by residents continued to be offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. On the whole, customer deposits remained stable compared to 2016. Also considering the use of the Eurosystem, which further increased in the first half of the year as a result of targeted refinancing operations, total bank funding has increased moderately since March 2017.

Indirect deposits and asset management

With regard to assets under administration, the sharp decline in debt securities held in custody by banks on behalf of households continued. This performance reflected the continued decline in bank bonds and the limited attractiveness of government bonds in a scenario of negative interest rates.

For the asset management market, 2017 was a particularly positive year for mutual funds, which more than doubled their inflows compared to 2016. Net inflows were driven by bond funds, followed by flexible funds and balanced funds. The contribution of the Individual Savings Plan-compliant funds was also significant, having achieved considerable success among investors. Net inflows to portfolio management schemes recovered over the summer, after weak performance in the first half, to end the year with inflows in line with 2016.

Turning to the insurance sector, new insurance business was still cumulatively in decline in the first 11 months of the year. From July, however, the sector started to show signs of recovery, partly driven by the introduction of Individual Savings Plan-compliant funds. Specifically, subscriptions of products with a higher financial content (class III) posted a major recovery, while new subscriptions of traditional policies (classes I and V) continued to fall, but with a steady slow down.

Income statement and balance sheet aggregates

Economic results

General aspects

A condensed reclassified income statement has been prepared to give a more immediate understanding of results.
To enable consistent comparison, the figures for previous periods are restated, where necessary, to account for changes in the scope of consolidation.
The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.
The 2017 income statement includes the impact of the acquisition, with effect from the third quarter, of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza and Veneto Banca and, with effect from the fourth quarter, of subsidiaries Banca Apulia, Banca Nuova, Veneto Banka (Croatia), Veneto Banka Sh.a (Albania), Sec Servizi and Servizi Bancari (hereinafter also the "Aggregate Set").
Considering the particular case in question, no adjustments were made to the historic data in the reclassified income statement in order to retroactively reflect the effects of the acquisition. Consequently, unless otherwise indicated, the comments in the Report on operations refer to income components net of the effects of the Aggregate Set. However, in order to improve the reader's understanding, the main amounts referring to the Aggregate Set and the consolidated figure including said amounts are highlighted in the tables.
In this regard, it should be noted that, in relation to the migration of data regarding the relationships of the former Banca Popolare di Vicenza and Veneto Banca, completed in early December, separate accounting records are no longer available for such relationships. Accordingly, the related contributions to the income statement have also been determined on the basis of management accounting records.
Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.
In summary, the reclassifications and aggregations are as follows:

- dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
- the portions of Net interest income, Dividend and similar income, Net fee and commission income and Profits (Losses) on trading related to the insurance business have been recorded under a specific caption, and the effect of the adjustment of the technical reserve – with respect to the component attributable to policyholders – associated with the impairment of securities available for sale held in the portfolios of the Group's insurance companies was also attributed to this caption;
- differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Fair value adjustments in hedge accounting (caption 90) have been reallocated to Profits (Losses) on trading;
- Profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reallocated to Profits (Losses) on trading;
- Profits (Losses) on financial assets and liabilities designated at fair value are recorded in Profits (Losses) on trading;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
- Profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
- Net impairment losses on other financial activities, related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
- the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
- Net impairment losses on financial assets available for sale, held to maturity, on investments, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Net impairment losses on other assets, which consequently includes – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;
- realised profits (losses) on investments held to maturity, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans.
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;
- the effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3;

– levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
– goodwill impairment and impairment losses on other intangible assets, as mentioned above, are shown, net of tax, in a specific caption among "non-current" income components.

Reclassified income statement

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Net interest income	7,264	153	7,111	7,294	-183	-2.5
Net fee and commission income	7,843	108	7,735	7,331	404	5.5
Income from insurance business	933	-	933	995	-62	-6.2
Profits (Losses) on trading	1,311	-30	1,341	1,190	151	12.7
Other operating income (expenses)	92	35	57	165	-108	-65.5
Operating income	**17,443**	**266**	**17,177**	**16,975**	**202**	**1.2**
Personnel expenses	-5,670	-285	-5,385	-5,323	62	1.2
Other administrative expenses	-2,730	-162	-2,568	-2,630	-62	-2.4
Adjustments to property, equipment and intangible assets	-810	-24	-786	-749	37	4.9
Operating costs	**-9,210**	**-471**	**-8,739**	**-8,702**	**37**	**0.4**
Operating margin	**8,233**	**-205**	**8,438**	**8,273**	**165**	**2.0**
Net adjustments to loans	-3,304	-51	-3,253	-3,708	-455	-12.3
Net provisions and net impairment losses on other assets	-218	-3	-215	-422	-207	-49.1
Other income (expenses)	4,746	-	4,746	355	4,391	
Income (Loss) from discontinued operations	-	-	-	952	-952	
Gross income (loss)	**9,457**	**-259**	**9,716**	**5,450**	**4,266**	**78.3**
Taxes on income	-1,481	72	-1,553	-1,428	125	8.8
Charges (net of tax) for integration and exit incentives	-300	-179	-121	-150	-29	-19.3
Effect of purchase price allocation (net of tax)	327	378	-51	-112	-61	-54.5
Levies and other charges concerning the banking industry (net of tax)	-649	-12	-637	-559	78	14.0
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-
Minority interests	-38	3	-41	-90	-49	-54.4
Net income (loss)	**7,316**	**3**	**7,313**	**3,111**	**4,202**	

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

In a context characterised by a more favourable economic scenario in the Eurozone, in 2017 the Intesa Sanpaolo Group reported a significant increase in net income compared to the previous year. Excluding, for a consistent comparison, the public contribution of 3,500 million euro received to offset the impacts on capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca and the result in the second half of the year of 3 million euro associated with the Aggregate Set, net income climbed to 3,813 million euro, compared to 3,111 million euro in 2016 (+22.6%). The increase was chiefly due to the rise in fee and commission income on services, the greater income on the sale of equity investments, fair value measurement of certain investments and the decline in adjustments and provisions, as well as careful management of operating costs.

Quarterly development of the reclassified income statement

(millions of euro)

	2017						2016			
	Fourth quarter			Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)							
Net interest income	1,837	95	1,742	1,749	1,815	1,805	1,748	1,859	1,832	1,855
Net fee and commission income	2,146	51	2,095	1,889	1,896	1,855	2,030	1,756	1,858	1,687
Income from insurance business	183	-	183	227	240	283	166	258	239	332
Profits (Losses) on trading	538	-4	542	208	365	226	247	248	467	228
Other operating income (expenses)	9	28	-19	4	32	40	-7	29	68	75
Operating income	**4,713**	**170**	**4,543**	**4,077**	**4,348**	**4,209**	**4,184**	**4,150**	**4,464**	**4,177**
Personnel expenses	-1,606	-155	-1,451	-1,310	-1,338	-1,286	-1,393	-1,310	-1,341	-1,279
Other administrative expenses	-834	-102	-732	-620	-633	-583	-765	-627	-641	-597
Adjustments to property, equipment and intangible assets	-234	-14	-220	-192	-188	-186	-206	-186	-179	-178
Operating costs	**-2,674**	**-271**	**-2,403**	**-2,122**	**-2,159**	**-2,055**	**-2,364**	**-2,123**	**-2,161**	**-2,054**
Operating margin	**2,039**	**-101**	**2,140**	**1,955**	**2,189**	**2,154**	**1,820**	**2,027**	**2,303**	**2,123**
Net adjustments to loans	-1,229	-54	-1,175	-646	-737	-695	-1,174	-917	-923	-694
Net provisions and net impairment losses on other assets	-135	-5	-130	-25	-57	-3	-105	-77	-194	-46
Other income (expenses)	861	-	861	72	3,617	196	138	16	196	5
Income (Loss) from discontinued operations	-	-	-	-	-	-	881	23	28	20
Gross income (loss)	**1,536**	**-160**	**1,696**	**1,356**	**5,012**	**1,652**	**1,560**	**1,072**	**1,410**	**1,408**
Taxes on income	-249	41	-290	-374	-444	-445	-314	-321	-361	-432
Charges (net of tax) for integration and exit incentives	-227	-179	-48	-20	-41	-12	-83	-16	-38	-13
Effect of purchase price allocation (net of tax)	364	378	-14	-26	-5	-6	-30	-26	-27	-29
Levies and other charges concerning the banking industry (net of tax)	3	1	2	-179	-178	-282	-377	-69	-11	-102
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-	-	-
Minority interests	1	3	-2	-26	-7	-6	20	-12	-72	-26
Net income (loss)	**1,428**	**84**	**1,344**	**731**	**4,337**	**901**	**776**	**628**	**901**	**806**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Operating income

Operating income amounted to 17,177 million euro, excluding the 266 million euro attributable to the Aggregate Set, up by 1.2% on a like-for-like basis compared to 2016, due to the increase in net fee and commission income (+5.5%), which accounted for the largest share of revenues, and profits on trading (+12.7%), which more than offset the decline in net interest income (-2.5%), income from insurance business (-6.2%) and lower profits on investments carried at equity.

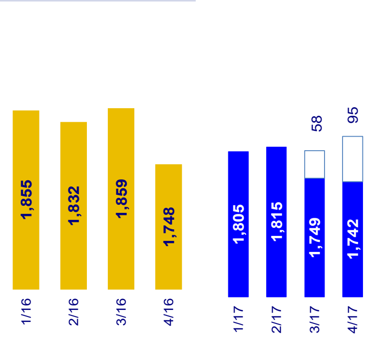
Net interest income

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Relations with customers	7,500	220	7,280	7,445	-165	-2.2
Securities issued	-2,710	-101	-2,609	-3,226	-617	-19.1
Customer dealing	**4,790**	**119**	**4,671**	**4,219**	**452**	**10.7**
Financial assets held for trading	82	3	79	151	-72	-47.7
Investments held to maturity	42	1	41	52	-11	-21.2
Financial assets available for sale	674	43	631	716	-85	-11.9
Financial assets	**798**	**47**	**751**	**919**	**-168**	**-18.3**
Relations with banks	**197**	**-**	**197**	**107**	**90**	**84.1**
Differentials on hedging derivatives	**29**	**-14**	**43**	**478**	**-435**	**-91.0**
Non-performing assets	**1,410**	**1**	**1,409**	**1,555**	**-146**	**-9.4**
Other net interest income	**40**	**-**	**40**	**16**	**24**	
Net interest income	**7,264**	**153**	**7,111**	**7,294**	**-183**	**-2.5**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Quarterly development Net interest income



Net interest income, which amounted to 7,111 million euro, excluding the contribution of 153 million euro from the Aggregate Set, declined by 2.5% compared to the previous year. With a spread at very low historical levels, the result was influenced by the gradual depreciation of the Egyptian pound since November 2016, which penalised the result of the International Subsidiary Banks, by the more limited contribution from the hedging of core deposits and by the lower interest on non-performing assets as a consequence of the proactive management of NPLs, confirmed by the decrease in volumes.

Income from customer dealing amounted to 4,671 million euro, higher than the 4,219 million euro recorded in 2016, as a result of lesser interest expenses on securities. Income on operations with customers, which declined by 165 million euro, was adversely affected by the decrease in margins, partly offset by the positive contribution of intermediated volumes.
Interest on financial assets fell by 18.3%, due to the decline in interest on assets available for sale (-85 million euro), on trading activities (-72 million euro) and, to a lesser extent, on assets held to maturity.
Net interest income on the interbank market came to 197 million euro compared to the 107 million euro recorded in the previous year, due to the reduction in interest expense on interbank funding. The contribution of differentials on hedging derivatives to net interest income declined sharply (-435 million euro), due to the measures taken in relation to the changed expectations regarding the interest rate curve. The interest income accrued on the deposit at TLTRO II negative interest rates signed with the Bank of Italy amounted to 215 million euro and was recorded among other net interest income.

(millions of euro)

	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Relations with customers	1,957	128	1,829	1,822	1,806	1,823	0.4	0.9	-0.9
Securities issued	-665	-55	-610	-658	-647	-694	-7.3	1.7	-6.8
Customer dealing	**1,292**	**73**	**1,219**	**1,164**	**1,159**	**1,129**	**4.7**	**0.4**	**2.7**
Financial assets held for trading	15	1	14	16	26	23	-12.5	-38.5	13.0
Investments held to maturity	10	-	10	10	10	11	-	-	-9.1
Financial assets available for sale	159	19	140	169	160	162	-17.2	5.6	-1.2
Financial assets	**184**	**20**	**164**	**195**	**196**	**196**	**-15.9**	**-0.5**	**-**
Relations with banks	**59**	**5**	**54**	**59**	**42**	**42**	**-8.5**	**40.5**	**-**
Differentials on hedging derivatives	**-9**	**-6**	**-3**	**-21**	**29**	**38**	**-85.7**		**-23.7**
Non-performing assets	**311**	**1**	**310**	**358**	**362**	**379**	**-13.4**	**-1.1**	**-4.5**
Other net interest income	**-**	**2**	**-2**	**-6**	**27**	**21**	**-66.7**		**28.6**
Net interest income	**1,837**	**95**	**1,742**	**1,749**	**1,815**	**1,805**	**-0.4**	**-3.6**	**0.6**

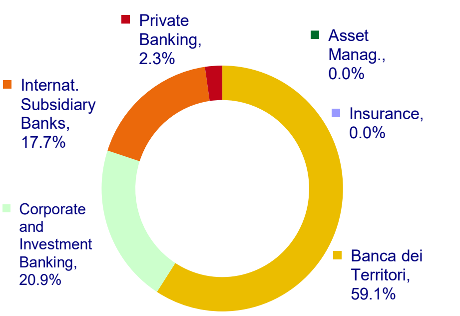
Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

In the fourth quarter of 2017, net interest income amounted to 1,742 million euro, net of the 95 million euro attributable to the contribution of the Aggregate Set, essentially in line with the third quarter and down on the first two quarters of 2017. The quarterly performance was essentially due to the decline in interest on financial assets and non-performing assets and on differentials on hedging derivatives, which had generated positive contributions in the first two quarters.

(millions of euro)

	2017	2016	Changes	
			amount	%
Banca dei Territori	4,499	4,596	-97	-2.1
Corporate and Investment Banking	1,592	1,447	145	10.0
International Subsidiary Banks	1,346	1,428	-82	-5.7
Private Banking	171	175	-4	-2.3
Asset Management	1	1	-	-
Insurance	-	-	-	-
Total business areas (net of the Aggregate Set)	**7,609**	**7,647**	**-38**	**-0.5**
Corporate Centre	-498	-353	145	41.1
Intesa Sanpaolo Group (net of the Aggregate Set)	**7,111**	**7,294**	**-183**	**-2.5**
Corporate Centre (Aggregate Set)	153			
Intesa Sanpaolo Group	**7,264**			

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The Banca dei Territori Division, which accounts for approximately 60% of business area results, though benefiting from growing customer dealing, recorded a decline of 2.1% (-97 million euro) in net interest income, driven by the more limited contribution from the hedging of core deposits. The net interest income of the Corporate and Investment Banking Division was up (+10%, or +145 million euro) in relation to the greater contribution from customer dealing. The net interest income of the International Subsidiary Banks Division decreased by 5.7% (-82 million euro), due to the depreciation of the Egyptian pound in 2016. Lastly, the interest income of the Private Banking Division – which in relative terms has a lower incidence on the consolidated result – was essentially in line with the previous year.

It should be noted that the contribution to the net interest income of the Aggregate Set (153 million euro) has been temporarily fully allocated to the "Corporate Centre (Aggregate Set)" and will be broken down into the various divisions once the processes are integrated starting from 2018.

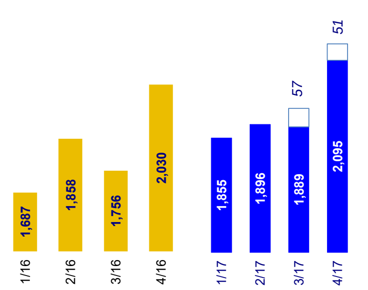
Net fee and commission income

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Guarantees given / received	289	-34	323	342	-19	-5.6
Collection and payment services	412	21	391	390	1	0.3
Current accounts	1,139	62	1,077	1,023	54	5.3
Credit and debit cards	373	10	363	376	-13	-3.5
Commercial banking activities	**2,213**	**59**	**2,154**	**2,131**	**23**	**1.1**
Dealing and placement of securities	738	25	713	524	189	36.1
Currency dealing	43	1	42	41	1	2.4
Portfolio management	2,303	-1	2,304	2,055	249	12.1
Distribution of insurance products	1,509	5	1,504	1,386	118	8.5
Other	173	4	169	215	-46	-21.4
Management, dealing and consultancy activities	**4,766**	**34**	**4,732**	**4,221**	**511**	**12.1**
Other net fee and commission income	**864**	**15**	**849**	**979**	**-130**	**-13.3**
Net fee and commission income	**7,843**	**108**	**7,735**	**7,331**	**404**	**5.5**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Quarterly development
Net fee and commission income



Net fee and commission income in 2017, which makes up 45% of operating income, came to 7,735 million euro (net of the 108 million euro attributable to the Aggregate Set), with an annual increase of 5.5% on a like-for-like basis, mainly as a result of the positive performance of the management and dealing activity, which benefited from a recovery in prices and an increase in volumes placed.
Fee and commission income on commercial banking activities amounted to 2,154 million euro, compared to the 2,131 million euro obtained in 2016 due to higher fees and commissions on current accounts. Management, dealing and financial consultancy activities, which provided the greatest contribution, generated net fee and commission income of 4,732 million euro, up 12.1%.
The significant commercial effort devoted by the Group's distribution network to asset management products, accompanied by a bull stock market and an expansion in the volumes of securities traded, produced notable growth in fee and commission income on portfolio management, securities dealing and placement and the distribution of insurance products. Other net fee and commission income showed a decline of 13.3%.

(millions of euro)

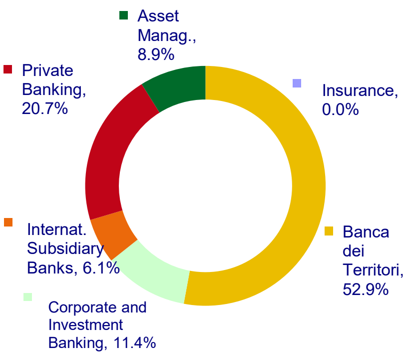
	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Guarantees given / received	59	-17	76	80	86	81	-5.0	-7.0	6.2
Collection and payment services	113	11	102	97	97	95	5.2	-	2.1
Current accounts	334	34	300	272	253	252	10.3	7.5	0.4
Credit and debit cards	103	5	98	90	92	83	8.9	-2.2	10.8
Commercial banking activities	**609**	**33**	**576**	**539**	**528**	**511**	**6.9**	**2.1**	**3.3**
Dealing and placement of securities	225	12	213	142	182	176	50.0	-22.0	3.4
Currency dealing	11	-	11	10	11	10	10.0	-9.1	10.0
Portfolio management	637	-	637	568	560	539	12.1	1.4	3.9
Distribution of insurance products	385	-	385	380	366	373	1.3	3.8	-1.9
Other	50	2	48	42	39	40	14.3	7.7	-2.5
Management, dealing and consultancy activities	**1,308**	**14**	**1,294**	**1,142**	**1,158**	**1,138**	**13.3**	**-1.4**	**1.8**
Other net fee and commission income	**229**	**4**	**225**	**208**	**210**	**206**	**8.2**	**-1.0**	**1.9**
Net fee and commission income	**2,146**	**51**	**2,095**	**1,889**	**1,896**	**1,855**	**10.9**	**-0.4**	**2.2**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

In the fourth quarter of 2017, net fee and commission income posted a double-digit increase on the first three quarters of 2017, driven by the higher revenues on management activity, which included performance fees of 70 million euro, and, to a lesser extent, on commercial banking activity.

				(millions of euro)
	2017	2016	Changes	
			amount	%
Banca dei Territori	4,282	3,940	342	8.7
Corporate and Investment Banking	925	1,111	-186	-16.7
International Subsidiary Banks	493	483	10	2.1
Private Banking	1,673	1,527	146	9.6
Asset Management	718	567	151	26.6
Insurance	-	-	-	-
Total business areas (net of the Aggregate Set)	**8,091**	**7,628**	**463**	**6.1**
Corporate Centre	-356	-297	59	19.9
Intesa Sanpaolo Group (net of the Aggregate Set)	**7,735**	**7,331**	**404**	**5.5**
Corporate Centre (Aggregate Set)	108			
Intesa Sanpaolo Group	**7,843**			

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

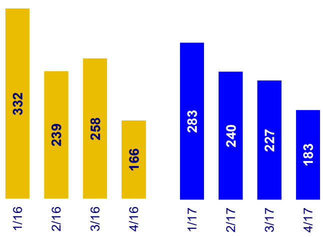
In relation to the business areas, the Banca dei Territori Division, which represents more than half the result of the business units, showed an increase in fee and commission income (+8.7%, or +342 million euro), mostly coming from the asset management segment - which has benefited from more placements of asset-management products and certificates - and the fees on protection products, driven in part by the positive trend in medium-/long-term loan disbursements; Private Banking recorded growth of 9.6%, or +146 million euro, confirming the strong performance of assets under management; Asset Management posted an increase of 26.6% (+151 million euro), due primarily to the favourable performance of management and incentive fees collected on the products managed; the International Subsidiary Banks reported gains of 2.1% (+10 million euro), attributable to the banks operating in Hungary, Slovakia, Croatia and Serbia; finally, the Corporate and Investment Banking Division recorded a decline of 16.7% (-186 million euro), as a result of lower fee and commission income from the commercial banking (loans, guarantees and interbank services) and investment banking areas.
It should be noted that the contribution to net fee and commission income of the Aggregate Set (108 million euro) has been temporarily allocated in full to the "Corporate Centre (Aggregate Set)" and will be broken down into the various divisions once the processes are integrated starting from 2018.

Income from insurance business

(millions of euro)

Captions (a)	2017			2016			Changes	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**2**	**95**	**97**	**45**	**80**	**125**	**-28**	**-22.4**
Net insurance premiums (b)	6,472	345	6,817	8,135	301	8,436	-1,619	-19.2
Net charges for insurance claims and surrenders (c)	-10,191	-93	-10,284	-7,910	-89	-7,999	2,285	28.6
Net charges for changes in technical reserves (d)	2,512	-	2,512	-1,550	-1	-1,551	4,063	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	1,423	-	1,423	1,632	-	1,632	-209	-12.8
Net fees on investment contracts (f)	286	1	287	230	3	233	54	23.2
Commission expenses on insurance contracts (g)	-493	-107	-600	-499	-97	-596	4	0.7
Other technical income and expense (h)	-7	-51	-58	7	-37	-30	28	93.3
Net investment result	**966**	**12**	**978**	**1,028**	**26**	**1,054**	**-76**	**-7.2**
Operating income from investments	4,651	12	4,663	4,097	26	4,123	540	13.1
Net interest income	*1,936*	*4*	*1,940*	*1,991*	*7*	*1,998*	*-58*	*-2.9*
Dividends	*225*	*2*	*227*	*235*	*3*	*238*	*-11*	*-4.6*
Gains/losses on disposal	*1,720*	*6*	*1,726*	*564*	*16*	*580*	*1,146*	
Valuation gains/losses	*844*	-	*844*	*1,380*	-	*1,380*	*-536*	*-38.8*
Portfolio management fees paid (i)	*-74*	-	*-74*	*-73*	-	*-73*	*1*	*1.4*
Gains (Losses) on investments pertaining to insured parties	-3,685	-	-3,685	-3,069	-	-3,069	616	20.1
Insurance products (j)	*-1,504*	-	*-1,504*	*-1,482*	-	*-1,482*	*22*	*1.5*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*81*	-	*81*	*-150*	-	*-150*	*231*	
Investment products (l)	*-2,262*	-	*-2,262*	*-1,437*	-	*-1,437*	*825*	*57.4*
Income from insurance business gross of consolidation effects	**968**	**107**	**1,075**	**1,073**	**106**	**1,179**	**-104**	**-8.8**
Consolidation effects	-142	-	-142	-182	-2	-184	-42	-22.8
Income from insurance business	**826**	**107**	**933**	**891**	**104**	**995**	**-62**	**-6.2**

Quarterly development Income from insurance business



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

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

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

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

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

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

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

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

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

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

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

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

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

During the reporting year, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies declined to 933 million euro from the 995 million euro recorded in 2016. This performance was mainly determined by the worsening of the net investment result (-76 million euro), affected by a greater incidence of the result from investments pertaining to insured parties, in particular of investment products. The technical margin for the life business was penalised by the decline in the weight of traditional policies, whereas the technical margin of the non-life business improved.

(millions of euro)

Captions (a)	2017				Changes %		
	Fourth quarter (a)	Third quarter (b)	Second quarter (c)	First quarter (d)	(A/B)	(B/C)	(C/D)
Technical margin	**-18**	**46**	**94**	**-25**		**-51.1**	
Net insurance premiums (b)	1,765	1,798	1,455	1,799	-1.8	23.6	-19.1
Net charges for insurance claims and surrenders (c)	-3,124	-2,449	-2,484	-2,227	27.6	-1.4	11.5
Net charges for changes in technical reserves (d)	1,042	431	866	173		-50.2	
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	381	353	356	333	7.9	-0.8	6.9
Net fees on investment contracts (f)	68	89	55	75	-23.6	61.8	-26.7
Commission expenses on insurance contracts (g)	-139	-157	-143	-161	-11.5	9.8	-11.2
Other technical income and expense (h)	-11	-19	-11	-17	-42.1	72.7	-35.3
Net investment result	**231**	**217**	**185**	**345**	6.5	**17.3**	**-46.4**
Operating income from investments	1,458	1,085	497	1,623	34.4		-69.4
Net interest income	*475*	*465*	*511*	*489*	*2.2*	-9.0	4.5
Dividends	*48*	*55*	*80*	*44*	*-12.7*	*-31.3*	*81.8*
Gains/losses on disposal	*536*	*310*	*481*	*399*	*72.9*	*-35.6*	*20.6*
Valuation gains/losses	*416*	*274*	*-556*	*710*	*51.8*		
Portfolio management fees paid (i)	*-17*	*-19*	*-19*	*-19*	*-10.5*	-	-
Gains (Losses) on investments pertaining to insured parties	-1,227	-868	-312	-1,278	41.4		-75.6
Insurance products (j)	*-397*	*-383*	*-408*	*-316*	*3.7*	*-6.1*	*29.1*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*15*	*31*	*52*	*-17*	*-51.6*	*-40.4*	
Investment products (l)	*-845*	*-516*	*44*	*-945*	*63.8*	-	-
Income from insurance business gross of consolidation effects	**213**	**263**	**279**	**320**	**-19.0**	**-5.7**	**-12.8**
Consolidation effects	-30	-36	-39	-37	-16.7	-7.7	5.4
Income from insurance business	**183**	**227**	**240**	**283**	**-19.4**	**-5.4**	**-15.2**

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

For notes, see the previous table.

At the quarterly level, income from insurance business, inclusive of both the life and non-life businesses, declined progressively throughout 2017; the technical margin decline in the fourth quarter in particular.

(millions of euro)

	2017				2016
	Periodic premiums	**Single premiums**	**Total**	*of which new business*	
Life insurance business	**184**	**6,289**	**6,473**	*6,289*	**8,136**
Premiums issued on traditional products	163	5,640	5,803	*5,640*	7,531
Premiums issued on unit-linked products	9	7	16	*7*	22
Premiums issued on capitalisation products	-	1	1	*1*	1
Premiums issued on pension funds	12	641	653	*641*	582
Non-life insurance business	**88**	**267**	**355**	*160*	**307**
Premiums issued	89	343	432	*334*	391
Change in premium reserves	-1	-76	-77	*-174*	-84
Premiums ceded to reinsurers	**-5**	**-6**	**-11**	*-8*	**-10**
Net premiums from insurance products	**267**	**6,550**	**6,817**	***6,441***	**8,433**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	84	15,971	16,055	*15,979*	15,797
Total business from investment contracts	**84**	**15,971**	**16,055**	***15,979***	**15,797**
Total business	**351**	**22,521**	**22,872**	***22,420***	**24,230**

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

In 2017, business in the insurance segment remained at high levels of nearly 23 billion euro, just below the 24 billion euro generated in 2016. The shift towards unit-linked investment contracts (which have lower capital requirements) from traditional life policies, which had already been observed in the previous year, continued during the period.

New business was nearly 22.4 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

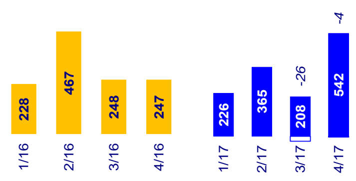
Profits (Losses) on trading

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Interest rates	429	-16	445	145	300	
Equity instruments	234	-1	235	106	129	
Currencies	-44	3	-47	211	-258	
Structured credit products	28	-	28	19	9	47.4
Credit derivatives	-26	-	-26	12	-38	
Commodity derivatives	5	-	5	20	-15	-75.0
Trading result	**626**	**-14**	**640**	**513**	**127**	**24.8**
Trading on AFS securities and financial liabilities	**685**	**-16**	**701**	**677**	**24**	**3.5**
Profits (Losses) on trading	**1,311**	**-30**	**1,341**	**1,190**	**151**	**12.7**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Quarterly development Profits (Losses) on trading



Profits on trading amounted to 1,341 million euro in 2017, net of the losses of 30 million euro attributable to the Aggregate Set. The increase on 2016 on a like-for-like basis was 12.7% and was primarily due to the profits on trading, most notably profits on interest rates and equity instruments. Trading of AFS securities and financial liabilities – despite being penalised by the lesser dividend collected on the equity stakes in the Bank of Italy, which fell from 121 million euro in the previous year to 10 million euro in the current year — increased by 24 million euro.

(millions of euro)

	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Interest rates	174	7	167	66	115	97		-42.6	18.6
Equity instruments	54	-	54	74	49	58	-27.0	51.0	-15.5
Currencies	18	2	16	10	-45	-28	60.0		60.7
Structured credit products	3	-	3	5	12	8	-40.0	-58.3	50.0
Credit derivatives	-17	-	-17	-31	2	20	-45.2		-90.0
Commodity derivatives	-2	-	-2	2	3	2		-33.3	50.0
Trading result	**230**	**9**	**221**	**126**	**136**	**157**	**75.4**	**-7.4**	**-13.4**
Trading on AFS securities and financial liabilities	**308**	**-13**	**321**	**82**	**229**	**69**		**-64.2**	
Profits (Losses) on trading	**538**	**-4**	**542**	**208**	**365**	**226**		**-43.0**	**61.5**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The fourth quarter of the current year saw a significant increase (revenues of 542 million euro compared to 208 million euro in the third quarter) due to the greater profits earned by the Parent Company through the sale of units of UCIs (undertakings for collective investment) and available-for-sale securities.

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

Other operating income (expenses)

Other operating income and expenses of 57 million euro (net of the 35 million euro attributable to the Aggregate Set), compared to the 165 million euro recognised in the previous year, include the income and expenses from continuing operations - except for recoveries of expenses, taxes and duties, which are deducted from the sub-captions of administrative expenses - as well as profits on investments carried at equity. The negative performance on an annual basis is attributable to this latter aggregate, which presents a positive balance of 93 million euro, a significant reduction compared to the 203 million euro recorded the previous year.

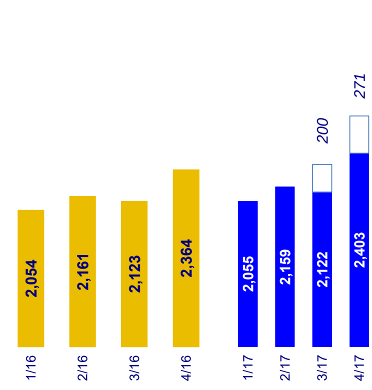
Operating costs

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Wages and salaries	3,909	211	3,698	3,659	39	1.1
Social security charges	1,009	54	955	932	23	2.5
Other	752	20	732	732	-	-
Personnel expenses	**5,670**	**285**	**5,385**	**5,323**	**62**	**1.2**
Information technology expenses	653	20	633	631	2	0.3
Management of real estate assets expenses	580	44	536	531	5	0.9
General structure costs	393	17	376	400	-24	-6.0
Professional and legal expenses	424	8	416	418	-2	-0.5
Advertising and promotional expenses	127	1	126	132	-6	-4.5
Indirect personnel costs	92	1	91	91	-	-
Other costs	385	66	319	349	-30	-8.6
Indirect taxes and duties	917	36	881	877	4	0.5
Recovery of expenses and charges	-841	-31	-810	-799	11	1.4
Administrative expenses	**2,730**	**162**	**2,568**	**2,630**	**-62**	**-2.4**
Property and equipment	334	14	320	335	-15	-4.5
Intangible assets	476	10	466	414	52	12.6
Adjustments	**810**	**24**	**786**	**749**	**37**	**4.9**
Operating costs	**9,210**	**471**	**8,739**	**8,702**	**37**	**0.4**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Quarterly development Operating costs



Operating costs amounted to 9,210 million euro. Excluding the 471 million euro attributable to the Aggregate Set, operating costs increased slightly (+0.4%) compared to 2016. Personnel expenses of 5,385 million euro increased by 1.2% on a like-for-like basis, attributable to the variable incentives awarded due to the achievement of the objectives set in the Business Plan. Administrative expenses continued their positive performance, which has distinguished the Intesa Sanpaolo Group since its establishment, and stood at 2,568 million euro, down 2.4% on an equivalent basis thanks to the savings achieved on general structure costs and other costs.

Considering a like-for-like scope, amortisation and depreciation, amounting to 786 million euro, showed an increase of 4.9% compared to 2016, which is related to new capitalisation of investments in intangible assets by Intesa Sanpaolo Group Services.

The cost/income ratio for the period was 50.9%, excluding the Aggregate Set (52.8% including it), compared to 51.3% in the previous year, marking an improvement due to the revenue performance.

(millions of euro)

	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Wages and salaries	1,120	115	1,005	897	916	880	12.0	-2.1	4.1
Social security charges	285	30	255	232	239	229	9.9	-2.9	4.4
Other	201	10	191	181	183	177	5.5	-1.1	3.4
Personnel expenses	**1,606**	**155**	**1,451**	**1,310**	**1,338**	**1,286**	**10.8**	**-2.1**	**4.0**
Information technology expenses	179	11	168	159	155	151	5.7	2.6	2.6
Management of real estate assets expenses	169	24	145	130	130	131	11.5	-	-0.8
General structure costs	104	8	96	91	91	98	5.5	-	-7.1
Professional and legal expenses	148	4	144	91	105	76	58.2	-13.3	38.2
Advertising and promotional expenses	60	1	59	22	27	18		-18.5	50.0
Indirect personnel costs	24	1	23	18	25	25	27.8	-28.0	-
Other costs	127	45	82	79	84	74	3.8	-6.0	13.5
Indirect taxes and duties	253	15	238	189	255	199	25.9	-25.9	28.1
Recovery of expenses and charges	-230	-7	-223	-159	-239	-189	40.3	-33.5	26.5
Administrative expenses	**834**	**102**	**732**	**620**	**633**	**583**	**18.1**	**-2.1**	**8.6**
Property and equipment	90	8	82	78	79	81	5.1	-1.3	-2.5
Intangible assets	144	6	138	114	109	105	21.1	4.6	3.8
Adjustments	**234**	**14**	**220**	**192**	**188**	**186**	**14.6**	**2.1**	**1.1**
Operating costs	**2,674**	**271**	**2,403**	**2,122**	**2,159**	**2,055**	**13.2**	**-1.7**	**5.1**

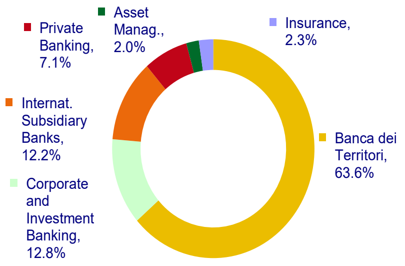
Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The quarterly analysis shows a seasonal fluctuation of costs, with higher operating costs in the fourth quarter of 2017 than in the previous three quarters.

(millions of euro)

	2017	2016	Changes amount	Changes %
Banca dei Territori	4,907	4,944	-37	-0.7
Corporate and Investment Banking	984	957	27	2.8
International Subsidiary Banks	938	962	-24	-2.5
Private Banking	551	534	17	3.2
Asset Management	157	141	16	11.3
Insurance	178	173	5	2.9
Total business areas (net of the Aggregate Set)	**7,715**	**7,711**	**4**	**0.1**
Corporate Centre	1,024	991	33	3.3
Intesa Sanpaolo Group (net of the Aggregate Set)	**8,739**	**8,702**	**37**	**0.4**
Corporate Centre (Aggregate Set)	471			
Intesa Sanpaolo Group	**9,210**			

Business areas



Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The performance of Group operating costs was the result of a differentiated dynamic among the business units. The Banca dei Territori Division, which accounts for 64% of all costs for the business areas, reported savings compared to the previous year (-0.7%, or -37 million euro) thanks to lower administrative and personnel expenses. Operating costs also fell for the International Subsidiary Banks Division (-24 million euro, or -2.5%), due to the reduction in personnel expenses and, to a lesser extent, administrative expenses and adjustments. In contrast, the other Business Units posted increases in operating costs: Corporate and Investment Banking (+27 million euro, or +2.8%) and Asset Management (+16 million euro, or +11.3%), due to higher personnel and administrative expenses, Private Banking (+17 million euro, or +3.2%) and Insurance (+5 million euro, or +2.9%), due to higher personnel expenses.
It should be noted that the operating costs of the Aggregate Set (471 million euro) have temporarily been fully allocated to the "Corporate Centre (Aggregate Set)" and will be broken down into the various divisions once the processes are integrated starting from 2018.

Operating margin

The operating margin amounted to 8,233 million euro in 2017. Excluding, on a like-for-like basis, the negative contribution of 205 million euro attributable to the Aggregate Set, the operating margin posted an annual increase of 2%, due to the rise in revenues, which more than offset the modest increase in operating costs.

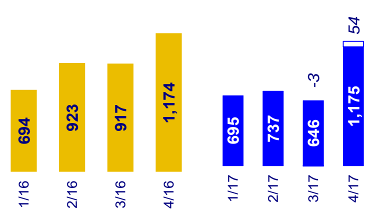
Net adjustments to loans

(millions of euro)

	2017 Consolidated figure (a)	2017 Of which: figure of the Aggregate Set (b)	2017 Consolidated figure net of the Aggregate Set (c) = (a) - (b)	2016 Consolidated figure (d)	Changes amount (e) = (c) - (d)	Changes % (e) / (d)
Bad loans	-2,580	-5	-2,575	-2,489	86	3.5
Unlikely to pay	-1,042	-33	-1,009	-1,347	-338	-25.1
Past due loans	-242	-13	-229	-266	-37	-13.9
Performing loans	496	-	496	342	154	45.0
Net losses/recoveries on impairment of loans	**-3,368**	**-51**	**-3,317**	**-3,760**	**-443**	**-11.8**
Net adjustments to/recoveries on guarantees and commitments	**64**	**-**	**64**	**52**	**12**	**23.1**
Net adjustments to loans	**-3,304**	**-51**	**-3,253**	**-3,708**	**-455**	**-12.3**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Quarterly development Net adjustments to loans



Adjustments to loans continued to decline in 2017, despite accelerating in the fourth quarter. While still increasing the coverage of the total non-performing assets, as the incidence of non-performing loans on total loans fell, the cost of credit, expressed as the ratio of net adjustments to net loans, decreased to 80 bps from 102 bps in the previous financial year.
Net adjustments to loans amounted to 3,304 million euro, an annual decrease of around 12%, which primarily affected unlikely to pay positions. Bad loans required total net adjustments of 2,580 million euro, with a coverage ratio at year-end of 63.1%. Net impairment losses on unlikely to pay exposures, totalling 1,042 million euro, decreased compared to the previous year, with a coverage ratio of 28.4%. Net impairment losses on past due loans amounted to 242 million euro, with a coverage ratio of 20.2%. The coverage ratio for forborne positions within the non-performing loans category was 33.9% at the end of December 2017. Lastly, the generic reserve, due to the gradual decrease in the incurred loss, offers a coverage ratio of 0.4% for the ordinary risk inherent in the performing loans portfolio.

(millions of euro)

	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Bad loans	-1,327	-5	-1,322	-428	-431	-394		-0.7	9.4
Unlikely to pay	-288	-33	-255	-296	-197	-261	-13.9	50.3	-24.5
Past due loans	-66	-9	-57	-45	-55	-72	26.7	-18.2	-23.6
Performing loans	399	-7	406	82	-25	33			
Net losses/recoveries on impairment of loans	**-1,282**	**-54**	**-1,228**	**-687**	**-708**	**-694**	**78.7**	**-3.0**	**2.0**
Net adjustments to/recoveries on guarantees and commitment	**53**	**-**	**53**	**41**	**-29**	**-1**	29.3		
Net adjustments to loans	**-1,229**	**-54**	**-1,175**	**-646**	**-737**	**-695**	**81.9**	**-12.3**	**6.0**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The rate of adjustments in the fourth quarter of 2017 was nearly twice that of the first three quarters of 2017 and essentially in line with the fourth quarter of 2016. Net adjustments to performing loans in the fourth quarter include the positive effects of the sale of a security classified among loans and receivables.

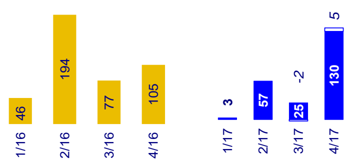
Net provisions and net impairment losses on other assets

(millions of euro)

	2017			2016	Changes	
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)	Consolidated figure (d)	amount (e) = (c) - (d)	% (e) / (d)
Net provisions	-151	-3	-148	-177	-29	-16.4
Net impairment losses on other assets	-67	-	-67	-245	-178	-72.7
Net provisions and net impairment losses on other assets	**-218**	**-3**	**-215**	**-422**	**-207**	**-49.1**

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Net provisions and net impairment losses on other assets



Within the layout of the reclassified income statement, this caption consists of the net provisions for risks and charges and net impairment losses on other assets. In the current financial year, the net provisions for risks and charges amounted to 148 million euro, a decline compared to 2016; net impairment losses on other assets (financial assets available for sale and property and equipment and intangible assets) recorded a negative balance of -67 million euro, down considerably from the -245 million euro recorded in the previous year, thanks to lower impairment on equities and equity investments.

(millions of euro)

	2017						Changes %		
	Fourth quarter			Third quarter (d)	Second quarter (e)	First quarter (f)	(C/D)	(D/E)	(E/F)
	Consolidated figure (a)	Of which: figure of the Aggregate Set (b)	Consolidated figure net of the Aggregate Set (c) = (a) - (b)						
Net provisions	-93	-5	-88	-22	-37	-1		-40.5	
Net impairment losses on other assets	-42	-	-42	-3	-20	-2		-85.0	
Net provisions and net impairment losses on other assets	**-135**	**-5**	**-130**	**-25**	**-57**	**-3**		**-56.1**	

Figures restated, where necessary, considering the changes in the scope of consolidation. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

At the quarterly level, both net provisions for risks and charges and net adjustments to other assets were higher in the fourth quarter of 2017 than in the preceding three quarters of 2017, the former due to increased provisions for risks associated with commercial initiatives and disputes and the latter due to the impairment of certain equity investments and real estate assets.

Other income (expenses)

In this caption of the reclassified income statement, the "realised profits (losses) on investments held to maturity and on other investments" are aggregated together with other income and expenses not strictly linked to operations. In 2017, other net income amounted to 4,746 million euro, of which 3,500 million euro related to the public contribution received to offset the impact on the capital ratios and such as to ensure a phased-in Common Equity Tier 1 Ratio of 12.5% of the risk-weighted assets (RWA) included in the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca. Net of this contribution, revenues amounted to 1,246 million euro, compared to the 355 million in 2016. The capital gains realised on the sale of the investment in Allfunds Bank (811 million euro), the positive effect due to the disposal of a stake in NTV and the fair value measurement following the reclassification of both the remaining equity investment held in NTV (109 million euro) and the investment in Bank of Qingdao (190 million euro), no longer included under entities subject to significant influence, were all recorded in 2017. The NTV transaction was overseen by the Structured Finance team of Banca IMI, as part of the core business of the Corporate and Investment Banking Division.

Income (Loss) from discontinued operations

No income or loss from discontinued operations was recorded in 2017; by contrast, income of 952 million euro was recorded in 2016, referring to the capital gain realised and the ordinary profit of Setefi and ISP Card, which were sold in the fourth quarter.

Gross income (loss)

Income before tax from continuing operations, net of the aforementioned public contribution of 3,500 million euro and the contribution attributable to the Aggregate Set of a negative 259 million euro, amounted to 6,216 million euro, up +14.1% compared to the 5,450 million euro posted in 2016.

Taxes on income

Current and deferred taxes came to 1,553 million euro. The tax rate dropped drastically to 16% following the non-taxable public contribution; excluding this contribution the tax rate would be approximately 25%, more than one percentage point below the tax rate for 2016.

Charges (net of tax) for integration and exit incentives

The caption – net of charges of 179 million euro associated with the Aggregate Set and relating to the amount by which the estimated integration costs exceeded the government contribution received and with a fund created for Group customers who lost a part of their savings on their investments in the shares of the former Venetian banks – amounted to 121 million euro, a decline on the previous year. This reclassified income statement caption also includes - net of the relevant tax effect - the additional public contribution of 1,285 million euro received to cover the integration and rationalisation charges relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The same caption also includes the specific provision for risks and charges, net of the relevant deferred tax assets. Consequently, the aforementioned contribution had no impact on the caption and on the income statement.

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 equity investments and/or balance sheet aggregates. In 2017, such expenses amounted to 51 million euro, less than the 112 million euro recognised in 2016. This item came to a positive 327 million euro, taking account of the positive effect of 378 million due to the recognition of badwill of 363 million euro following the purchase price allocation (PPA), in accordance with IFRS 3, in respect of the assets and liabilities of the former Venetian Banks, and to the effects pertaining to the second half of 2017 (15 million euro) relating to the amortisation of differences between fair values and carrying amounts as a result of the PPA.

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

The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In 2017, levies and other charges concerning the banking industry, net of taxes, amounted to 637 million euro (excluding the 12 million euro attributable to the Aggregate Set), up by 14% from the 559 million euro recorded in the previous year. The charges for the current year include 301 million euro attributable to the impairment of the investment in the Atlante Fund and 103 million euro to the impairment of the investment in the Interbank Deposit Guarantee Fund Voluntary Scheme, both established to tackle the banking crisis, in addition to 114 million euro of ordinary contributions to the European Resolution Fund, 68 million euro of contributions to the National Deposit Guarantee Fund, 16 million euro of contributions to the Deposit Guarantee Scheme of some international subsidiaries and 35 million euro of charges as a result of the compulsory administrative liquidation of the former Venetian banks.

Minority interests

Minority interests, amounting to 41 million euro, were down compared to the 90 million euro in 2016, mainly as a result of the lower income from the Group's indirect private equity investments.

Net income (loss)

As a result of the above trends, the Group closed 2017 with net income of 3,816 million euro (excluding the effect of the public contribution of 3,500 million euro as a result of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca). This result – even excluding the positive contribution in the second half of the year of the Aggregate Set of 3 million euro – was 22.6% higher than in 2016.

Balance sheet aggregates

General aspects

A condensed balance sheet is prepared to permit a more immediate understanding of the Group's assets and liabilities. Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation. As usual, certain aggregations and reclassifications have been made with respect to the model provided in Circular 262/05 of the Bank of Italy.

The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively. Any differences due to the possibility of choosing between different options provided for by IAS/IFRS or arising from the use of different methods or parameters to measure assets and liabilities are not considered, as they are deemed irrelevant. Last, please note that no intragroup relations are netted where their amount is not significant.

The balance sheet as at 31 December 2017 includes the acquisition, effective from 26 June 2017, of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, including subsidiaries Banca Apulia, Banca Nuova, Veneto Banka (Croatia), Veneto Banka Sh.a (Albania), Sec Servizi and Servizi Bancari (hereinafter the “Aggregate Set”).

Considering the particular case in question, no adjustments were made to the historic data in the reclassified balance sheet in order to retroactively reflect the effects of the acquisition.

In relation to the migration to Intesa Sanpaolo's systems of data regarding the relationships of the former Banca Popolare di Vicenza and Veneto Banca, completed in early December, separate accounting information about such relationships is no longer presented in the Report on operations. Accordingly, the figures as at 31 December 2017 include the contribution of the Aggregate Set.

In the interest of greater comprehensibility, the absolute changes attributable to the Aggregate Set – represented by the amounts as at the acquisition date – are presented in the reclassified balance sheet and the detail tables, along with absolute and percent changes in balance sheet figures, net of such amounts, to enable a consistent comparison.

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

Aggregations of captions refer to:

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

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

Loans to customers include the loan granted by Intesa Sanpaolo to the banks in the compulsory administrative liquidation procedure totalling 6.4 billion euro (3.2 billion euro to Banca Popolare di Vicenza in compulsory administrative liquidation and 3.2 billion to Veneto Banca in compulsory administrative liquidation) with a maximum term of five years, a fixed interest rate of 1% per annum guaranteed by the State. This amount finances the imbalance between assets acquired and liabilities assumed from Banca Popolare di Vicenza and Veneto Banca.

Reclassified balance sheet

(millions of euro)

Assets	31.12.2017 Consolidated figure (including the Aggregate Set) (a)	31.12.2016 Consolidated figure (b)	Changes amount Consolidated figure (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)	% (e) / (b)
Financial assets held for trading	39,518	43,613	-4,095	2,073	-6,168	-14.1
of which: Insurance Companies	*490*	*514*	*-24*	-	*-24*	*-4.7*
Financial assets designated at fair value through profit and loss	75,269	63,865	11,404	2	11,402	17.9
of which: Insurance Companies	*74,715*	*62,743*	*11,972*	-	*11,972*	*19.1*
Financial assets available for sale	142,341	146,692	-4,351	5,678	-10,029	-6.8
of which: Insurance Companies	*77,373*	*79,286*	*-1,913*	-	*-1,913*	*-2.4*
Investments held to maturity	1,174	1,241	-67	-	-67	-5.4
Due from banks	72,462	53,146	19,316	3,769	15,547	29.3
Loans to customers	410,746	364,713	46,033	34,574	11,459	3.1
Investments in associates and companies subject to joint control	678	1,167	-489	64	-553	-47.4
Property, equipment and intangible assets	14,419	12,294	2,125	330	1,795	14.6
Tax assets	16,887	14,442	2,445	1,982	463	3.2
Non-current assets held for sale and discontinued operations	627	478	149	328	-179	-37.4
Other assets	22,740	23,487	-747	1,207	-1,954	-8.3
Total Assets	**796,861**	**725,138**	**71,723**	**50,007**	**21,716**	**3.0**

Liabilities and Shareholders' Equity	31.12.2017 Consolidated figure (including the Aggregate Set) (a)	31.12.2016 Consolidated figure (b)	Changes amount Consolidated figure (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)	% (e) / (b)
Due to banks	99,990	72,641	27,349	10,376	16,973	23.4
Due to customers and securities issued	417,682	386,666	31,016	36,079	-5,063	-1.3
of which: Insurance Companies	*1,311*	*1,295*	*16*	-	*16*	*1.2*
Financial liabilities held for trading	41,285	44,790	-3,505	1,541	-5,046	-11.3
of which: Insurance Companies	*67*	*86*	*-19*	-	*-19*	*-22.1*
Financial liabilities designated at fair value through profit and loss	68,169	57,187	10,982	-	10,982	19.2
of which: Insurance Companies	*68,166*	*57,184*	*10,982*	-	*10,982*	*19.2*
Tax liabilities	2,509	2,038	471	107	364	17.9
Liabilities associated with non-current assets held for sale and discontinued operations	264	300	-36	-	-36	-12.0
Other liabilities	20,541	21,754	-1,213	1,748	-2,961	-13.6
Technical reserves	82,926	85,619	-2,693	-	-2,693	-3.1
Allowances for specific purpose	6,891	4,824	2,067	147	1,920	39.8
Share capital	8,732	8,732	-	-	-	-
Reserves	36,843	36,805	38	7	31	0.1
Valuation reserves	-789	-1,854	-1,065	2	-1,063	-57.3
Equity instruments	4,103	2,117	1,986	-	1,986	93.8
Minority interests	399	408	-9	-	-9	-2.2
Net income (loss)	7,316	3,111	4,205	-	4,205	
Total Liabilities and Shareholders' Equity	**796,861**	**725,138**	**71,723**	**50,007**	**21,716**	**3.0**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2017				2016			
	31/12 Consolidated figure (including the Aggregate Set)	30/09 Consolidated figure (including the Aggregate Set)	30/06 Consolidated figure (including the Aggregate Set)	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	39,518	41,762	44,415	44,484	43,613	50,232	52,499	54,786
of which: Insurance Companies	*490*	*485*	*486*	*498*	*514*	*524*	*648*	*721*
Financial assets designated at fair value through profit and loss	75,269	72,805	70,018	67,438	63,865	61,338	57,948	54,480
of which: Insurance Companies	*74,715*	*71,806*	*68,961*	*66,330*	*62,743*	*60,187*	*56,908*	*53,358*
Financial assets available for sale	142,341	143,906	144,562	150,000	146,692	146,885	152,465	142,816
of which: Insurance Companies	*77,373*	*78,098*	*78,174*	*78,916*	*79,286*	*80,792*	*80,379*	*78,393*
Investments held to maturity	1,174	2,267	2,305	1,229	1,241	1,231	1,246	1,317
Due from banks	72,462	79,381	78,147	58,897	53,146	37,528	36,879	33,540
Loans to customers	410,746	390,818	393,517	366,648	364,713	364,836	360,240	358,478
Investments in associates and companies subject to joint control	678	716	1,282	736	1,167	1,253	1,266	1,281
Property, equipment and intangible assets	14,419	12,331	12,418	12,198	12,294	12,102	12,109	12,107
Tax assets	16,887	15,707	15,949	14,341	14,442	14,161	14,396	14,581
Non-current assets held for sale and discontinued operations	627	493	483	488	478	961	1,154	3,721
Other assets	22,740	25,173	24,959	23,028	23,487	23,909	27,126	23,289
Total Assets	**796,861**	**785,359**	**788,055**	**739,487**	**725,138**	**714,436**	**717,328**	**700,396**

Liabilities and Shareholders' Equity	2017				2016			
	31/12 Consolidated figure (including the Aggregate Set)	30/09 Consolidated figure (including the Aggregate Set)	30/06 Consolidated figure (including the Aggregate Set)	31/3	31/12	30/9	30/6	31/3
Due to banks	99,990	99,281	101,450	92,584	72,641	69,641	67,656	60,343
Due to customers and securities issued	417,682	412,279	406,036	377,374	386,666	372,383	379,655	373,239
of which: Insurance Companies	*1,311*	*1,376*	*1,339*	*1,331*	*1,295*	*1,320*	*1,362*	*1,361*
Financial liabilities held for trading	41,285	41,476	42,517	43,360	44,790	48,143	49,340	48,936
of which: Insurance Companies	*67*	*68*	*68*	*78*	*86*	*117*	*104*	*95*
Financial liabilities designated at fair value through profit and loss	68,169	65,567	63,017	60,562	57,187	54,373	51,360	48,031
of which: Insurance Companies	*68,166*	*65,398*	*62,823*	*60,559*	*57,184*	*54,373*	*51,360*	*48,031*
Tax liabilities	2,509	1,927	1,972	2,084	2,038	2,235	2,186	2,564
Liabilities associated with non-current assets held for sale and discontinued operations	264	296	295	302	300	442	364	375
Other liabilities	20,541	20,588	29,083	22,994	21,754	25,945	26,800	25,180
Technical reserves	82,926	83,211	83,593	84,405	85,619	87,370	86,813	86,664
Allowances for specific purpose	6,891	6,695	6,571	4,731	4,824	5,042	4,981	4,786
Share capital	8,732	8,732	8,732	8,732	8,732	8,732	8,732	8,732
Reserves	36,843	36,834	36,930	39,903	36,805	36,774	36,830	39,184
Valuation reserves	-789	-1,908	-1,838	-2,159	-1,854	-1,737	-1,860	-1,387
Equity instruments	4,103	4,102	4,102	3,358	2,117	2,118	2,118	2,118
Minority interests	399	391	357	356	408	640	646	825
Net income (loss)	7,316	5,888	5,238	901	3,111	2,335	1,707	806
Total Liabilities and Shareholders' Equity	**796,861**	**785,359**	**788,055**	**739,487**	**725,138**	**714,436**	**717,328**	**700,396**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Loans to customers

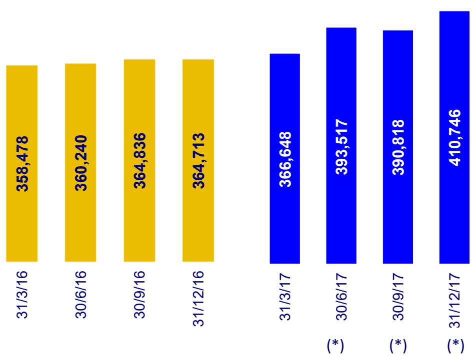
(millions of euro)

	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	**% breakdown**	**Consolidated figure** (b)	**% breakdown**	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Current accounts	22,261	5.4	21,142	5.8	1,119	3,392	-2,273	-10.8
Mortgages	171,341	41.7	145,342	39.8	25,999	19,475	6,524	4.5
Advances and other loans	147,074	35.8	124,099	34.0	22,975	10,745	12,230	9.9
Commercial banking loans	**340,676**	**82.9**	**290,583**	**79.6**	**50,093**	**33,612**	**16,481**	**5.7**
Repurchase agreements	**31,482**	**7.7**	**29,940**	**8.2**	**1,542**	**63**	**1,479**	**4.9**
Loans represented by securities	**13,124**	**3.2**	**14,423**	**4.0**	**-1,299**	**305**	**-1,604**	**-11.1**
Non-performing loans	**25,464**	**6.2**	**29,767**	**8.2**	**-4,303**	**594**	**-4,897**	**-16.5**
Loans to customers	**410,746**	**100.0**	**364,713**	**100.0**	**46,033**	**34,574**	**11,459**	**3.1**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

Quarterly development
Loans to customers



(*) Consolidated figure including the Aggregate Set

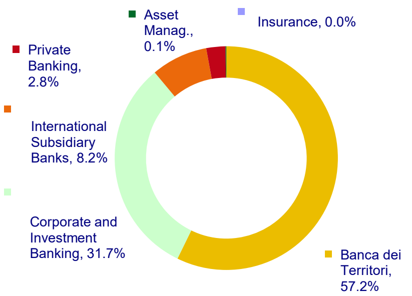
As at 31 December 2017, loans to customers of the Intesa Sanpaolo Group amounted to 411 billion euro, up by 11.5 billion euro, net of the Aggregate Set (an annual increase of +3.1% on a like-for-like basis).
The development of loans was driven by the positive performance of commercial banking loans (+16.5 billion euro, or +5.7%) and reverse repurchase agreements (+1.5 billion euro), only partly offset by the decline in loans represented by securities (-1.6 billion euro) and non-performing loans (-4.9 billion euro). Commercial banking loans, which benefited from the improvement in the economy, were driven by the increase in advances and other loans (+12.2 billion euro, or +9.9% on a like-for-like basis) and mortgages (+6.5 billion euro, or +4.5%). Given the favourable market conditions for customers, increases were observed in loans to individual customers, through consumer credit and mortgage loans for home purchase, and in loans to businesses aimed at financing investments and working capital.

In the domestic medium-/long-term loan market, disbursements to households in 2017 (including the small business accounts having similar needs to family businesses) reached 20 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 15 billion euro. During the year, medium-/long-term disbursements to segments included in the scope of the Corporate Division exceeded 13 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy exceeded 49 billion euro. On the whole, the Group's medium-/long-term disbursements in 2017, inclusive of those attributable to the former Venetian banks, exceeded 63 billion euro.
As at 31 December 2017, the Group's share of the domestic market was 18% for total loans, including loans to customers of the Aggregate Set.

(millions of euro)

	31.12.2017	31.12.2016	Changes	
			amount	%
Banca dei Territori	196,814	188,317	8,497	4.5
Corporate and Investment Banking	109,399	98,183	11,216	11.4
International Subsidiary Banks	28,637	26,492	2,145	8.1
Private Banking	9,637	9,597	40	0.4
Asset Management	361	298	63	21.1
Insurance	22	26	-4	-15.4
Total business areas	**344,870**	**322,913**	**21,957**	**6.8**
Corporate Centre (*)	65,876	41,800	-10,498	-25.1
Intesa Sanpaolo Group (*)	**410,746**	**364,713**	**11,459**	**3.1**

Business areas



(*) The change expresses the ratio between 31.12.2017, excluding the Aggregate Set, and 31.12.2016.

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

In the analysis of loans by business area, the Banca dei Territori Division, which accounts for approximately 60% of the aggregate of the Group's business areas, recorded an increase of 8.5 billion euro compared to the end of 2016 (+4.5%), essentially due to the increase in medium-/long-term loans. The loans of the Corporate and Investment Banking Division posted even greater growth of 11.2 billion euro (+11.4%), due in part to the increase in repurchase agreement business by Banca IMI and the greater loans issued by Intesa Sanpaolo Bank Luxembourg. The loans to customers of the International Subsidiary Banks Division also increased (+8.1%). Turning to the other operating divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division increased marginally (+0.4%).
With regard to the Aggregate Set, as mentioned above the balance sheet balances as at 31 December 2017 are temporarily allocated in full to the Corporate Centre and will be broken down into the various divisions once the processes are integrated starting from 2018.

Loans to customers: credit quality

(millions of euro)

	31.12.2017		31.12.2016		Changes		
	Net exposure Consolidated figure (including the Aggregate Set) (a)	% breakdown	Net exposure Consolidated figure (b)	% breakdown	Consolidated figure (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)
Bad loans	12,625	3.1	14,895	4.1	-2,270	94	-2,364
Unlikely to pay	12,460	3.0	14,435	4.0	-1,975	477	-2,452
Past due loans	379	0.1	437	0.1	-58	23	-81
Non-performing loans	**25,464**	**6.2**	**29,767**	**8.2**	**-4,303**	**594**	**-4,897**
of which forborne	***7,360***		***8,204***		**-844**	**171**	***-1,015***
Performing loans	372,158	90.6	320,523	87.8	51,635	33,675	17,960
of which forborne	*7,734*		*7,828*		-94	762	*-856*
Loans represented by performing securities	13,124	3.2	14,423	4.0	-1,299	305	-1,604
of which forborne	*94*		*96*		-2	-	*-2*
Loans to customers	**410,746**	**100.0**	**364,713**	**100.0**	**46,033**	**34,574**	**11,459**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

(millions of euro)

	31.12.2017			31.12.2016			Changes Net Exposure		
	Gross exposure Consolidated figure (including operations acquired)	Total adjustments Consolidated figure (including operations acquired)	Net exposure Consolidated figure (including operations acquired) (a)	Gross exposure Consolidated figure	Total adjustments Consolidated figure	Net exposure Consolidated figure (b)	Consolidated figure (c) = (a) - (b)	Figures of operations acquired (d)	Net of operation acquired (e) = (a-d) - (b)
Bad loans	34,192	-21,567	12,625	37,834	-22,939	14,895	-2,270	94	-2,364
Unlikely to pay	17,406	-4,946	12,460	19,745	-5,310	14,435	-1,975	477	-2,452
Past due loans	475	-96	379	558	-121	437	-58	23	-81
Non-performing loans	**52,073**	**-26,609**	**25,464**	**58,137**	**-28,370**	**29,767**	**-4,303**	**594**	**-4,897**
of which forborne	***11,134***	***-3,774***	***7,360***	***11,727***	***-3,523***	***8,204***	***-844***	***171***	***-1,015***
Performing loans	373,457	-1,299	372,158	322,130	-1,607	320,523	51,635	33,675	17,960
of which forborne	*7,860*	*-126*	*7,734*	*8,036*	*-208*	*7,828*	*-94*	*762*	*-856*
Performing loans represented by securities	13,313	-189	13,124	14,651	-228	14,423	-1,299	305	-1,604
of which forborne	*94*	*-*	*94*	*97*	*-1*	*96*	*-2*	*-*	*-2*
Loans to customers	**438,843**	**-28,097**	**410,746**	**394,918**	**-30,205**	**364,713**	**46,033**	**34,574**	**11,459**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

As at 31 December 2017 the Group's net non-performing loans amounted to 25.5 billion, down by 16.5% compared to the end of 2016, continuing the decline recorded in the previous year. Since the beginning of the year, a significant decrease has also been recorded in non-performing assets as a percentage of total net loans to customers, down to 6.2%.

In particular, at the end of 2017 loans classified as bad loans, net of adjustments, stood at 12.6 billion euro, down by 2.4 billion euro compared to the beginning of the year (-15.9% on a like-for-like basis), due in part to the sales undertaken, accounting for 3.1% of total loans. During the period, the coverage ratio was 63.1%. Loans included in the unlikely to pay category amounted to 12.5 billion euro, down by 2.5 billion euro on a like-for-like basis (-17%), accounting for 3% of total loans to customers, with a coverage ratio of 28.4%. Past due loans amounted to 379 million euro, down 18.5% compared to the beginning of the year on a like-for-like basis, with a coverage ratio of 20.2%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority, amounted to 7.4 billion euro, with an average coverage ratio of 33.9%, whereas those in the performing loan category were slightly higher (7.7 billion euro).
The overall coverage ratio of performing loans was 0.4%.

Customer financial assets

(millions of euro)

	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	**% breakdown**	**Consolidated figure** (b)	**% breakdown**	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Direct deposits from banking business	423,474	44.9	393,805	45.6	29,669	36,079	-6,410	-1.6
Direct deposits from insurance business and technical reserves	152,403	16.1	144,098	16.7	8,305	-	8,305	5.8
Indirect customer deposits	518,443	55.0	468,855	54.2	49,588	15,531	34,057	7.3
Netting (*)	-151,092	-16.0	-142,803	-16.5	8,289	-	8,289	5.8
Customer financial assets	**943,228**	**100.0**	**863,955**	**100.0**	**79,273**	**51,610**	**27,663**	**3.2**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

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

As at 31 December 2017, customer financial assets had exceeded 943 billion euro, up by 27.7 billion euro compared to the beginning of the year on a like-for-like basis (+3.2%), due to the increase in indirect funding, which rose by 34.1 billion euro and, to a lesser extent, in insurance funding (+8.3 billion euro).

Direct deposits from banking business

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

(millions of euro)

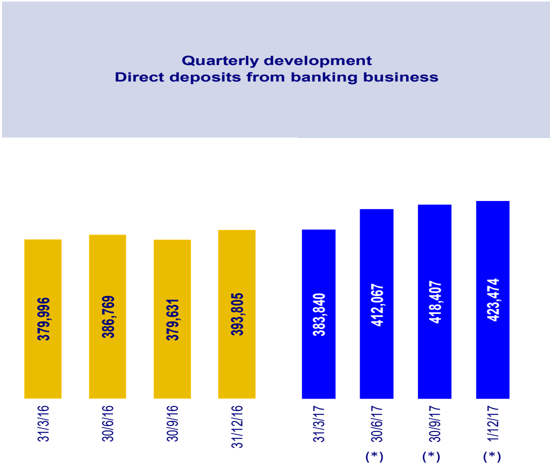
	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	**% breakdown**	**Consolidated figure** (b)	**% breakdown**	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Current accounts and deposits	288,635	68.2	257,740	65.5	30,895	17,125	13,770	5.3
Repurchase agreements and securities lending	21,303	5.0	24,561	6.2	-3,258	2,592	-5,850	-23.8
Bonds	68,773	16.2	73,214	18.6	-4,441	11,784	-16,225	-22.2
of which designated at fair value (*)	-	-	-	-	-	-	-	-
Certificates of deposit	4,913	1.2	3,933	1.0	980	34	946	24.1
Subordinated liabilities	13,411	3.2	13,813	3.5	-402	-	-402	-2.9
Other deposits	26,439	6.2	20,544	5.2	5,895	4,544	1,351	6.6
of which designated at fair value (**)	*7,103*	*1.7*	*8,434*	*2.1*	-1,331	-	*-1,331*	*-15.8*
Direct deposits from banking business	**423,474**	**100.0**	**393,805**	**100.0**	**29,669**	**36,079**	**-6,410**	**-1.6**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

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

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

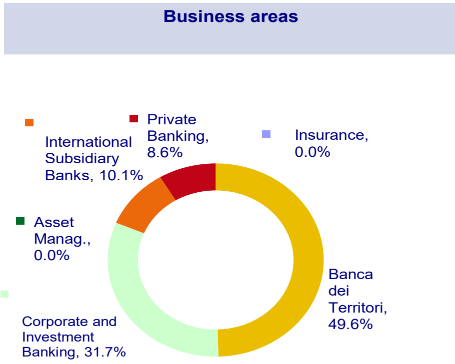


(*) Consolidated figure including the Aggregate Set

Total direct deposits from banking business exceeded 423 billion euro: in equivalent terms, the aggregate was down by 6.4 billion euro (-1.6%) compared to the end of December 2016, with diverging performances by the main deposit types.
In particular, there were decreases of 16.2 billion euro in bonds (-22.2%) and of 5.9 billion euro in repurchase agreements (-23.8%). On the other hand, there were increases in current accounts and deposits (+13.8 billion euro or +5.3%), other deposits (+1.4 billion euro due to the development of commercial paper) and certificates of deposit (+0.9 billion euro).
At the end of December 2017, the domestic market share of the Group's direct deposits, consisting of deposits and bonds, was 18.3%, including the deposits contributed by the Aggregate Set.

(millions of euro)

	31.12.2017	31.12.2016	Changes	
			amount	%
Banca dei Territori	175,277	173,599	1,678	1.0
Corporate and Investment Banking	111,940	112,661	-721	-0.6
International Subsidiary Banks	35,538	32,978	2,560	7.8
Private Banking	30,581	27,540	3,041	11.0
Asset Management	6	8	-2	-25.0
Insurance	-	-	-	-
Total business areas (excluding operations acquired)	**353,342**	**346,786**	**6,556**	**1.9**
Corporate Centre (*)	70,132	47,019	-12,966	-27.6
Intesa Sanpaolo Group (*)	**423,474**	**393,805**	-6,410	-1.6



(*) The change expresses the ratio between 31.12.2017, excluding the Aggregate Set, and 31.12.2016.

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

An analysis of the aggregate attributable to the business areas shows an overall increase compared to the end of 2016 (+1.9%). At the level of the individual divisions, Banca dei Territori, which accounts for approximately 50% of the aggregate, posted an increase of 1% due to the rise in amounts due to customers, primarily personal and corporate customers, which more than offset the decline in bonds, whereas the Corporate and Investment Banking Division was essentially stable (-0.6%). Significant increases were posted by the International Subsidiary Banks Division (+7.8%), due to the positive performances of both amounts due to customers and securities issued, and by the Private Banking Division (+11%).
With regard to the Aggregate Set, as mentioned above the balance sheet balances as at 31 December 2017 are temporarily allocated in full to the Corporate Centre and will be broken down into the various divisions once the processes are integrated starting from 2018.

Direct deposits from insurance business and technical reserves

(millions of euro)

	31.12.2017		31.12.2016		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value (*)	**68,166**	**44.7**	**57,184**	**39.7**	**10,982**	**19.2**
Index-linked products	*1*	*-*	*1*	*-*	*-*	*-*
Unit-linked products	*68,165*	*44.7*	*57,183*	*39.7*	*10,982*	*19.2*
Technical reserves	**82,926**	**54.4**	**85,619**	**59.4**	**-2,693**	**-3.1**
Life business	82,248	54.0	85,026	59.0	-2,778	-3.3
Mathematical reserves	*71,320*	*46.8*	*73,508*	*51.0*	*-2,188*	*-3.0*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*5,843*	*3.8*	*5,455*	*3.8*	*388*	*7.1*
Other reserves	*5,085*	*3.4*	*6,063*	*4.2*	*-978*	*-16.1*
Non-life business	678	0.4	593	0.4	85	14.3
Other insurance deposits (***)	**1,311**	**0.9**	**1,295**	**0.9**	**16**	**1.2**
Direct deposits from insurance business and technical reserves	**152,403**	**100.0**	**144,098**	**100.0**	**8,305**	**5.8**

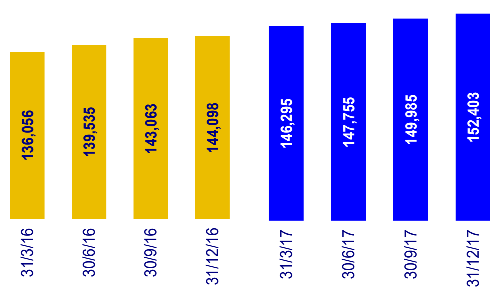
Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

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

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

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

Quarterly development
Direct insurance deposits and technical reserves



Direct deposits from insurance business came to 152.4 billion euro at the end of December 2017, up 5.8% compared to 31 December 2016. The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 11 billion euro (+19.2%), entirely as a result of the contribution from unit-linked products. Technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased by 3.1% since the beginning of the year, due to the decrease in mathematical reserves and other reserves of the life insurance business.

Indirect customer deposits

(millions of euro)

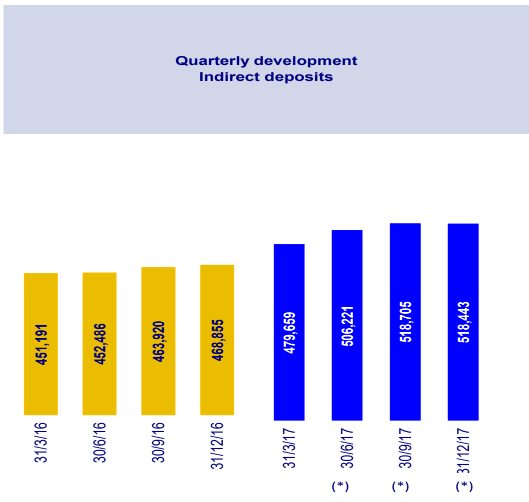
	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	% breakdown	Consolidated figure (b)	% breakdown	Consolidated figure (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)	% (e) / (b)
Mutual funds (*)	119,387	23.0	105,787	22.6	13,600	930	12,670	12.0
Open-ended pension funds and individual pension plans	8,221	1.6	7,489	1.6	732	-	732	9.8
Portfolio management (**)	57,928	11.2	56,064	12.0	1,864	-	1,864	3.3
Technical reserves and financial liabilities of the insurance business	140,567	27.1	132,727	28.3	7,840	-	7,840	5.9
Relations with institutional customers	11,895	2.3	12,014	2.5	-119	-	-119	-1.0
Assets under management	**337,998**	**65.2**	**314,081**	**67.0**	**23,917**	**930**	**22,987**	**7.3**
Assets under administration and in custody	**180,445**	**34.8**	**154,774**	**33.0**	**25,671**	**14,601**	**11,070**	**7.2**
Indirect customer deposits	**518,443**	**100.0**	**468,855**	**100.0**	**49,588**	**15,531**	**34,057**	**7.3**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

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

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



(*) Consolidated figure including the Aggregate Set

As at 31 December 2017, indirect customer deposits, inclusive of the contribution of the Aggregate Set, exceeded 518 billion euro, an increase of 34.1 billion euro, net of the Aggregate Set, compared to the end of 2016 (+7.3% on a like-for-like basis). Given the favourable conditions of the financial markets, the performance was determined by the increase in both assets under management, mainly driven by mutual funds and insurance segment products, and assets under administration.
Assets under management, which account for nearly two-thirds of the total aggregate, were up 23 billion euro in 2017 (+7.3% on an annual basis, net of the Aggregate Set), mainly due to the high net inflows achieved by the distribution networks. Investment funds, in which investor preferences were concentrated, increased by 12.7 billion euro net of the Aggregate Set (+12%). Insurance products increased by 7.8 billion euro (+5.9%): in 2017, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 22.3 billion euro. Portfolio management schemes and pension funds also posted growth (+1.9 billion euro and +0.7 billion euro, respectively). Dealings with institutional customers were essentially stable.
Assets under administration recorded an increase of 11.1 billion euro net of the Aggregate Set (+7.2%), attributable to securities and third-party products in customer portfolios and dealings with institutional customers.

Financial assets and liabilities

(millions of euro)

	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	*of which Insurance Companies*	**Consolidated figure** (b)	*of which Insurance Companies*	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	% (e) / (b)
Financial assets held for trading	39,518	*490*	43,613	*514*	*-4,095*	*2,073*	-6,168	-14.1
of which derivatives at fair value	*24,789*	*10*	*30,220*	*12*	*-5,431*	*1,943*	*-7,374*	*-24.4*
Financial assets designated at fair value through profit and loss	75,269	*74,715*	63,865	*62,743*	*11,404*	*2*	11,402	17.9
Financial assets available for sale	142,341	*77,373*	146,692	*79,286*	*-4,351*	*5,678*	-10,029	-6.8
Investments held to maturity	1,174	*-*	1,241		-67	*-*	-67	-5.4
Total financial assets	**258,302**	***152,578***	**255,411**	***142,543***	**2,891**	**7,753**	**-4,862**	**-1.9**
Financial liabilities held for trading (*)	**-34,185**	***-67***	**-36,359**	***-86***	**-2,174**	**-1,541**	**-3,715**	**-10.2**
of which derivatives at fair value	*-25,732*	*-67*	*-32,201*	*-86*	**-6,469**	**-1,541**	**-8,010**	**-24.9**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

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

The table above illustrates the breakdown of financial assets and the financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business and capital-protected certificates, are not represented as these are included in the direct deposits aggregates.

Total financial assets were down by 1.9% during the year on a like-for-like basis, following a general decline in all components, except for financial assets designated at fair value, which recorded an increase of 11.4 billion euro on a like-for-like basis (+17.9%), essentially due to equities and units of UCI attributable to insurance companies. Among the other components, financial assets available for sale showed a decline of 10 billion euro on a like-for-like basis (-6.8%), and financial assets held for trading decline of 6.2 billion euro on a like-for-like basis (-14.1% compared to December 2016), due to the decline in derivative contracts (-24.4%). Financial liabilities held for trading also posted a decline of -3.7 billion euro (-10.2%) during the period attributable to derivative contracts.

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

(millions of euro)

	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	*of which Insurance Companies*	**Consolidated figure** (b)	*of which Insurance Companies*	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Bonds and other debt securities held for trading and designated at fair value through profit and loss	17,049	4,071	16,377	3,963	672	132	540	3.3
of which designated at fair value (fair value option)	*4,281*	*3,844*	*4,704*	*3,710*	*-423*	*2*	*-425*	*-9.0*
Equities and quotas of UCI held for trading and designated at fair value through profit and loss	72,319	70,506	60,580	58,990	11,739	-	11,739	19.4
of which designated at fair value (fair value option)	*70,358*	*70,253*	*58,860*	*58,741*	*11,498*	*-*	*11,498*	*19.5*
Other assets designated at fair value through profit and loss	630	618	301	292	329	-	329	
Securities, assets held for trading and financial assets designated at fair value through profit and loss (*)	**89,998**	**75,195**	**77,258**	**63,245**	**12,740**	**132**	**12,608**	**16.3**
Financial liabilities held for trading (**)	**-8,453**	**-**	**-4,158**	**-**	**4,295**	**-**	**4,295**	
Net value of financial derivatives	-827	-56	-1,930	-71	-1,103	402	-701	-36.3
Net value of credit derivatives	-116	-1	-51	-3	65	-	65	
Net value of trading derivatives	**-943**	**-57**	**-1,981**	**-74**	**-1,038**	**402**	**-636**	**-32.1**
Financial assets / liabilities, net	**80,602**	**75,138**	**71,119**	**63,171**	**9,483**	**534**	**8,949**	**12.6**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

(*) Net of the fair value of derivatives.

(**) The amount is net of the fair value of derivatives and does not include the capital protected certificates included in the table on direct deposits.

Financial assets held for trading, net of the associated liabilities, and financial assets designated at fair value through profit and loss amounted to approximately 81 billion euro, up 12.6% on a like-for-like basis. This trend was determined largely by the increase in the stock of equities and units of UCI measured at fair value. Financial liabilities held for trading increased by 4.3 billion euro.

Financial assets available for sale

(millions of euro)

	31.12.2017		31.12.2016		Changes			
	Consolidated figure (including the Aggregate Set) (a)	*of which Insurance Companies*	**Consolidated figure** (b)	*of which Insurance Companies*	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Bonds and other debt securities	126,398	*66,309*	131,571	*69,452*	*-5,173*	*5,649*	-10,822	-8.2
Equities and quotas of UCI	15,892	*11,064*	15,098	*9,834*	*794*	*-*	794	5.3
Securities available for sale	**142,290**	***77,373***	**146,669**	***79,286***	***-4,379***	***5,649***	**-10,028**	**-6.8**
Loans available for sale	**51**	***-***	**23**	***-***	***28***	***29***	**-1**	**-4.3**
Financial assets available for sale	**142,341**	***77,373***	**146,692**	***79,286***	**-4,351**	**5,678**	**-10,029**	**-6.8**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

Financial assets available for sale amounted to 142 billion euro: net of the Aggregate Set, they decreased by 10 billion euro (-6.8%) compared to 31 December 2016.
The caption consists primarily of bonds and other debt securities not held for trading and, to a lesser extent, equities and units of UCI. Financial assets available for sale are measured at fair value with a balancing entry in the specific shareholders' equity reserve.

Net interbank position

The net interbank position as at 31 December 2017 recorded a negative balance (-27.5 billion euro, of which 6.6 billion euro attributable to the Aggregate Set), up compared to the end of 2016 (-19.5 billion euro). Amounts due to banks, equal to 100 billion euro, include a 63.5 billion euro exposure to the ECB, following participation in the TLTRO II refinancing operations (inclusive of approximately 7 billion euro relating to the refinancing of the former Venetian banks).

Non-current assets held for sale and discontinued operations and related liabilities

(millions of euro)

	31.12.2017	31.12.2016	Changes			
	Consolidated figure (including the Aggregate Set) (a)	**Consolidated figure** (b)	**Consolidated figure** (c) = (a) - (b)	**Figure of the Aggregate Set** (d)	**Net of the Aggregate Set** (e) = (a-d) - (b)	**%** (e) / (b)
Investments in associates and companies subject to joint control	-	111	-111	-	-111	
Property and equipment	341	305	36	-	36	11.8
Other	286	62	224	328	-104	
Individual assets	**627**	**478**	**149**	**328**	**-179**	**-37.4**
Discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**
of which: loans to customers	-	-	-	-	-	-
Liabilities associated with non-current assets held for sale and discontinued operations	**-264**	**-300**	**-36**	**-**	**-36**	**-12.0**
Non-current assets held for sale and discontinued operations and related liabilities	**363**	**178**	**185**	**328**	**-143**	**-80.3**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At the end of December 2017, assets held for sale amounted to 363 million euro, down by 143 million euro on a like-for-like basis compared to the previous year.
In particular, other discontinued operations relating to the Aggregate Set, which as at the execution date amounted to 328 million euro, comprise 14 million euro relating to loans of the international subsidiaries Veneto Banka DD (Croatia) and Veneto Banka Sh.A. (Albania) identified during due diligence by the Board of Experts as non-performing loans to be transferred back to Veneto Banca in compulsory administrative liquidation (transfer back that took place in January 2018) and 314 million euro in high-risk loans subsequently reclassified in the financial statements as bad loans or unlikely to pay, which shall be transferred to the Banks in compulsory administrative liquidation during the next retrocession windows envisaged by contract, which therefore, in order to ensure comparison on a consistent basis, are shown among discontinued operations also as at the execution date.

Shareholders' equity

As at 31 December 2017, the Group's shareholders' equity, including net income for the period, came to 56,205 million euro (52,705 net of the public contribution of 3.5 billion euro related to the acquisition of the Venetian banks), compared to the 48,911 million euro at the end of the previous year. The positive change in equity was due to the issue of Additional Tier 1 equity instruments for 2 billion euro and to net income for the period, which offset the payment of dividends.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2016	Change in the period	Valuation reserves as at 31.12.2017	
				% breakdown
Financial assets available for sale	471	-187	284	-36.0
of which: Insurance Companies	*503*	*-88*	*415*	*-52.6*
Property and equipment	-	-	-	-
Cash flow hedges	-1,146	146	-1,000	126.8
Fair value measurement of property and equipment and legally-required revaluations	348	1,236	1,584	-200.8
Other	-1,527	-130	-1,657	210.0
Valuation reserves	**-1,854**	**1,065**	**-789**	**100.0**

As at 31 December 2017, the negative balance of the Group's valuation reserves came to -789 million euro, improving compared to the negative value at the end of December 2016 (-1,854 million euro).
The change in the period relating to the measurement of property and equipment was due to the change in the measurement criterion (from cost to fair value) for owner-occupied property, investment property and works of art. New reserves of 1,238 million euro, net of deferred taxation, were recognised as a result of the change of accounting policy (as discussed in further detail in Part A – Accounting Policies of the Notes to the consolidated financial statements).

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	31.12.2017	31.12.2016
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	38,051	35,926
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,414	3,533
TIER 1 CAPITAL	**43,465**	**39,459**
Tier 2 capital net of regulatory adjustments	7,908	8,815
TOTAL OWN FUNDS	**51,373**	**48,274**
Risk-weighted assets		
Credit and counterparty risks	249,784	243,351
Market and settlement risk	17,833	19,199
Operational risks	18,597	19,545
Other specific risks [a]	611	1,823
RISK-WEIGHTED ASSETS	**286,825**	**283,918**
% Capital ratios		
Common Equity Tier 1 capital ratio	13.3%	12.7%
Tier 1 capital ratio	15.2%	13.9%
Total capital ratio	17.9%	17.0%

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

The figures as at 31 December 2017 include the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2017 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.

Regulatory provisions governing Own Funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions (i.e. grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (over a period of eight years).
Accordingly, the prudential ratios as at 31 December 2017 take account of the adjustments envisaged by the transitional provisions for 2017.
As at 31 December 2017, total Own Funds came to 51,373 million euro, against risk-weighted assets of 286,825 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17 Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted to the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of the CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.
With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer pays a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT 1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.
Moreover, the offering period relating to the subordinated Tier 2 bond issue targeted to qualified investors and high-net-worth individuals on the domestic market ended on 21 September 2017 with the assignment of a nominal amount of 723.7 million euro. This floating-rate bond has a 7-year duration and will be redeemed in whole at maturity. The coupon, payable quarterly in arrears on 26 March, 26 June, 26 September and 26 December of each year, from 26 December 2017 to 26 September 2024, is equal to 3-month Euribor plus 190 basis points per annum.
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 pro-rata dividend proposed.
The net income for the year includes both, in its non-distributed portion, the government contribution of 3.5 billion euro covering the impact on capital ratios of the acquisition of certain assets and assumption of certain liabilities of Banca Popolare di Vicenza and Veneto Banca, and badwill of 363 million euro, recognised in accordance with IFRS 3 during the purchase price allocation (PPA) for the acquisition of the Venetian banks.
Finally, it should be noted that when calculating capital ratios as at 31 December 2017, account was taken of the accounting revaluation of artistic and real-estate assets (of both an investment and non-investment nature), applied to align their carrying amounts with their current market values, as permitted by IAS/IFRS. In light of the adjustments allowed under the transitional rules for 2017, 80% of the revaluation, net of the related tax effect, was included in Common Equity Tier 1 capital.
Based on the foregoing, the Total capital ratio was 17.9%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.2%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 13.3%.
On 22 December 2017, Intesa Sanpaolo received the ECB's final decision regarding the capital requirement to be observed with effect from 1 January 2018. The capital requirement at consolidated level in terms of phased-in Common Equity Tier 1 ratio is 8.065% (for 2018) and in terms of fully loaded Common Equity Tier 1 ratio is 9.25%.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.12.2017	31.12.2016
Group Shareholders' equity	56,205	48,911
Minority interests	399	408
Shareholders' equity as per the Balance Sheet	**56,604**	**49,319**
Dividends in distribution and other foreseeable charges [(a)]	-3,500	-
Shareholders' equity following presumed distribution to shareholders	53,104	49,319
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period	-	-
- Capital of savings shares eligible for inclusion in AT1	-485	-485
- Other equity instruments eligible for inclusion in AT1	-4,121	-2,121
- Minority interests eligible for inclusion in AT1	-9	-6
- Minority interests eligible for inclusion in T2	-5	-2
- Ineligible minority interests on full phase-in	-335	-356
- Ineligible net income for the period	-	-3,111
- Treasury shares included under regulatory adjustments	94	98
- Other ineligible components on full phase-in	-24	-38
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,219**	**43,298**
Regulatory adjustments (including transitional adjustments)	**-10,168**	**-7,372**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**38,051**	**35,926**

[(a)] The figure at 31 December 2017 takes account of the dividends paid on 2017 profit, the portion of the remuneration on the AT1 instruments issued on the balance-sheet date and the portion of the 2017 profit allocated to charity, net of the tax effect.

The figures as at 31 December 2017 include the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Performance of risk-weighted assets

(millions of euro)

Risk-weighted assets as at 31.12.2016	**283,918**
Increased credit risk	6,433
Decreased market and settlement risk	-1,366
Decreased operational risk	-947
Decreased other specific risks	-1,213
Risk-weighted assets as at 31.12.2017	**286,825**

Credit risk increased by around 6.4 billion euro, since the increase in RWA resulting from the integration of the Venetian Banks and from the new operations was partially offset by the updating/introduction of new AIRB models and by the repositioning of the EAD towards less risky portfolio segments.
The capital requirements for market risk decreased significantly in 2017 -1.4 billion euro). This performance primarily reflected the smaller size of the portfolio of financial issuers, in addition to the greater exposure in the equity markets.
The reduction of operational risks (-0.9 billion euro) is largely attributable to the historical component of the AMA perimeter, and in particular to the improvement in the risk profile of the historical component of the "Customer" category.

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 31.12.2017
Parent Company's balances as at 31 December 2017	**48,472**	**4,882**
Effect of consolidation of subsidiaries subject to control	1,847	5,300
Effect of valuation at equity of companies subject to joint control and other significant equity investments	210	93
Elimination of adjustments to equity investments and recognition of impairment of goodwill	5,559	295
Dividends collected during the period	-	-3,248
Other	117	-6
Consolidated balances as at 31 December 2017	**56,205**	**7,316**

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.

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

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in 2017.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary. With regard to the Aggregate Set acquired from the former Venetian banks, the income statement contribution for the second half of 2017 and the balance sheet balances as at 31 December 2017 are temporarily allocated in full to the Corporate Centre and will be broken down into the various divisions once the processes are integrated starting from 2018.

Furthermore, please note that the Italian name of the International Subsidiary Banks Division, namely *Divisione Banche Estere,* has been changed to "*Divisione International Subsidiary Banks*".

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
2017	8,884	3,341	1,948	1,879	785	1,067	-461	17,443
2017 *(Excluding the Aggregate Set)*	8,884	3,341	1,948	1,879	785	1,067	-727	17,177
2016	8,625	3,385	2,002	1,740	647	1,172	-596	16,975
% change [(a)]	3.0	-1.3	-2.7	8.0	21.3	-9.0	22.0	1.2
Operating costs								
2017	-4,907	-984	-938	-551	-157	-178	-1,495	-9,210
2017 *(Excluding the Aggregate Set)*	-4,907	-984	-938	-551	-157	-178	-1,024	-8,739
2016	-4,944	-957	-962	-534	-141	-173	-991	-8,702
% change [(a)]	-0.7	2.8	-2.5	3.2	11.3	2.9	3.3	0.4
Operating margin								
2017	3,977	2,357	1,010	1,328	628	889	-1,956	8,233
2017 *(Excluding the Aggregate Set)*	3,977	2,357	1,010	1,328	628	889	-1,751	8,438
2016	3,681	2,428	1,040	1,206	506	999	-1,587	8,273
% change [(a)]	8.0	-2.9	-2.9	10.1	24.1	-11.0	10.3	2.0
Net income (loss)								
2017	1,371	1,615	827	879	493	613	1,518	7,316
2017 *(Excluding the Aggregate Set)*	1,371	1,615	827	879	493	613	1,515	7,313
2016	1,812	1,448	703	710	357	669	-2,588	3,111
% change [(a)]	-24.3	11.5	17.6	23.8	38.1	-8.4		
Loans to customers								
31.12.2017	196,814	109,399	28,637	9,637	361	22	65,876	410,746
31.12.2016	188,317	98,183	26,492	9,597	298	26	41,800	364,713
% change [(b)]	4.5	11.4	8.1	0.4	21.1	-15.4	-25.1	3.1
Direct deposits from banking business								
31.12.2017	175,277	111,940	35,538	30,581	6	-	70,132	423,474
31.12.2016	173,599	112,661	32,978	27,540	8	-	47,019	393,805
% change [(b)]	1.0	-0.6	7.8	11.0	-25.0	-	-27.6	-1.6
Risk-weighted assets								
31.12.2017	86,963	78,510	30,926	10,138	914	-	79,374	286,825
31.12.2016	84,165	103,744	30,013	9,727	1,130	-	55,139	283,918
% change [(c)]	3.3	-24.3	3.0	4.2	-19.1	-	44.0	1.0
Absorbed capital								
31.12.2017	8,044	7,264	3,347	987	102	4,198	7,352	31,294
31.12.2016	7,785	9,597	3,245	949	118	4,186	4,985	30,865
% change [(c)]	3.3	-24.3	3.1	4.0	-13.6	0.3	47.5	1.4

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

[(a)] The change expresses the ratio between 2017 and .2016.
For the Corporate Center the change expresses the ratio between 2017, excluding the Aggregate Set, and 2016.

[(b)] The change expresses the ratio between 31.12.2017 and 31.12.2016.
For the Corporate Center the change expresses the ratio between 31.12.2017, excluding the Aggregate Set, and 31.12.2016.

[(c)] The change expresses the ratio between 31.12.2017 and 31.12.2016.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	2017	2016	Changes amount	Changes %
Net interest income	4,499	4,596	-97	-2.1
Net fee and commission income	4,282	3,940	342	8.7
Income from insurance business	-	-	-	-
Profits (Losses) on trading	68	69	-1	-1.4
Other operating income (expenses)	35	20	15	75.0
Operating income	**8,884**	**8,625**	**259**	**3.0**
Personnel expenses	-3,034	-3,040	-6	-0.2
Other administrative expenses	-1,869	-1,900	-31	-1.6
Adjustments to property, equipment and intangible assets	-4	-4	-	-
Operating costs	**-4,907**	**-4,944**	**-37**	**-0.7**
Operating margin	**3,977**	**3,681**	**296**	**8.0**
Net adjustments to loans	-1,576	-2,039	-463	-22.7
Net provisions and net impairment losses on other assets	-73	-57	16	28.1
Other income (expenses)	-	109	-109	
Income (Loss) from discontinued operations	-	892	-892	
Gross income (Loss)	**2,328**	**2,586**	**-258**	**-10.0**
Taxes on income	-909	-710	199	28.0
Charges (net of tax) for integration and exit incentives	-45	-44	1	2.3
Effect of purchase price allocation (net of tax)	-3	-8	-5	-62.5
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-12	-12	
Net income (loss)	**1,371**	**1,812**	**-441**	**-24.3**

(millions of euro)

	31.12.2017	31.12.2016	Changes amount	Changes %
Loans to customers	196,814	188,317	8,497	4.5
Direct deposits from banking business	175,277	173,599	1,678	1.0
Indirect customer deposits	230,753	224,030	6,723	3.0
Risk-weighted assets	86,963	84,165	2,798	3.3
Absorbed capital	8,044	7,785	259	3.3

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

Banca dei Territori's operating income was 8,884 million euro in 2017, amounting to over half of the Group's consolidated operating income, up 3% on the previous year. In further detail, there was an increase in net fee and commission income (+8.7%), specifically for the asset management segment - which benefited from greater placements of asset management products and certificates - and for the fees on protection products, driven also by the positive performance of medium-/long-term loan disbursements. Net interest income, though benefiting from growing customer dealing, recorded a drop (-2.1%) driven by the more limited contribution from the hedging of core deposits. Among the other revenue components, which however provide a marginal contribution to the Division's income, other net operating income showed positive performance

(+15 million euro) while profits on trading were essentially stable. Operating costs, equal to 4,907 million euro, were down slightly on 2016 (-0.7%) due to the savings on administrative expenses and on personnel expenses. Operating margin amounted to 3,977 million euro, up 8% from the previous year. In contrast, gross income, at 2,328 million euro, was down by 10%, despite lower adjustments to loans, due to the lack of extraordinary income related to the sale of the investment in VISA Europe and the sale of Setefi, both recorded in 2016. Lastly, after allocation to the Division of taxes of 909 million euro, charges for integration of 45 million euro and the economic effects of purchase price allocation for 3 million euro, net income amounted to 1,371 million euro, down 24.3% due to the abovementioned extraordinary income for the year 2016.
In terms of quarterly performance, operating margin was up slightly in the fourth quarter compared to the third quarter, thanks to the improvement in revenues from fees for services, which more than offset the usual increase in operating costs in the final months of the year. In contrast, gross income and, consequently, net income were down due to the higher adjustments and provisions.

Loans to customers of the Banca dei Territori Division came to 196,814 million euro at the end of December 2017, up (+8.5 billion euro, or +4.5%) compared to the beginning of the year, essentially as a result of the increase in medium-/long-term loans to individuals (households and personal loans) and businesses. Direct deposits from banking business, equal to 175,277 million euro, were up 1% on the end of December 2016: the increase in amounts due to customers, mainly in the personal and corporate segments, more than offset the fall in bonds.

Business	Traditional lending and deposit collection operations in Italy and associated financial services.
Mission	To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through: – widespread local coverage; – focus on the characteristics of local markets, and the needs of customer segments serviced; – development of service levels to customers using different channels in order to improve the efficiency of the commercial offering;

– exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, banks and branches as points of reference for the Group at local level;
– exploitation of the company specialised in medium-term lending, leasing, factoring, advisory services and structured finance transactions, reporting to the Business Unit.

Organisational structure	
Marketing, Multichannel Integration, Customer Experience and CRM Departments	Overseeing the Retail sector, which consists of the following segments: Base (individual customers with financial assets of up to 10,000 euro), Households (individual customers with financial assets of between 10,000 euro to 100,000 euro) and Retail Businesses (businesses with less complex requirements); the Personal area (individual customers with financial assets of between 100,000 euro to 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.

Supporting the branches and head office departments in defining the customer journey of commercial processes and development, in managing communications and relations with customers and the related Customer Satisfaction and Net Promoter Score surveys.

Mediocredito Italiano	Specialised in medium-term lending, leasing, factoring, advisory services and structured finance operations to support the needs of investment, development and innovation of businesses and the local areas.
Banca 5	A “proximity bank”, linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Banca Prossima	Serves non-profit organisations.
Distribution structure	Over 4,400 branches, including Retail and Business branches, distributed broadly throughout Italy, as well as the branches of the former Venetian banks. During the year, the network structure consisted of 8 Regional Governance Centres, each of which is in a reporting line to the Regional Manager. There are three Commercial Managers (one specialist for each business area, i.e. Retail, Personal and SME) in each Centre, coordinating around 400 commercial areas, in order to improve commercial focus and ensure the best possible service levels.

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

Marketing, Multichannel Integration, Customer Experience and CRM Departments

Investment

The diversification of customer portfolios continued according to customer needs (spending, reserves, investment and pension) and the Recommended Portfolios. The offer of investment products was extended by: 110 new mutual funds, including three Individual Savings Plans; two products for dynamic management of liquidity of businesses; funds that involve a strategy of gradual entry into the stock market; flexible investment solutions with broad diversification of asset classes and investment strategies; protected investment solutions and funds for investors with excess liquidity; a new process of "Exclusive Insurance", which allows investors to decide whether and to what extent to activate a portfolio protection mechanism, and three multi-line policies: "LaTuaScelta" and "*In*Fondi Stabilità", which protect a percentage of invested capital, and "Progetta Stabilità Insurance", which allows investors to accumulate small sums to carry out future projects; a new individual protection service for the "Unica" and "Unica Facile" portfolio management schemes; and the placement of 39 certificates issued by Banca IMI and two IBRD bonds.
For Retail and Personal customers the new "Valore Insieme" advanced advisory service is available, combining structured consultation and customised recommendations. The service, which is divided into three packages with increasing levels of advice, Specialist, Extended and Wealth, uses detailed analysis of customer requirements to assist them with all their needs, by offering customised solutions in different areas: securities, real estate, protection and security, and, from the first quarter 2018, succession planning.
In order to seize new business opportunities, broaden the customer base and increase assets under administration, an innovative working method has been selected, for the first time in Italy, involving a part-time and open-ended employment contract and a parallel separate independent employment contract for the performance of the role of authorised out-of-branch financial advisor, subject to registration in the Register of Financial Advisors.

Transactional products

XME Salvadanaio is a new transaction service combined with a current account, which can be used on mobile devices (by installing the Intesa Sanpaolo Mobile App) or via Internet banking, and allows customers to easily and quickly put aside even very small amounts to be allocated for future purchases, transferring amounts of money from the available funds on the account, periodically allocating set amounts or rounding up payments. Intesa Sanpaolo was one of the first banks in Italy to offer its customers the instant euro credit transfer service, based on the SEPA Instant Credit Transfer programme of the European Payment Council, with the possibility of sending and receiving payments in real time with the sole condition of holding a current account. Instant credit transfers, which can be executed in seconds at any time, allow the beneficiaries to have the amount immediately available on their account.

Loans

For current account holders with a multi-channel contract that has been active for at least 30 days, "PerTe Prestito Diretto" is the new special-purpose loan that can be purchased online, which, thanks to agreements entered into on each occasion with a merchant, enables customers to buy the desired asset/service through a loan disbursed directly to the merchant and with favourable financial terms, thanks to the contribution from the merchant.

Mortgages

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

Intesa Sanpaolo Casa

As part of the process of development and expansion of services provided to customers, with the goal of becoming a comprehensive point of reference for "home needs", the growth continued of Intesa Sanpaolo Casa, a Group company dedicated to residential real estate brokerage, which operates through 41 agencies for trading (of which 27 traditional agencies and 14 satellite agencies), an agency dedicated solely to institutional customers and an online agency solely for sales, with the latter having won the "MF Milano Finanza Innovazione Award 2017" as the most innovative product in 2017 in the non-financial services category.

Protection

In the motor sector, the offer range of the "ViaggiaConMe" policy has been simplified, with a focus on the revision of unlimited distance plan, with a new percentage discount on renewal if the distance travelled in the previous year is less than 6,500 km, and on a new version of the consumption-based plan, which allows customers to pay premiums based on the actual use of the vehicle and has been extended to all vehicles; the consumption-based plan has an entry premium for the first 3,500 km differentiated and discounted according to the age of the vehicle, with a quarterly supplement for any additional kilometres travelled and a maximum cap for the premium equal to the premium for the unlimited distance plan.

Young people

A special focus is reserved for young people, by combining products and services specifically conceived for that target and engagement initiatives, in order to become established as the preferred bank for younger customers. As part of the "Alternanza Scuola-Lavoro" work-study project, promoted to knock down the wall between school and work and favour knowledge of the working world for young people in the last three years of secondary school, training laboratories were organised, with opportunities for active learning. In addition, Intesa Sanpaolo was the main sponsor for the second year of X-Factor, Sky's musical talent show, and the "Festival dei Giovani di Gaeta", and a sponsor of

the Milan Games Week, the most important videogame event in Italy, and the 2017 edition of Lucca Comics&Games, the leading Italian festival dedicated to the world of games and fantasy.
To facilitate the financial inclusion of the younger generations, the age limit for “XME Conto”, which allows customers to benefit from a reduction in the total monthly fee, was raised from 26 to 30. Furthermore, agreements continued to be signed with new entities with regard to “PerTe Prestito Con Lode”, a product aimed at particularly deserving students, to provide them with access to credit, supporting them in their educational development.

Multichannel Project

In 2017, Intesa Sanpaolo further strengthened its position in the multi-channel and digital banking segments (with 7 million multi-channel customers and 5.3 million apps downloaded), becoming Italy’s leading digital bank. A fundamental part of this process was the launch of the new digital platform for Retail customers, with the completion of the migration to the new Internet Banking, used by almost 50% of customers even before the shutdown of the old platform, which began in September and ended in November. During the year, around one million My Key contracts were activated. This is a new multichannel contract that automatically links all the products and services owned by customer to the digital channels and enables OkeySmart, the new latest-generation OTP software, in line with the requirements of the new European PSD2 regulations.
The new “Intesa Sanpaolo Mobile” App has been available since the beginning of 2017. In addition to the option of carrying out common transactions, it offers new services that simplify access to the Bank's various channels: operations without the need for the physical token; withdrawals from ATMS without using cards; emergency withdrawals through which customers can have third parties withdraw cash from any ATM of the Group banks in Italy using only their smartphones; Online Branch immediately available for personalised assistance; new functionalities for payments using smartphones via JiffyPay, Masterpass and PAyGO.
Two additional specific Apps are also available: “Intesa Sanpaolo Investimenti”, for asset management and trading, and “Market Hub”, which provides information on global markets and key analysis indicators.
The activation of new multi-channel purchase processes continued, with the XME Conto opening made available online and the restyling of the lending process, including the launch of the sale of personal loans also to non-customers, together with the new “guest area” section of the public website.
The multi-channel evolution of the product catalogue was further extended to include portfolio management schemes, class I, III and multi-line life insurance policies, as well as the protection products of the "Remote offering", already available for primary and secondary markets, mutual funds, personal loans, and debit, credit and prepaid cards. The document dematerialisation process - which has generated estimated savings of approximately 9 billion euro for 2017 due to the elimination of signatures on paper at all Retail and Personal branches and the exclusive use by customers of their graphometric or digital signature to sign agreements that have already been dematerialised - was extended to the sale of mortgages and the signing of the “ViaggiaConMe”, “MotoConMe”, “Interventi Chirurgici”, “Malattie Gravi”, “Prevenzione e Salute” and “Casa ConMe” policies. That process already involved the main accounting documents at the counter, all the investment products, including portfolio management schemes, signing and after-sales of class I, III or multi-line policies, opening the “XME Conto” account and deposits under administration, payment cards, personal loans and the main regulatory documents, such as due diligence, FATCA, IVASS, CONSOB and Privacy questionnaires.
There was also significant growth in the Online Branch, which, with the opening of two new branches, now operates in 11 offices (2 in Milan and one in Turin, Padua, Bologna, Florence, Rome, Naples, Lecce, Cagliari and Trapani) with over 800 employees, consisting of online operators and coordination personnel, who provide information, operational and commercial assistance (also on a co-browsing basis) and relational support to the customers of all the network banks of the Banca dei Territori and to prospect customers. During the year, the Online Branch sold almost 40,000 products remotely, including loans, payment cards, investments and protection products.

Retail Businesses

In 2017, “Best” was launched - an excellence programme for Retail Companies, a category that includes small businesses and micro enterprises (artisans, restaurants, small hotels, farmers and merchants) and freelance professionals. Through this initiative, the Bank develops commercial offerings designed based on the needs of the segment (facilitating access to credit), promotes contact channels and the training of managers, as well as the tools that support them to bring them ever closer to those companies.

Agreements

In cooperation with the Confindustria associations, the new three-year agreement, signed in November 2016 with Confindustria Piccola Industria, was rolled out at local level. The agreement, referred to as “Progettare il futuro. Accelerazione, trasformazione digitale, competitività", is made up of four pillars: Corporate ecosystems and business integration, finance for growth, human capital and new entrepreneurship, which provides companies with up to 90 billion euro, to make use of the opportunities provided by the “fourth industrial revolution”. Under the national Industria 4.0 plan, which supports and encourages innovation processes, investment in new technologies and digitisation of businesses, agreements were also signed with UCIMU – Sistemi per Produrre, the Italian association of machine tool manufacturers, ASSIOT (the Italian association of transmission and gearbox manufacturers) – ASSOFLUID (the Italian association of manufacturers of the oleo hydraulic and pneumatic industry), associations belonging to Federmacchine Confindustria, which represent a total of over 300 companies in the mechanical engineering sector, and ANFIA (the Italian association of the automotive supply chain manufacturers), which brings together over 290 companies from the automotive industry. These agreements provide targeted support to the member companies and their customers, in the form of loans, non-financial services, sales support, specific measures to facilitate international expansion and exports, training programmes and support in the development of innovative projects.

New rating model

Also thanks to its long-term collaboration with Confindustria Piccola Industria, Intesa Sanpaolo has developed an innovative rating model, validated by the ECB, which, together with the usual economic and financial assessment, also assigns value to intangible qualitative factors, in terms of easier access to credit and more favourable financial terms and conditions. These include trademarks, patents, quality and environmental certifications, research and development, innovation and digitisation, development and competitive positioning projects, management of business risk, ownership and management, as well as membership of a chain.

Sviluppo Filiere

The "Sviluppo Filiere" programme, an innovative project launched by Intesa Sanpaolo, which focuses on the relationship between companies and their suppliers, had reached over 519 participating lead companies by the end of the year, with a potential of 15 thousand suppliers, for a turnover of over 70 billion euro. The initiative, which brings together the most important industrial segments in the national economy, has been expanded by the "Confirming" tool, a new project designed by Mediocredito Italiano, which finances receivables due to suppliers by the lead company (using without recourse factoring), optimising the management of working capital within the production chain. "Confirming" substantially transfers risk to the company purchasing the goods and services (lead company or buyer), which is granted a credit ceiling, used by the suppliers in the factoring application.

Loans

In relation to the Industria 4.0 National Plan of the Ministry of Economic Development and the measures in the Stability Law 2017 regarding tax incentives for new capital equipment investments necessary for technological upgrades (Super-depreciation and Hyper-depreciation), Intesa Sanpaolo has set up new solutions to support the growth of companies in the fourth stage of the industrial revolution. Alongside the specialist support, the commercial proposal involves the joint offering of a medium-/long-term loan covering up to 100% of the investment and a short-term optional credit line to support working capital in the form of advances on trade receivables, in the maximum amount of 50% of the amount of the investment or the approval of a maximum credit limit, with loan options that can be combined with each other, capable of ensuring financial support to businesses' investment plans.
The Intesa Sanpaolo Group continued its commitment to supporting households and businesses affected by earthquakes and environmental disasters in Italy, with the provision of new subsidised loans dedicated to restoring damaged structures, suspensions of payments on outstanding loans, actions in the area of protection and preferential, simplified and expedited procedures for new instruments. In particular, in relation to the continuing emergency situation in the areas of Central Italy hit by earthquakes in 2016 and 2017, a fund of 20 million euro has been allocated to cancel mortgages on primary residences for homes that were destroyed or are 100%-inaccessible.

Agriculture

Confirming the Group's commitment to support agricultural and agrifood companies in Italy, the partnership was expanded with the Ministry of Agricultural, Food and Forestry Policies (MIPAAF), with which a three-year agreement "Diamo credito all'agroalimentare italiano" (Granting Credit to Italian Agrifood) was signed in 2016. This expansion involved an increase of the credit ceiling allocated for the period 2017-2019 from 6 to 8 billion euro, the provision to customer businesses in the sector of a self-assessment questionnaire, an upgrade of the offering and services, with insurance policies personalised based on the needs of agribusiness and the activation of a revolving pledge on milk-dairy products.

Product companies

In 2017, **Mediocredito Italiano** recorded a sales volume of medium- and long-term products of 6.4 billion euro, up 21.3% (+1.1 billion euro) compared with 2016, whilst factoring turnover was 63.1 billion euro, up 9.4% on the previous year (+5.4 billion euro).
Mediocredito Italiano disbursed loans totalling around 5 billion euro, improving by 25.3% compared to 2016 (+1 billion euro). With 4.5 billion euro of loans disbursed (+30%), the Banca dei Territori Division accounts for 89.6% of total volumes, whilst the Corporate and Investment Banking Division, with 471 million euro (-14%), represents 9.4% of volumes disbursed.
The Specialist Desks dedicated to the principal economic sectors generated a total of almost 704 million euro of medium- and long-term loan disbursements (14% of the total), down by around 2% compared to 2016. During the year, the Structured Finance Advisory organisational unit, which originated transactions of 369 million euro, became fully operational.
In 2017, Mediocredito Italiano maintained the selective strategy for assets eligible for financing in the leasing segment, aimed at mitigating credit risk, and recorded new contracts for a value of 1.4 billion euro, up 8.6% on 2016 (+112 million euro). Contracts entered into by customers of the Banca dei Territori Division amounted to around 1.3 billion euro (+5%), representing 89.6% of total volumes. Customers in the Corporate Division signed contracts totalling 147 million euro, equal to 10.4% of total volumes (+44% on the previous year).
Turning to the commercial performance of the factoring business, Mediocredito reported a turnover of 63.1 billion euro, up over 9% on the previous year, retaining its position as the number-one domestic factoring provider by turnover. Non-recourse factoring accounted for 9.8% of factoring business, up on the figure for 2016. Compared with 31 December 2016, outstanding receivables, equal to 14.3 billion euro, posted an increase (+3%) and period-end loans amounted to 12.1 billion euro (+4%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated, equal to 16.3 billion euro, represent 25.8% of the total turnover, up on the figure for 2016 (+6.3%).

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
The bank has around 20,700 customers which are owners of the non-captive points of sales (-2.8% compared to 2016) located throughout the country. The decrease was due to an improvement in the composition, with the transition of around

2,500 customers to the latest generation terminal and the closure of low yield and old technology accounts. During the year, the new business linked to retail customers served through non-captive points of sale was implemented, with the equipping of 2,570 non-captive points of sale, which offer SPID, Flash cards, loans, insurance, payment accounts and assistance services, in addition to traditional products. The services provided are classified into three main macro areas: services for individuals (postal and bank bill payment slips, F24 tax forms, car property tax, mobile phone and prepaid card top-ups, for the traditional business, and the abovementioned products, for the new business) with around 86 million transactions carried out at the non-captive points of sales in the year, with an amount transacted of 6.7 billion euro (+4.5% on 2016 net of the INPS voucher services suspended in March); services for businesses, relating to the collections of businesses through SDD, which generated around 0.9 million transactions, with an amount transacted of 1.6 billion euro (+45%); services to the non-captive points of sale, relating to fees for current accounts and use of the terminal, revenues for account activation and for credit line services (+10% in terms of revenues).

Banca Prossima

Banca Prossima operates in the non-profit sector through 84 local branches and 273 specialists distributed throughout Italy. At the end of December, the bank had approximately 62,000 customers. Financial assets amounted to 6 billion euro, of which 3.5 billion euro of direct deposits, while lending operations presented an approved amount of 2.7 billion euro, of which 1.8 billion euro had been used. In 2017, the bank disbursed loans amounting to 293 million euro (+39.3% compared to 2016) and placed 328 million euro (+45.1%) of asset management products.
The bank launched its new service model in 2017, which introduced new customer segmentation to align the service to the value and complexity of the customers. To strengthen its role in the Group as the “leading bank for the non-profit sector”, Banca Prossima has produced a commercial plan of 48 initiatives aimed at developing relations with non-profit organisations and better meet their needs.
During 2017, on the basis of the agreement signed with the EIB in December 2016, the bank disbursed 12 loans totalling over 40 million euro, mainly in the social and health sector. The bank continued to offer distinctive solutions dedicated to the non-profit sector, such as the Terzo Valore crowd-lending portal through which 15 projects have been published.
The agreement signed at the end of 2016 between the bank, the Società Nazionale di Mutuo Soccorso Cesare Pozzo and Intesa Sanpaolo enabled the disbursement of 40 loans to members in 2017, amounting to almost 200,000 euro.
Together with Mediocredito, in addition to continuing the ABI-ACRI protocol for the assignment of tax receivables of the Banking Foundations subscribing to the Fund for combating the lack of education of minors, in October, the bank subscribed to the ABI-MISE-CDP protocol for the strengthening of the social economy. This subsidy provided by the Ministry of Economic Development is aimed at promoting the dissemination and strengthening of the social economy, supporting the establishment and growth of companies operating, throughout the country, for the pursuit of worthy general interests and social benefit purposes.
Lastly, in 2017 the bank developed national and local commercial agreements, which provide for the supply of products and services at conditions reserved to subscribers.

Corporate and Investment Banking

(millions of euro)

Income statement	2017	2016	Changes amount	Changes %
Net interest income	1,592	1,447	145	10.0
Net fee and commission income	925	1,111	-186	-16.7
Income from insurance business	-	-	-	-
Profits (Losses) on trading	805	808	-3	-0.4
Other operating income (expenses)	19	19	-	-
Operating income	**3,341**	**3,385**	**-44**	**-1.3**
Personnel expenses	-389	-372	17	4.6
Other administrative expenses	-593	-582	11	1.9
Adjustments to property, equipment and intangible assets	-2	-3	-1	-33.3
Operating costs	**-984**	**-957**	**27**	**2.8**
Operating margin	**2,357**	**2,428**	**-71**	**-2.9**
Net adjustments to loans	-154	-333	-179	-53.8
Net provisions and net impairment losses on other assets	-1	-10	-9	-90.0
Other income (expenses)	85	33	52	
Income (Loss) from discontinued operations	-	-	-	-
Gross income (Loss)	**2,287**	**2,118**	**169**	**8.0**
Taxes on income	-665	-664	1	0.2
Charges (net of tax) for integration and exit incentives	-7	-6	1	16.7
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)	**1,615**	**1,448**	**167**	**11.5**

(millions of euro)

	31.12.2017	31.12.2016	Changes amount	Changes %
Loans to customers	109,399	98,183	11,216	11.4
Direct deposits from banking business [(a)]	111,940	112,661	-721	-0.6
Risk-weighted assets	78,510	103,744	-25,234	-24.3
Absorbed capital	7,264	9,597	-2,333	-24.3

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

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

In 2017, the Corporate and Investment Banking Division earned 3,341 million euro in operating income (representing around 20% of the Group's consolidated figure), down on the previous year (-1.3%).
In detail, net interest income of 1,592 million euro was up (+10%), mainly as a result of the greater contribution from customer dealing. Net fee and commission income, equal to 925 million euro, declined by 16.7%, primarily due to the negative performance of the commercial banking segment (which includes loans, guarantees and interbank services) and the investment banking segment. Profits on trading, amounting to 805 million euro, were substantially stable compared to 2016. Operating costs amounted to 984 million euro, up 2.8%, primarily due to higher personnel expenses as a result of the increase in the average workforce related to business development. Administrative expenses were essentially impacted by higher legal fees of Banca IMI on its international operations. As a result of the revenue and cost dynamics described above, the operating margin came to 2,357 million euro, slightly lower than in the previous year (-2.9%). Gross income, equal to 2,287 million euro, grew by 8%, benefiting from lower adjustments to loans, as well as the proceeds from the partial disposal

of the stake in NTV and the fair value measurement of the remaining equity investment following its reclassification under companies not subject to significant influence. The NTV transaction was overseen by the Structured Finance team of Banca IMI, as part of the core business of the Corporate and Investment Banking Division.
Finally, net income came to 1,615 million euro, compared to 1,448 million in 2016 (+11.5%).
The Corporate and Investment Banking Division posted a significant improvement in revenues and the main income margins in the fourth quarter compared to the third quarter.

With regard to intermediated volumes, loans to customers, totalling 109,399 million euro at the end of December 2017, were up by 11.2 billion euro (+11.4%) year-on-year, both in the short-term and medium-/long-term component, also due to increased levels of repo transactions by Banca IMI and the higher amounts of loans by Intesa Sanpaolo Bank Luxembourg, whereas direct deposits from banking business, at 111,940 million euro, remained essentially stable over the twelve months.

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, representative 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, also 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, availing itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The specialist coverage by industry includes all industrial sectors: Automotive & Mechanics; Basic Materials & Healthcare; Energy & Utilities; Food & Beverage and Distribution; Global EPC & Integrated Logistics; Infrastructure & Real Estate Partners; Oil & Gas; 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 S.A., Intesa Sanpaolo Bank Ireland Plc and Intesa Sanpaolo Brasil S.A. - Banco Multiplo), ensuring their overall coordination.

Financial Institutions Department

The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its highly sophisticated approach to relations with such customers is widely diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.

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 Corporate & Strategic Finance

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

Distribution structure

In Italy, the Corporate and Investment Banking Division has a total of 28 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 2017, the Global Corporate Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking transactions to the benefit of Italian and international customers. The Department continued to support the economic activities of both corporate customers, consisting of individual companies or national groups with over 350 million euro in turnover and international groups, and public customers consisting of Central State Administrations, Local Entities and the so-called “public corporate entities” (companies with public participation of strategic importance in the services and infrastructure sectors). The specialist skills gained consequently to the Industry model contributed to making the commercial activity more effective, adjusting it to the customers’ specific needs and allowing for important transactions with Italian and international company customers.
The Department participated in numerous syndicated loans, including the refinancing in favour of Softbank for the acquisition of Sprint and ARM, the financing of the Acciona Group for the construction of the Dubai metropolitan railway, the project financing with the consortium engaged to build the Toledo hospital and the structured export finance transaction for the construction of a wind farm in Chile.
It also acted as joint lead arranger and joint bookrunner for Ternium in the underwriting for the acquisition of the Brazilian company CSA Companhia Siderúrgica do Atlântico, as mandated lead arranger, bookrunner and facility agent in the syndicated loan in favour of Wind Tre, and as mandated lead arranger in the loans to Becton Dickinson for the acquisition of CR Bard and to the LVMH Group for the acquisition of Christian Dior.
It took part in the loan to Fortum, for the launch of the voluntary takeover bid on Uniper, and the financing transactions of the Maire Tecnimont Group, the NTV Group and the Pirelli Group.
Other transactions included the debt optimisation with the Petrobras Group and the financial support granted to the Volkswagen Group and the Tecnica Group.
In 2017, the Department continued its M&A operations, such as the work carried out in the acquisition of Giochi Preziosi by Artsana, of SAVE (Finint Group) by InfraVia e DWS, and in the sale from Edison to Snam of the company Infrastrutture Trasporto Gas and of a share of Terminale GNL Adriatico.
With regard to the Debt Capital Markets business, the Bank acted as bookrunner in the bond issues of CNH, RCI Banque, ATM, Invitalia, Pedemontana Veneta, Engie, Italgas and Esselunga.
The Bank also acted as financial debt advisor of Atlantia in the voluntary takeover bid and/or public exchange offer on all shares issued by Abertis and acted as sole bookrunner in a major important private placement of bonds issued by a leading operator in the Oil & Gas sector.
The Global Corporate Department participated in global programmes to support multinational companies, in senior roles, specifically standing out as main bank in the supply chain financing of the various divisions of the Jab Group, world leader in the coffee sector.
Moreover, in synergy with the Banca dei Territori Division, the activity regarding "Programma Filiere" continued with the aim of promoting production chains of excellence in the Italian entrepreneurial system.
A series of activities were carried out connected to the Industry 4.0 project which, following on from that set out in the Industria 4.0 National Plan, aim to propose the Group as a strategic partner in technological development initiatives, in order to stimulate investments, digital transformation and the acceleration of competitiveness of national production. To that end, for example, Intesa Sanpaolo supported the EVO project of the Bonfiglioli Group, one of the leading players in the mechanical engineering sector.
Lastly, dialogue continued with numerous customers sensitive to sustainability issues linked to the circular economy and work in this area included the issue of the green bonds of Iren, Enel and Ferrovie dello Stato.

International Department

In 2017, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets. As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling corporate and investment banking products on various target customers.
Specific attention was paid to promoting business in the Gulf region and in the geographical areas where the Department has recently expanded its presence.
Transactions with international customers included loans in the roles of bookrunner and mandate lead arranger in the Jewel and Expolink Route 2020 projects for the expansion of the Dubai airports and metropolitan railway, and the Lobster project for acquisition of a share of Oman Telecom by Oman Investment Fund.
The Department also acted as mandate lead arranger in the acquisition of Amec Foster Wheeler by John Wood Group PLC and for the National Treasury of Kenya for the development of two dams and agricultural infrastructure in Kenya.
As part of the funding of two private public partnership projects for the construction of hospitals in Turkey, significant hedging derivative transactions were concluded, involving both cross currency and interest rate hedging.
The development actions were accompanied by targeted measures to increase the efficiency of direct coverage, such as the closing of the Casablanca, Tunis and Santiago de Chile representative offices, in addition to the Grand Cayman branch. The Department’s current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and 3 subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A.). This network increasingly represents the right blend of customer relations and offering of products in specific markets.

Financial Institutions Department

In 2017, the banking industry continued to face major challenges, both in terms of macroeconomic conditions and of developments in the regulatory and competitive landscape. In this context, the market saw several major bank aggregations and restructurings, in addition to equity and debt issues. The Intesa Sanpaolo Group supported its own customers in several of these international and domestic operations, including the capital increases of Deutsche Bank, Credit Suisse, UniCredit and UBI, and disposals and securitisations of non-performing loans by domestic operators.
In 2017, growth continued in the asset management and near-banking sectors, thanks to the increase in volumes – driven by the strong performance of the markets (asset management) and the economic recovery (near-banking) - and the development of innovative lending business models created by new operators in the near-banking sector. In this sector, Intesa Sanpaolo, also due to the strong interest shown by international operators in domestic assets, has strengthened its leadership by assisting customers with advisory services and financing for acquisitions of both performing and non-performing loan portfolios.
With regard to insurance customers, Intesa Sanpaolo has been particularly effective on the commercial front, by offering innovative product solutions that have enabled these customers to achieve significant funding targets.
The Bank also participated in the placements of securities of the Ministry for the Economy and Finance, Cassa Depositi e Prestiti and Azimut, and major financing transactions in the Real Estate sector with operators such as Coima, Investire Immobiliare and Dea Capital Real Estate, in addition to significant banking-industry level transactions including those relating to the company REV Gestione Crediti and the National Resolution Fund.
In 2017, the strong demand continued for financial support for exports of Italian and international customers of Intesa Sanpaolo to emerging countries. As a result of its work in the export credit sector over the last few years, the Bank has been involved in major transactions, with leading roles in structuring loans and in direct relationships with exporters and buyers of Italian products. In 2017, major transactions were completed with countries such as Cameroon, Qatar, Angola and Kenya, and operations in the commodity financing sector were very positive. Transactions were carried out with large Russian operators in the fertiliser and metal sectors (Metalloinvest, Suek and Acron) and the hydrocarbons sector (KazmunaiGas) and opportunities were seized with counterparties in the Middle East (Oman) and Asia such as the Sinochem and China National Offshore Oil Co. groups. The supply chain finance sector recorded positive growth. In this sector, the Bank focuses on customers operating in mature markets (America and Europe).
In the area of activities with financial sponsors (private equity funds, SPACs and Sovereign Wealth Funds), volumes of activity remained high, with continued interest in Italian companies from domestic and international operators in this sector. Intesa Sanpaolo was involved in several sponsor-driven transactions, including the sale of Avio Spazio to Space 2 (SPAC), the purchase of a controlling interest in the Prenatal Retail Group by Artsana (Investindustrial), the purchase of Bormioli Pharma by Triton Capital Partners, and the listing of the SPACs Crescita, Sprintitaly and IdeaMi.

Global Transaction Banking Department

In 2017, the Global Transaction Banking Department strengthened its commercial coverage of transactional products, expanding its network of specialists both in Italy and abroad.
In the area of commercial support to the Group Divisions, numerous initiatives were launched on traditional and innovative transactional products.
As regards the development of new services, cash management and trade finance solutions were released, also launching strategic development solutions in order to expand the offering.
The Department also actively participates in events to promote transaction banking products and services to customers.

Proprietary Trading

In 2017, Proprietary Trading made a positive contribution to the income statement, in terms of revenues, which was better than in 2016.
The risk exposure to structured credit products amounted to 2,279 million euro as at 31 December 2017 with respect to funded and unfunded ABSs/CDOs, compared to 2,471 million euro as at 31 December 2016. There were no exposures in structured packages, compared to 7 million euro as at 31 December 2016. In this context, the exposure to funded and unfunded ABSs/CDOs designated at fair value, excluding the positions coming from the Venetian banks of 5 million euro, went from 2,081 million euro in December 2016 to 2,029 million euro in December 2017.
The hedge fund portfolio, held for trading, totalled 270 million euro as at 31 December 2017 compared to 352 million euro recorded as at 31 December 2016. The reduction of the portfolio is attributable to the distributions and redemptions that started in the second quarter of last year and continuing also this year, aimed at reducing the risk level of the exposure.

Global Markets and Corporate & Strategic Finance

In 2017, the strong performance of the activities carried out by the Global Markets Area were driven, in particular, by Banca IMI's involvement in the disposal of non-performing loans by financial intermediaries. In this area, the Solutions segment was very active both in the management of sales processes and in the financing of potential buyers. The Equity area benefited from the high liquidity transferred into the Individual Savings Plans and the work carried out by Banca IMI in various roles in the placement of transactions on capital markets (SPACs and IPOs). Several derivative position management transactions were completed during the year, thanks to the direct approach with corporate customers and the sharing of customers of primary interest with the main investment banks. The performance of certificate issuing operations was very positive: Banca IMI was elected "Issuer of the Year" at the Italian Certificate Awards 2017, also thanks to an offering mainly concentrated on capital protection issues and to the excellent volumes achieved in the Group's sales network.

In the Securitisation and Risk Transfer Solutions area, Banca IMI maintained its leadership in Italy in the structuring and active management of credit risk, continuing to offer the Group and corporate customers and financial institutions solutions designed to optimise funding and economic and regulatory capital, deconsolidating non-core and non-performing assets and improving net financial position. In 2017, securitisations were carried out both for Group customers and numerous Italian financial intermediaries for different types of assets (consumer loans, receivables underlying lease contracts, and residential mortgages). Major international transactions were completed, with loans to companies operating in consumer credit and the participation in programmes for the disposal of receivables for large corporate groups. The Risk Transfer Solutions segment participated in different roles in numerous disposal and/or financing transactions for portfolios of non-performing loans of Italian banks and securitisations of non-performing loans backed by the government guarantee scheme.

In the Equity Capital Markets segment, Banca IMI maintained its usual coverage with the engagement as global coordinator in the Pirelli IPO (the largest IPO of the year in Europe), in the SPACs (Special Purpose Acquisition Companies) Ideami (the first institutional SPAC promoted by Banca IMI and DeA Capital), Crescita and SprintItaly, and the IPO of Gamenet, Indel B and Alkemy. Regarding capital increases, it acted as joint bookrunner in the UniCredit and Il Sole 24 Ore transactions and as co-bookrunner in the UBI transaction. At international level, it acted as joint bookrunner in the capital increases of leading European banks and, as co-bookrunner, in the Edf transaction. It also acted as coordinator in the public takeover bid made by Italmobiliare and the bid carried out on Dada.
With regard to M&A Advisory operations, the most significant transactions involved the Energy segment, where Banca IMI provided its services to Gruppo Maccaferri, Edison, BKW and Novapower for several asset disposals. In the TMT (Technology, Media and Telecommunications) sector, it supported Abertis in the sale of Infracom, and in the Consumer & Healthcare sector it assisted Artsana in the acquisition of a stake in the JV Prénatal Retail Group. It also worked in the food sector for NB Renaissance Partners, in the Industrial sector for IMR Industries, and in the Infrastructure sector for a consortium of Investors in the acquisition of a controlling interest in SAVE and the subsequent mandatory takeover bid.
In the Debt Markets, Banca IMI acted as bookrunner in the Italian Corporate Investment Grade segment for the private placement of ENI and numerous transactions with major Italian counterparties, including Esselunga, Salini Impregilo, FCA Bank, Telecom Italia, Atlantia, Italgas, Nuovo Trasporto Viaggiatori (NTV), and CNH Industrial, and in the International Corporate Investment Grade segment for the Telefonica hybrid bond and the issues of General Motors, FCE Bank and RCI Bank. In the Corporate High Yield segment, it acted as bookrunner in the Wind jumbo bond and in the private placements of Saras and Bormioli Pharma, as well as the Virgin Media and Mercury Bondco issues. In the Financial Institutions segment, it handled the senior issues of the Group and the issues carried out by Italian issuers, including Cattolica Assicurazioni and Veneto Banca, and by international issuers, including SoGen, CFF, Deutsche Bank, Goldman Sachs and BNP Paribas. Also of note was the work carried out in the area of Green Bonds, where Intesa Sanpaolo was the first Italian bank to make its debut as a green issuer, reflecting its commitment to the growth of sustainable finance in Italy, which was followed by the issuance of the inaugural green bond of Ferrovie dello Stato. Banca IMI also acted as dealer manager in various tender offers, including the one for Kedrion, and in the exchange offer of the Italian Republic.
With regard to Structured Finance operations, in 2017 the bank continued to conclude transactions by developing cross-selling and synergies within the Group. Operations at international level were intensive, with the participation in numerous top deals at world level (Sibanye, Airport Financing Company and Ista). Operations in the Italian market also continued with major financing transactions aimed at developing projects, acquisitions or refinancing in the various sectors of operations: project financing (Atlantia, Italy-France Interconnector, Nuovo Trasporto Viaggiatori, Wind and Save), leveraged finance (Marco Polo and Pirelli), corporate (Fiat Chrysler Automobiles, Gruppo Arnault/Christian Dior and LVMH, Teva, Esselunga, and Enel) and real estate (Fondo Atlantic 1, Fondo Trophy Value Added and Fondo Immobili Pubblici).

International Subsidiary Banks

(millions of euro)

Income statement	2017	2016	Changes	
			amount	%
Net interest income	1,346	1,428	-82	-5.7
Net fee and commission income	493	483	10	2.1
Income from insurance business	-	-	-	-
Profits (Losses) on trading	177	108	69	63.9
Other operating income (expenses)	-68	-17	51	
Operating income	**1,948**	**2,002**	**-54**	**-2.7**
Personnel expenses	-518	-533	-15	-2.8
Other administrative expenses	-338	-341	-3	-0.9
Adjustments to property, equipment and intangible assets	-82	-88	-6	-6.8
Operating costs	**-938**	**-962**	**-24**	**-2.5**
Operating margin	**1,010**	**1,040**	**-30**	**-2.9**
Net adjustments to loans	-208	-221	-13	-5.9
Net provisions and net impairment losses on other assets	8	-8	16	
Other income (expenses)	196	71	125	
Income (Loss) from discontinued operations	-	31	-31	
Gross income (Loss)	**1,006**	**913**	**93**	**10.2**
Taxes on income	-162	-179	-17	-9.5
Charges (net of tax) for integration and exit incentives	-20	-31	-11	-35.5
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	3	-	3	-
Net income (loss)	**827**	**703**	**124**	**17.6**

(millions of euro)

	31.12.2017	31.12.2016	Changes	
			amount	%
Loans to customers	28.637	26.492	2.145	8,1
Direct deposits from banking business	35.538	32.978	2.560	7,8
Risk-weighted assets	30.926	30.013	913	3,0
Absorbed capital	3.347	3.245	102	3,1

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

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

In 2017, the Division's operating income came to 1,948 million euro, down 2.7% compared to the previous year (+8.1% at like-for-like exchange rates). This trend was influenced by the depreciation of the Egyptian pound in 2016 following the announcement by the Central Bank of Egypt that it will allow the currency to float. A detailed analysis shows that net interest income came to 1,346 million euro compared to 1,428 million euro for 2016 (-5.7%), mainly due to the trends reported by Bank of Alexandria (-61 million euro), VUB Banka (-16 million euro) and CIB Bank (-10 million euro). Net fee and commission income, equal to 493 million euro, increased (+2.1%) compared to 2016. Profits on trading, amounting to 177 million euro, increased significantly (+63.9%) thanks to increased contributions from Bank of Alexandria (+23 million euro), VUB Banka (+22 million euro) and Banca Intesa - Russia (+4 million euro) and dividends from Bank of Qingdao (+17 million euro).

Operating costs of 938 million euro decreased by 2.5% (+4.9% at like-for-like exchange rates). As a result of the above, revenue and cost trends, the operating margin came to 1,010 million euro, down 2.9% (+11% at like-for-like exchange rates). Gross income, amounting to 1,006 million euro, increased compared to the 913 million euro for 2016 (+10.2%), benefiting from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect, a 10.6% decrease is recorded compared to the previous financial year (+4% at like-for-like exchange rates), when a portion of the capital gain deriving from the sale of the equity investment in VISA Europe was recorded. The Division closed 2017 with net income of 827 million euro, up compared to 703 million euro for 2016 (+17.6%).
In the fourth quarter of 2017, the operating margin declined compared with the third quarter, as a result of the increase in operating costs. Gross income and net income were adversely impacted by the increase in adjustments to loans and provisions.

The Division's intermediated volumes grew compared to the end of December 2016 (+7.9%) owing to positive performance of loans to customers (+8.1%) and direct deposits from banking business (+7.8%), in both amounts due to customers and securities issued.

In 2017, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, product range and information technology.
Specifically, in the commercial area, the development of new digital channels continued in Croatia, Hungary and Egypt, as well as the extension of the Customer Relationship Management methodology to Slovakia and the implementation of the advisory model in investment services, which has been activated in Croatia and Slovenia, and will start up shortly in Slovakia and Hungary. With a view to strengthening and optimising the presence of the international subsidiary banks in their geographical areas of operation, the integration of the Bosnian bank into the Croatian group was completed. During the period, the authorisation process was completed for the acquisition of the bank in Slovenia by the bank in Croatia and the transfer from Intesa Sanpaolo of the controlling interest in the Slovenian bank to the Croatian bank was also completed. In the area of loans, the Early Warning System platform, already activated in the main countries, was also extended to Hungary, Romania and Albania. The common platform for granting loans, already operational at many international subsidiary banks, was also launched in Hungary.

Business

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

Mission

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

Organisational structure

South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary.
Commonwealth of Independent States & South Mediterranean	Presence in Egypt and the Russian Federation.

Distribution structure

Over 1,000 branches in 11 countries.

South-Eastern Europe

In 2017, the operating income of the Privredna Banka Zagreb Group amounted to 506 million euro, up compared to 2016 (+4.8%), due to the favourable performance of fee and commission income and profits on trading. Operating costs of 199 million euro increased slightly (+0.7%) due to the rising trend in personnel expenses. The operating margin came to 307 million euro (+7.6%). Gross income came to 222 million euro (-19.7%), impacted by the increase in adjustments to loans. Net income came to 167 million euro (-17.5%).

Banca Intesa Beograd, including Intesa Leasing Beograd, generated operating margin of 132 million euro, up 2.9% on 2016. Operating income increased by 1.7%, primarily due to the performance of fee and commission income and net interest income. Operating costs were stable with respect to the previous year. Gross income amounted to 111 million euro, up 21.4%, following the lower adjustments to loans, while net income was 99 million euro (+20.9%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed 2017 with an operating margin of 21 million euro, up on the previous year (+2.3%). This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Gross income, amounting to 16 million euro, dropped slightly (-0.2%) on 2016, while net income came to 13 million euro (-7.8%).

Intesa Sanpaolo Bank Albania reported an operating margin of 18 million euro, down on 2016 (-17.2%), due to the fall in revenues and the increase in operating costs. Gross income amounted to 15 million euro (-26.7%). Net income, equal to 12 million, fell by 25.8%.

Intesa Sanpaolo Bank Romania recorded an operating margin of 10 million euro, down (-26.3%) compared to the previous year due to the declining trend in operating income (-11.5%), primarily attributable to lower interest income. The company showed net income of 9.3 million euro, compared to net income of 2.9 million euro for 2016.

Central-Eastern Europe

Intesa Sanpaolo Bank Slovenia generated operating income of 76 million euro, down 1.6% compared with the previous year due to the decline in net interest income and net fee and commission income. Costs remained more or less stable compared to 2016. Gross income fell by 68.1%, also due to the absence of other income and the gains from disposals recognised in 2016. The same trend was seen in net income, which amounted to 4.2 million euro.

The VUB Banka group generated an operating margin of 272 million euro, slightly down (-0.4%) on the previous year due to an increase in operating costs (+2.9%), which more than offset the growth in operating income (+1.1%). On the revenue side, profits on trading and net fee and commission income increased. Gross income, equal to 232 million euro, grew by 5.7% due to releases of allowances for risks and charges and lower adjustments to loans. Net income came to 175 million euro (+11.6%).

The CIB Bank Group (excluding the FUT business unit, which now houses the non-performing loans managed by the Capital Light Bank) recorded operating income of 162 million euro, down 3.9% on 2016, mainly due to the decrease in net interest income. Operating costs recorded savings (-3.7%), especially in administrative expenses. Net income recorded a positive balance of 41 million euro, compared to net income of 52 million euro for the previous year.

Commonwealth of Independent States & South Mediterranean

Banca Intesa – Russia posted a decrease in operating income (-10.2%) attributable to the negative performance of net fee and commission income and net interest income. Operating costs rose by 3.4% in relation to the expansion of personnel expenses and higher amortisation and depreciation. Net adjustments to loans amounted to 5.5 million euro, down considerably compared to 2016. The bank ended 2017 at essentially break even compared to a profit of 4.8 million euro in the previous year.

Bank of Alexandria reported an operating margin of 184 million euro, lower than in 2016 (-2.8%), due to the depreciation of the Egyptian pound. Operating income of 282 million euro declined (-14.9%) as a result of the aforementioned depreciation, which had a negative impact on all components (+55.5% at like-for-like exchange rates). Operating costs declined (-31.1%; +26.1% at like-for-like exchange rates), as a result of the exchange rate effect on all expense captions. Net income came to 122 million euro, up slightly (+0.6%) on 2016 (+84% at like-for-like exchange rates).

Private Banking

(millions of euro)

Income statement	2017	2016	Changes amount	%
Net interest income	171	175	-4	-2.3
Net fee and commission income	1,673	1,527	146	9.6
Income from insurance business	-	-	-	-
Profits (Losses) on trading	25	31	-6	-19.4
Other operating income (expenses)	10	7	3	42.9
Operating income	**1,879**	**1,740**	**139**	**8.0**
Personnel expenses	-315	-292	23	7.9
Other administrative expenses	-221	-227	-6	-2.6
Adjustments to property, equipment and intangible assets	-15	-15	-	-
Operating costs	**-551**	**-534**	**17**	**3.2**
Operating margin	**1,328**	**1,206**	**122**	**10.1**
Net adjustments to loans	8	6	2	33.3
Net provisions and net impairment losses on other assets	-36	-44	-8	-18.2
Other income (expenses)	8	-	8	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (Loss)	**1,308**	**1,168**	**140**	**12.0**
Taxes on income	-392	-339	53	15.6
Charges (net of tax) for integration and exit incentives	-33	-35	-2	-5.7
Effect of purchase price allocation (net of tax)	-4	-84	-80	-95.2
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)	**879**	**710**	**169**	**23.8**

(millions of euro)

	31.12.2017	31.12.2016	Changes amount	%
Assets under management [1]	114.660	104.129	10.531	10,1
Risk-weighted assets	10.138	9.727	411	4,2
Absorbed capital	987	949	38	4,0

[1] Figures restated in line with consolidated reporting criteria of indirect customer deposits.

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

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

In 2017, the Division generated gross income of 1,308 million euro, up (+140 million euro, or +12%) compared to the previous year as a result of higher operating income (+139 million euro) - attributable to the increase in net fee and commission income (+146 million euro) and lower provisions (-8 million euro), as well as the recording of a capital gain on the sale of a property (+8 million euro). The drop in provisions was mainly due to the discounting of the allowances for risks, which, due to the rising trend of the interest rate curve, led to a lower charge to the income statement. Operating costs moved in the opposite direction (+17 million euro), due to the increase in personnel expenses related to the quantitative and qualitative strengthening of the workforce, only partially offset by a reduction in administrative expenses.

Net income was 879 million euro (+169 million euro, or +23.8%).

The values of assets under administration have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.
As at 31 December 2017, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 182.7 billion euro (+16.7 billion euro compared to the end of 2016). That performance was largely due to higher net inflows and, to a lesser extent, the effect of performance on assets. The assets under management component amounted to 114.7 billion euro, up by 10.5 billion euro (+10.1%) compared to 31 December 2016.

The Board of Directors of Fideuram approved the integration of the two fiduciary companies of the Private Banking Division by merger by incorporation of Fideuram Fiduciaria into Sirefid with the aim of creating the first Italian operator dedicated exclusively to fiduciary activities, capable of best meeting the needs of high-end customers of the Private Banking Division.

Within the project for the international development of the Division, a strategic opportunity was identified in the acquisition of the holding company of the Morval Vonwiller Group, operating in private banking and wealth management, with head office in Switzerland and international presence. Accordingly, the Board of Directors of Fideuram approved the purchase of around 95% of the share capital of Morval Vonwiller and the simultaneous sale by Morval of its treasury shares to the management team, under the same conditions as agreed with Fideuram, up to a maximum amount of 5% of the share capital.

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 more than 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of around 900 in-house private bankers.
SIREFID	Company specialised in the provision of fiduciary services.
Distribution structure	Network of 223 branches in Italy, three branches abroad and 5,950 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	2017	2016	Changes amount	%
Net interest income	1	1	-	-
Net fee and commission income	718	567	151	26.6
Income from insurance business	-	-	-	-
Profits (Losses) on trading	3	11	-8	-72.7
Other operating income (expenses)	63	68	-5	-7.4
Operating income	**785**	**647**	**138**	**21.3**
Personnel expenses	-76	-64	12	18.8
Other administrative expenses	-80	-76	4	5.3
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-157**	**-141**	**16**	**11.3**
Operating margin	**628**	**506**	**122**	**24.1**
Net adjustments to loans	-	-	-	-
Net provisions and net impairment losses on other assets	-	1	-1	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (Loss)	**628**	**507**	**121**	**23.9**
Taxes on income	-116	-139	-23	-16.5
Charges (net of tax) for integration and exit incentives	-1	-	1	-
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-18	-11	7	63.6
Net income (loss)	**493**	**357**	**136**	**38.1**

(millions of euro)

	31.12.2017	31.12.2016	Changes amount	%
Assets under management	253,161	238,804	14,357	6.0
Risk-weighted assets	914	1,130	-216	-19.1
Absorbed capital	102	118	-16	-13.6

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

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

Overall, the total assets managed by the Asset Management Division at the end of December 2017 came to 253.2 billion euro, up (+6%, equal to +14.4 billion euro) year-on-year, mainly as a result of net inflows (+10.2 billion euro). The trend in inflows is attributable to the contribution of mutual funds (+9.8 billion euro) and institutional mandates (+1.7 billion euro), mostly concentrated in insurance contracts, which more than offset the outflows relating to the retail sale of portfolio management schemes (-1.2 billion euro).
As at 31 December 2017, Eurizon Capital's market share of assets under management was 15.2% (gross of duplications and excluding the closed-end funds segment, in which the company does not operate), up since the beginning of the year.

Operating income came to 785 million euro in 2017, up 21.3% compared to the previous year, due to the positive performance of net fee and commission income (+26.6%), supported in particular by management fees related to the growth in average assets under management and in incentive fees received on the managed products. Operating costs rose (+11.3%) due to personnel and administrative expenses, as a result of the change in the operational structures triggered by the increase in volumes under management, as set out in the Division’s development plan. As a result of the above revenue and cost trends, the operating margin came to 628 million euro, up 23.9%. The Division closed 2017 with net income of 493 million euro (+38.1%).

In terms of quarterly performance, the fourth quarter showed growth in revenues and the main income margins compared to the third quarter, benefiting from the incentive fees collected in December.
The capital gain on the sale of the equity investment in Allfunds Bank has been allocated to the Corporate Centre, even though it was included in the results of Eurizon Capital for statutory reporting purposes, in view of the type of transaction involved, which took place as part of the management of the Group's equity investments portfolio.

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 Associati SGR	Specialised in active portfolio management, and in particular in quantitative and multi-strategy management, with total return investment objectives. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Banca IMI.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital S.A., established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital S.A., which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
Penghua Fund Management Company Limited	Chinese fund manager 49% owned by Eurizon Capital SGR.
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.
Qingdao Yicai Wealth Management Co. Ltd.	A Chinese company headquartered in Qingdao, established on 30 September 2016. The company is 20%-owned by Eurizon Capital SGR, 55%-owned by Intesa Sanpaolo and 25%-owned by Fideuram-Intesa Sanpaolo Private Banking.

Insurance

(millions of euro)

Income statement	2017	2016	Changes amount	Changes %
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	1,077	1,179	-102	-8.7
Profits (Losses) on trading	-	-	-	-
Other operating income (expenses)	-10	-7	3	42.9
Operating income	**1,067**	**1,172**	**-105**	**-9.0**
Personnel expenses	-80	-71	9	12.7
Other administrative expenses	-95	-100	-5	-5.0
Adjustments to property, equipment and intangible assets	-3	-2	1	50.0
Operating costs	**-178**	**-173**	**5**	**2.9**
Operating margin	**889**	**999**	**-110**	**-11.0**
Net adjustments to loans	-	-	-	-
Net provisions and net impairment losses on other assets	-2	-12	-10	-83.3
Other income (expenses)	-	21	-21	
Income (Loss) from discontinued operations	-	-	-	-
Gross income (Loss)	**887**	**1,008**	**-121**	**-12.0**
Taxes on income	-248	-315	-67	-21.3
Charges (net of tax) for integration and exit incentives	-9	-5	4	80.0
Effect of purchase price allocation (net of tax)	-17	-19	-2	-10.5
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)	**613**	**669**	**-56**	**-8.4**

(millions of euro)

	31.12.2017	31.12.2016	Changes amount	Changes %
Assets under management	152,691	144,321	8,370	5.8
Risk-weighted assets	-	-	-	-
Absorbed capital	4,198	4,186	12	0.3

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

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

In 2017, the Insurance Division reported income from insurance business of 1,077 million euro, showing a decline of 102 million euro (-8.7%) compared to the previous year, primarily due to the reduction in the contribution of the financial component. In the presence of an increase in operating costs (+5 million euro), due to personnel expenses as a result of the higher average workforce associated with business development, income before tax from continuing operations stood at 887 million euro, a decrease of 121 million euro (-12%) compared to 2016 and net income amounted to 613 million euro (-8.4%).

Direct deposits from insurance business, amounting to 152,691 million euro, increased by 8.4 billion euro (+5.8%) compared to the end of December 2016, as a result of higher financial liabilities for the insurance segment designated at fair value.

Collected premiums for life policies amounted to 22.5 billion euro, down 5.9% compared to 2016. During 2017 the diversification of the product range continued, in favour of efficient products in terms of capital absorption.

Collected premiums for the non-life business, amounting to 0.4 billion euro, recorded a favourable performance on the previous year, with growth recorded in all product lines. The increase in deposits reflects the diversification strategy launched in 2016 and continued in 2017, with the marketing of new products linked to the health and accident segments, and with a product range dedicated to small and medium-sized enterprises.

During the year, the Insurance Division expanded its commercial offering by launching the new multi-line policy "*In*Fondi Stabilità$_{\text{Insurance}}$", a medium-/long-term investment that offers a platform of underlying assets that feature guarantees, protection and performance opportunities to freely allocate assets with a high degree of delegation and advisory services. The new multi-line product, "Fideuram Vita Sintonia", sold through Fideuram's financial advisors network, was launched during the year. This is an individual single-premium life insurance policy with the possibility of additional payments and benefits partly linked to the performance of the segregated management and partly to the value of units in one or more internal and external funds. The product provides access to an investment line that has individual protection for a part of the invested capital.

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

Business	Life and Non-Life Insurance.
Mission	Develop the offering of insurance products for the Group's customers.
Organisational structure	
Intesa Sanpaolo Vita	Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The Company owns 100% of Intesa Sanpaolo Life and Intesa Sanpaolo Assicura, as well as 49% of Intesa Sanpaolo Smart Care.
Intesa Sanpaolo Life	Specialised in life insurance products with a higher financial content, such as unit-linked products and life insurance policies linked to internal funds.
Intesa Sanpaolo Assicura	Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection.
Intesa Sanpaolo Smart Care	Dedicated to marketing hardware and software products and providing electronic assistance services. The company is 51% owned by Intesa Sanpaolo, with the remaining 49% held by Intesa Sanpaolo Vita.
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 Capital Light Bank business unit, Treasury and ALM.

The Corporate Centre Departments generated a negative operating margin of 1,751 million euro in 2017 – excluding the contribution from the acquired Aggregate Set – compared to -1,587 million euro in the previous year. The largest movements were recorded in other net operating income and net interest income. The latter was attributable to the Treasury securities portfolio, due to the drop in both volumes and returns, and the portfolio of non-performing loans of Capital Light Bank, subject to deleveraging. The operating costs of the Corporate Centre are charged back to the business units, based on the amounts relating to the performance of services, governed by specific agreements. Net of services, the Corporate Centre costs for steering, control and coordination (in addition to those of the CLB and Treasury business units) increased compared to 2016. Gross income, net of the public contribution of 3,500 million euro related to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, amounted to -2,228 million euro (-2,850 million euro in 2016). The year 2017 ended with a net loss of 1,985 million euro (again net of the aforementioned contribution), lower than the -2,588 million euro recorded last year. The loss for the year included 637 million euro due to charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company's control, in addition to 12 million euro relating to the Aggregate Set.

With regard to the former Venetian banks, as previously indicated, the income statement contribution for the second half of 2017 and the balance sheet balances as at 31 December 2017 have been temporarily allocated in full to the Corporate Centre and will be broken down into the various divisions once the processes are integrated starting from 2018.

Capital Light Bank

In 2017 the ordinary and extraordinary transactions carried out on the assets held by the Capital Light Bank continued with the aim of reducing the non-core assets. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced further, bringing the deleveraging since the beginning of the year to around 6 billion euro and total deleveraging since 2013 to over 23 billion euro, reaching the target set in the Plan. Considering the extended scope (including the assets contributed after the definition of the Business Plan), the decrease amounted to over 27 billion euro. At the end of February, the reorganisation of consumer credit was completed with the incorporation into the Parent Company of Accedo, the product company specialised in the extra-captive channel; therefore, the Banca dei Territori Division remains the only Division designated to develop this product for all Group's customers. With regard to the bad loan portfolio under management, the recovery activity continued, both internally and through external servicers, with collections of around 1.4 billion euro during the year, up 17% on 2016. This result was also achieved thanks to initiatives aimed at improving recovery performances, setting up dedicated incentive systems, as well as through recovery campaigns targeted to specific portfolios with specific objectives. In terms of extraordinary transactions, in June the sale was completed to Christofferson Robb & Company and Bay View A.M. of a portfolio of bad loans amounting to around 2 billion euro and in November a portfolio of non-performing consumer loans was sold for a nominal amount of around 600 million euro. Actions were also taken on the bad loans originating from lease contracts managed by Provis to speed up the reduction of the stock, in particular through the disposal of the contracts of the securities segment and sale of repossessed assets. During the period, Re.O.CO. carried out activities with a view to managing real estate collateral in a more pro-active manner. This entails both direct involvement in auctions and "auction support", whereby external investors are encouraged to intervene, by choosing the interventions so as to maximise the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In 2017, driven by supporting action and direct participation in auctions for over 200 properties, approximately 40 million euro of properties were bought. Concerning the international subsidiaries, the deleveraging and derisking activities involving the Ukrainian bank Pravex and the FUT Division of the Hungarian subsidiary CIB Bank continued, reaching the overall targets set in the Bank's 2014-2017 Business Plan. In addition, interventions aiming to accelerate a reduction were carried out on the non-strategic equity investments, loans towards public and project finance counterparties.

Treasury services

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

In the third quarter of the year, Intesa Sanpaolo continued to carry out its role in various projects, confirming its role as a critical participant on the ECB settlement platforms (Target2 and Target2 Securities) and cooperating in relation to "Instant Payments". The work of the Task Force on the future of the RTGS (Real Time Gross Settlement System) Services was completed; in December the project that will lead to the creation of the new single Central Bank platform obtained the approval from the Governing Council.

As regards the money market, in the first part of the year attention was focused on the rise of inflation in Europe and, in June, on the removal of references to the possibility of lower interest rates in the forward guidance provided by the European Central Bank. Subsequently, the Governing Council of the ECB decided to leave the benchmark interest rates unchanged, to provide support for economic growth with the aim of reaching inflation levels close to 2%. During the year, the fourth auction was held of the T-LTRO II programme, in which Intesa Sanpaolo participated for an amount of 12 billion euro, taking the total funding to around 57 billion euro. Please note that, as a result of the acquisition of certain assets and liabilities and certain legal relationships of Veneto Banca and Banca Popolare di Vicenza, the total funding through ECB long-term auctions rose to 63.5 billion euro. In view of the favourable economic situation driven by a strong labour market and low inflation, in December

the Federal Reserve raised official rates by a quarter of a percentage point to 1.5%, representing the third tightening in the year. The amount of Intesa Sanpaolo's short-term securities funding programmes was down in the early months of the year mainly due to negative interest rates. Operations subsequently picked up in all the individual short-term securities funding programmes, both in euro and US dollars, which were also boosted by the improvement in the credit rating issued by S&P at the end of October.
Concerning the government bond portfolio, investment strategies were aimed at reducing the risk in January, then exploiting market dynamics to re-establish positions on bonds issued by governments and state agencies of semi-core and peripheral countries in February and March. Those positions were reduced in the second quarter, always preserving the need to maintain a sufficient stock of liquidity reserves. Subsequently, operations remained at low levels, with slight reductions in credit risk on the overall portfolios in order to exploit the favourable trend in the markets. With regard to repo transactions, after the significant increase seen in the first half of the year, volumes remained substantially unchanged. Spreads between the repo rates of government bonds of the core countries and Italian government bonds tightened slightly during the early part of the year and then remained essentially stable, except for the widening at the end of each quarter. Italian repo rates were stable at levels just below that of the depo facility.
In terms of medium-/long-term funding operations, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 4.2 billion euro in the year. Among the securities placed, there was a prevalence of the component consisting of structured financial instruments (primarily represented by index-linked structures) at 78%. The residual share consisted of plain-vanilla instruments. A breakdown by average maturity shows that 11% is comprised of financial instruments with 2- and 3-year maturities, 38% is represented by 4-, 5- and 6-year securities and the remaining 51% by 7-, 8- and 10-year securities.
On the international markets, medium-/long-term funding was completed for a total of 10.8 billion euro through the issue of senior and subordinated bonds as well as, to a minimum extent, certificates, placed on the Euromarket with institutional investors. In particular, the following public transactions were performed during the year: a fixed-rate senior security targeted at the Euromarket for 1 billion euro (with a 7-year maturity); a fixed-rate Additional Tier 1 subordinated security targeted at the international markets for 1.25 billion euro (which have characteristics in line with the "CRD IV" regulations, as they are perpetual instruments with maturity equal to the duration of Intesa Sanpaolo as per its articles of association, which may be redeemed in advance by the issuer after 10 years from the date of issue and subsequently on each coupon payment date); a floating-rate senior security for 1.5 billion euro (with 5-year maturity); a fixed-rate Additional Tier 1 subordinate security for 750 million euro which has characteristics in line with the "CRD IV" regulations, redeemable in advance after 7 years from their issue, on each coupon payment date (this transaction completed the issue programme of subordinated AT1 securities envisaged in the 2014-2017 Business Plan for a total of 4 billion euro); a fixed-rate green bond for 500 million euro with 5-year maturity (the first bond issued by an Italian bank to finance projects dedicated to renewable energy); and a fixed-rate senior security for 2.5 billion USD (corresponding to around 2.2 billion euro), aimed at the US market. The security was issued in dual tranche form: 1.25 billion USD at 5 years and 1.25 billion USD at 10 years.
As part of the covered bond issue programmes used as collateral for transactions in the Eurosystem, for the multi-originator programme guaranteed by ISP OBG, the 9th and 10th series expiring in 2017 were redeemed in advance in February, for 1.4 billion euro each. Following these redemptions, the 23rd and 24th floating-rate series were issued for the same amount with a maturity of 9 and 10 years respectively. The securities were subscribed by the Parent Company and are eligible on the Eurosystem.
As part of the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was redeemed partially for an amount of 500 million euro. In May, the 13th series was issued for 1.65 billion euro, at a floating rate and maturing in 7 years, which is also eligible on the Eurosystem.
As part of the covered bond issue programme guaranteed by ISP CB Ipotecario, in June a new issue of covered bonds was placed on the institutional market, the 22nd fixed-rate series, for 1 billion euro and a 10-year maturity. The securities are listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's.
In the area of self-securitisations, in November the special purpose vehicle company Adriano Lease Sec. issued two tranches of floating-rate securities for a total amount of 4.2 billion euro on assets sold by Mediocredito Italiano. Both securities were subscribed by the originator: the senior security, amounting to 2.8 billion euro, obtained an A1 rating from Moody's and an A rating from DBRS and is eligible on the Eurosystem.
A second multi-originator self-securitisation on a portfolio of residential mortgages was completed in December by the special purpose vehicle company Brera Sec. which issued two tranches of floating-rate securities for a total of 7.1 billion euro. The securities were subscribed by each originator: Intesa Sanpaolo, Cassa di Risparmio del Friuli Venezia Giulia, Cassa dei Risparmi di Forlì e della Romagna, Banco di Napoli and Cassa di Risparmio in Bologna, in amounts proportional to the portfolio sold. Only the senior class, amounting to 6 billion euro, with an A (high) rating from DBRS and Aa2 from Moody's, is eligible on the Eurosystem.
As regards management of the collateral eligible for refinancing operations at central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of December 2017, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was 12.9 billion euro.

Active Value Management (AVM)

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

Integrated Operational Strategies Area

In particular, the Integrated Operational Strategies Area worked to ensure the definition and development of the target technological model of Intesa Sanpaolo and of efficient and effective organisational solutions, aimed at supporting the implementation of the initiatives scheduled under the Business Plan and the programs for compliance to sector-specific regulations, as well as to define the guidelines and policies in terms of physical, IT and business continuity security and to manage back office processing activities related to finance, securities, banking services, loans, services and systems for collection and payment in Italy and abroad, while pursuing the efficiency needed for optimum cost governance.
In 2017, working with and supporting the Group structures, the IOS Area performed a central role in the implementation of the integration project for the former Venetian banks, through the migration to Intesa Sanpaolo’s IT system and the related certification activities; the alignment to the target organisational model, supporting intragroup mobility operations; a series of urgent transitional and compulsory tasks, including the regulatory frameworks and intragroup services; and the integration of operations structures, ensuring overall project governance and operational coordination of activities to guide and support the structures during the changeover.
In 2017, the management and monitoring continued of the main projects at Group level that cut across the entire Company or are common to several structures (Areas, Divisions or companies) and have a high degree of complexity.
In 2017, the Group also continued its commitment to implementing IT projects to support the development of new businesses and to optimise and streamline processes, complete the development of multi-channel retail services, implement new methods of data governance and simplify the corporate structure as set out in the Business Plan. The Area Structures contributed to the execution of measures required by the evolution of the domestic, EU and international regulatory frameworks. The insourcing of activities for the purpose of reducing costs and reappropriating competencies continued as well. In 2017, the activities in the Group IT Plan also continued, for the purpose of increasing the central role of the customer, improving the “user experience”, reducing time-to-market in the creation of IT solutions, supporting the end-to-end digitisation of processes and strengthening IT governance.
See the Executive Summary for a more detailed description of the main cross-cutting projects and IT implementations that the IOS Area actively contributed to.

Chief Innovation Officer Area

The Chief Innovation Officer Governance Area has the task of identifying, analysing and developing innovation activities, guaranteeing their monitoring, coordination and consistency at Group level, searching for innovative solutions on the national and international markets to identify development opportunities for the Group and its customers. The Area defines, in line with business strategies and objectives, the guidelines and policies on Group's innovation, proposing new projects that are in line with the main innovation trends, so that they can be translated into actions to support the achievement of the Bank's growth objectives.
This structure governs innovation initiatives and the related investments, along with the competent company structures, taking on the most appropriate role each time to achieve successful projects. The Area, in partnership with the other Group structures, also acts as the driver of innovation initiatives throughout the country, building a national and international network of relations with the ecosystem, promoting valuable partnerships with companies, incubators, research centres, universities and other institutions. The structure also pursues the objective of disseminating the culture of innovation within the Group.

The initiatives promoted by the Innovation Center during 2017, working with the other departments of the Bank, can be attributed to two main areas of action, and are listed below:

Structural/Ongoing activities in the CIO Area

- Consolidation of the Group Innovation Portfolio for 2017, which represents the Bank's commitment to investing resources in innovation;
- Coordination of innovation partnerships with national and international universities, research centres, companies and incubators;
- Cross-industry innovation monitor;
- Application of service design to various project areas;
- Continuation of the StartUp Initiative cycle of events for the acceleration of international start-ups in Italy and abroad (London, Hong Kong and New York), with the training of over 160 start-ups for subsequent presentation at investors (Seed/VC Funds and Angel Investors), corporate customers and players in the innovation ecosystem;
- Online offering of services of the Officine Formative, the training, coaching and acceleration process for early-stage start-ups;
- Creation of events and workshops to disseminate and promote the culture of innovation and increase the Bank's positioning, involving internal and external stakeholders (colleagues, customers, institutions and start-ups).

New initiatives to compete in the world of tomorrow

Initiatives to promote and create new digital capabilities, also through the development of Fintech initiatives
- Digital payments, with the creation of prototypes to identify the best customer experience for digital payments using innovative technologies;
- Blockchain and Virtual Currencies, with the continuation of the consortium and institutional collaboration to assess the application of blockchain technology in accordance with the regulatory and functional requirements typical of the traditional financial world;
- Artificial intelligence: in this area the Innovation Center Lab on artificial intelligence has been established in partnership with a leading research centre, with the aim of responding to the specific needs of the Group using "non-traditional" approaches;
- Biometrics: with the creation of prototypes for identifying biometric solutions aimed at simplifying the user experience and continuous monitoring of activities to identify abnormal behaviour for anti-fraud purposes;
- Neuroscience: with the launch of a Laboratory in collaboration with a recognised national research institute aimed at identifying new models of communication, engagement and learning in the field of marketing and training, aimed at internal and external customers;
- Insurance: with the creation of prototypes for the development of life and non-life insurance solutions, using new models and technologies, and the proposal of innovative medical solutions.

Circular Economy:
In relation to the Circular Economy, the activities planned as part of the partnership signed with the Ellen MacArthur Foundation continued.
Initiatives were also launched, both in Italy and internationally, to promote awareness and adoption of the circular economy paradigm, in collaboration with the Bank's Business Units and Head Office Structures.

Initiatives for the development of new products/services to support innovation for businesses:
- Diligence Assessment Tool Scorecard (DATS): work was carried out on the integration of the technological due diligence tool into the credit granting process for innovative start-ups;
- A guaranteed convertible loan for innovative companies: this initiative aims to expand the Group’s financial range of products and services supporting high potential innovative Italian companies by offering guaranteed loans with an option of conversion to equity.
- Banking for Industry 4.0: a project to support the Business Units and Group companies in the expansion and innovation of service offerings for corporate customers, both in terms of advisory services and financing, with new ad hoc products to support customers in the transition to Industry 4.0.
- New open innovation services: this involved the development of a range of services aimed at promoting innovation of enterprises through scouting, research into ad hoc technological solutions, development of dedicated call and start-up selection programmes, and access to innovation demand and supply match-making platforms.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
2017	13,173	3,211	1,059	17,443
2017 *(Excluding the Aggregate Set)*	12,917	3,201	1,059	17,177
2016	12,986	2,888	1,101	16,975
% change [(a)]	-0.5	10.8	-3.8	1.2
Loans to customers				
31.12.2017	343,857	53,383	13,506	410,746
31.12.2016	306,142	43,773	14,798	364,713
% change [(b)]	1.2	21.1	-8.7	3.1
Direct deposits from banking business				
31.12.2017	354,297	60,946	8,231	423,474
31.12.2016	329,445	57,902	6,458	393,805
% change [(b)]	-3.2	4.3	27.5	-1.6

Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

[(a)] The change expresses the ratio between 2017 excluding the Aggregate Set and 2016.

[(b)] The change expresses the ratio between 31.12.2017 excluding the Aggregate Set and 31.12.2016.

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 76% of revenues and 84% of loans to customers and direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean area (Egypt).

As regards the performance of operations in 2017, loans to customers were up in Italy and Europe and down in the rest of the world, while direct deposits from banking business showed declining volumes in Italy and rising volumes in Europe and the rest of the world. As regards the operating income, the substantially stable performance in Italy was offset, though with more contained absolute values, by an increase in Europe and a fall in the rest of the world.

Corporate governance and remuneration policies

Corporate Governance and remuneration policies

Corporate Governance

Intesa Sanpaolo adheres to the objectives and guidelines of the Corporate Governance Code for listed companies, and its one-tier corporate governance system is 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 a set of information, precisely 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 and the most recent available information, as at 31 December 2017 shareholders with stakes exceeding 3% – threshold that, if exceeded, requires now communication to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – were as follows.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,308,804,043	8.252%
Black Rock Inc.[1]	794,646,624	5.010%
Fondazione C.R. di Padova e Rovigo	767,029,267	4.836%

Shareholders being fund management companies may be exempted from disclosure up to the 5% threshold.

[1] Fund management. Shareholder owning aggregate investment equal to 5.106% as per form 120 B dated 4 July 2017.

One-tier governance system

Intesa Sanpaolo has adopted 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 a committee within the Board of Directors, made up entirely of independent Directors appointed by the Shareholders' Meeting (the Management Control Committee); the management functions, without prejudice to the powers reserved for the Board of Directors, mainly fall to the Managing Director and CEO-Chief Executive Officer.
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 Law 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 Management Committees, in performing the tasks and powers assigned to them by the Board of Directors within the scope of specific Regulations; individually or jointly, in exercising the powers conferred upon them by the Board of Directors at the proposal of the Managing Director.

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 Director, Chairman and Deputy Chairperson of the Board of Directors and Chairman and member of the Management Control Committee;
- the approval of the Board Directors' 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 Internal 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 Directors 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 27 April 2016, determined the number of members of the Board of Directors as 19 and appointed the Board of Directors for the 2016/2017/2018 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.

The Board of Directors is responsible for corporate management. The Board 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 guidance and strategic supervision powers for the Company and the duty to resolve on all the relevant corporate deeds.

As regards the corporate management function, the Board of Directors, without prejudice to its powers that cannot be delegated, 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 28 April 2016 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; such powers were subsequently updated in July 2017.
The Managing Director is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his/her assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors. He/she is responsible for personnel management and determines operational directives.

The Board of Directors has established four internal committees that support it in carrying out its functions:
- 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 Directors to ensure that the composition of the body, in terms of size and professionalism, makes it possible to fulfil its duties efficiently.
- Remuneration Committee: it proposes, advises and enquires on remuneration and incentive matters, thereby supporting the Board of Directors.
- Risks 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 27 April 2016, who appointed as its Chairman Marco Mangiagalli. 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 deemed necessary for the performance of its duties or in the event that, in the performance of its duties, it should detect reprehensible facts of significant severity and urgent measures need to be taken.

The operating structure

Intesa Sanpaolo's Head Office Departments are organised according to a model that is in line with international best practices in terms of Corporate Governance.
The Head Office Departments report to the Chief Officers, who report directly to the Managing Director and CEO.
Until 31 December 2017, the Bank had operated with the system set out below.

Chief Operating Officer (COO)
The Chief Operating Officer (COO) is responsible for:
- defining, in accordance with corporate strategies and objectives, the Group's organisational, IT, logistic, operational and security guidelines and policies, working with Intesa Sanpaolo Group Services;
- coordinating the implementation of said guidelines and policies by the relevant Group business units, and in other corporate areas as appropriate;
- verifying, through the appropriate control methods and in collaboration with Intesa Sanpaolo Group Services, compliance with the guidelines and policies in the aforementioned areas, ensuring, in accordance with the Business Plan, the achievement of cost synergies and excellent quality service.

Also reporting to the COO is the Human Resources Department, which is responsible for:
- contributing, consistently with corporate strategies and objectives, to the definition of guidelines and policies on human resources of the Group;
- managing internal communication initiatives aimed at encouraging the development of Group values and culture;
- promoting the professional development of human resources through the planning, implementation and management of adequate systems and operating processes;
- defining, in accordance with the Business Units and other Departments, the training guidelines and policies for the Group, monitoring their implementation;
- ensuring, in accordance with the Business Units and other Departments, proper qualitative-quantitative coverage of required staff to achieve the strategic objectives of the Group;
- defining the employment and trade union relations policies;
- managing the pension aspects and employment-related disputes;
- coordinating and handling administrative, accounting, tax and social security obligations for Group personnel;
- coordinating the operations of the Human Resources units of the Departments, Business Units and Group companies.

Chief Innovation Officer (CIO)
The Chief Innovation Officer (CIO) was made responsible for:
- searching and analysing innovative solutions on the national and international market, in order to identify development opportunities for the Group and for customers in both the banking and non-banking sectors;
- defining, in line with business strategies and objectives, the guidelines and policies on Group's innovation, thereby proposing to the Managing Director and CEO new projects that are in line with the main innovation trends, so that they can be translated into actions for development and/or new business lines to pursue the achievement of the Group's growth objectives, measuring the related financial return;
- managing, through the Innovation Agenda, innovation initiatives and the related investments, both at the Bank and Territorial level, taking on the most appropriate role from time to time to achieve successful results;
- acting, in partnership with the other Group departments, as the driver and enabler of innovation initiatives in the local areas, building a network of relations with companies, start-ups, incubators, research centres, universities and other local entities;
- disseminating the culture of innovation within the Group, supporting and managing specific project phases.

Chief Lending Officer (CLO)
The Chief Lending Officer (CLO) is responsible for:
- making material lending decisions, or submitting them to the relevant bodies, and supervising non-performing loans;
- coordinating the implementation of credit guidelines and strategies by the relevant Bank and Group business units, and in other corporate areas as appropriate;
- participating, in accordance with the corporate strategies and objectives, in the definition of the Bank's and Group's guidelines in terms of lending strategy and credit risk acceptance and management, directly authorising pertinent matters;

Chief Financial Officer (CFO)
The Chief Financial Officer (CFO) is responsible for:
- defining, in accordance with corporate strategies and objectives, the guidelines and policies in terms of research, planning, capital management, credit strategies, management control, and relations with investors and rating agencies;
- facilitating value creation within the Group and ensuring the relative controls, through integrated monitoring of study and research activities, planning, management control and capital management, and optimisation of the financial and credit portfolios;
- coordinating the implementation of guidelines and policies on planning, capital management and management control by the relevant Group business units, and in other corporate areas as appropriate;
- verifying the implementation of said guidelines and policies, also through monitoring of the Group's planning and capital management process, budget development and management control activities;
- verifying, through the appropriate control methods, compliance with the guidelines and policies defined and ensuring the pursuit of effectiveness and efficiency in the service level offered;
- ensuring – thanks to the presence within his governance area of the Manager Responsible for Preparing the Company's Financial Reports pursuant to the provisions of article 154-bis of the Consolidated Law on Finance (TUF) – 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.

The CFO 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 Compliance Officer (CCO);

The Chief Compliance Officer (CCO) is responsible for:
- supervising the identification and monitoring of any misalignment of current regulations, and arranging consulting, support and awareness-rising of corporate functions as regards regulations;
- ensuring the monitoring of compliance risk in terms of anti-money laundering, combating the financing of terrorism and embargo management.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO) is responsible for:
- defining, in accordance with corporate strategies and objectives, guidelines and policies on risk management, compliance and legal matters;
- coordinating the implementation of guidelines and policies on risk management by the relevant Group business units, and in other corporate areas as appropriate;
- guaranteeing the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- guaranteeing the credit quality monitoring and the observance of credit guidelines and strategies through the constant monitoring of risk, and submitting proposals on the structure of delegated powers of the Corporate Bodies.

Chief Governance Officer (CGO)

The Chief Governance Officer (CGO) is responsible for:
- ensuring assistance and advice to the corporate bodies of the Parent Company and to Top Management in terms of proper implementation of corporate law and for the supervisory regulatory profiles at Group level;
- providing assistance in all corporate transactions involving the Parent Company and Group companies;
- handling the obligations connected to the corporate governance of all Group companies, Board of Directors' operations and the Shareholders' Meeting;
- ensuring that the Group's interests are safeguarded in all specifically assigned subsidiaries;

The areas of responsibility described above do not include:

- The Internal Auditing Head Office Department, which reports directly to the Board of Directors and is responsible for:
  - ensuring constant and independent auditing of the regular performance of Bank operations and processes for the purpose of preventing or identifying any anomalous or risky conduct or situation, assessing the overall 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 Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management and governance processes of the organisation;
  - ensuring supervision of the internal control systems 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 (Bank of Italy, Consob, etc.) promptly and systematically receive information on the status of the control system and on the outcome of activities performed.

- The International and Regulatory Affairs Head Office Department, which reports to the Managing Director and CEO is responsible for:
  - managing relations with national and international regulators;
  - overseeing and developing relations with the main stakeholders at the international level;
  - managing the Group's institutional relations, promoting and directing relations with institutional bodies, associations and national and international trade associations;
  - representing the Group's position in institutional venues as regards policies for economic and social growth and development.

- The External Relations Head Office Department, which reports to the Managing Director and CEO and the Board of Directors, is responsible for:
  - managing and coordinating the Group's external communications, in order to promote competitiveness, quality and innovation with respect to the targets of the various business lines, uphold the Group's reputation with media and with the financial community and develop its image as perceived by opinion makers and Italian and foreign public opinion;
  - spreading the ethical, social and cultural values that form part of the Group's identity;
  - handling relations with the press and with media in general;
  - monitoring the perception of the group and the effectiveness of external communications.

It is noted that at the end of 2017, within the scope of the activities in preparation for the new Business Plan, the organisational structure described above was changed by way of:

- enhancement of the digital and innovation area, in order to manage the current and future technology challenges more effectively;
- greater focus of responsibilities and functional skills, also through the consolidation of highly contiguous structures;
- getting the Human Resources function to report more directly to the CEO, an enabling factor for the achievement of the objectives of the new Business Plan and further evidence of the attention paid to the people, which has always been a hallmark of the Intesa Sanpaolo Group;
- the further strengthening of the central monitoring dedicated to cost management.

The foregoing was also made possible by setting up three new areas of responsibility, which gradually became operational as from 1 January 2018:

Chief IT, Digital and Innovation Officer
The Chief IT, Digital and Innovation Officer, who is tasked with monitoring the high complexity of Information Technology Systems, Operations and Processes, with a view to constant innovation of the technology solutions, in a sophisticated dimension in line with the ongoing digital "revolution".

Chief Cost Management Officer
The Chief Cost Management Officer, dedicated to cost management in general and the monitoring of the Procurement and Real Estate functions.

Chief Institutional Affairs and External Communication Officer,
The Chief Institutional Affairs and External Communication Officer is tasked with realising objective synergies by promoting the Bank's identity and image and ensuring, through a unified approach to common activities, management efficiency in the numerous communication and relational initiatives that the Group undertakes in respect of external entities and stakeholders. This area comprises the International and Regulatory Affairs Head Office Department and the External Relations Head Office Department.

The Strategic Support Head Office Department is also established and reports directly to the Managing Director and CEO. This department covers a number of strategic activities relating to governance/management control such as the activities of the Steering Committee, the monitoring of specific strategic initiatives and the management of certain events addressed to the financial community.

Remuneration 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 capitalisation of each intermediary, and guarantee remuneration based on 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. The remuneration systems and practices are included among the information to be disclosed under Pillar 3, pursuant to Circular no. 285 of 17 December 2013.
Moreover, ISVAP (now IVASS), with regulation no. 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.
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, following a proposal from the EBA, the European Union arranged the issue of 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").
Lastly, in application of the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV), the Bank of Italy issued the new Supervisory Provisions on remuneration, laid down in Circular 285/2013.
Finally, 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. The Bank of Italy stated its intention to adapt the aforesaid Guidelines and issue the ensuing new Provisions on remuneration.
Consequently, based on the provisions of the aforementioned Article 123-ter of the Consolidated Law on Finance, a specific Report on Remuneration is drawn up and published on an annual basis, which also takes into account the obligations of disclosure to the Shareholders' Meeting, in accordance with the supervisory provisions issued by the Bank of Italy.

Moreover, 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 Directors' 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, the remuneration of the Board Directors 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 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 no. 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.
Finally, 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 Human Resources Head Office Department 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 Human Resources Head Office Department 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 Active Value Management Head Office Departments and the Budget and 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, in order to verify compliance of the remuneration policies and resultant incentive systems with rules, regulations, codes of ethics and standards of conduct applicable to the Group.

On an annual basis, the Internal Auditing Head Office Department, 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 Directors

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 civil 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 Director. The Managing Director, in his/her capacity as General Manager, is entitled to receive the gross annual remuneration, the 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 Directors 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 Directors 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 Director 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 of management and employees with the interests of shareholders, the medium and long-term strategies and the company objectives, as part of the set of rules aimed at accurate monitoring of the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
b) 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;
   - 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
c) equity, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
   - correlation of a person’s fixed salary to the weight of the role held;
   - differentiation of salary brackets and the ratio of the variable component to the total remuneration according to professional categories;
d) external competitiveness of total annual remuneration with respect to the levels in the large European banking groups, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market;
e) sustainability, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
   - mechanisms to adjust allocations to the overall incentive provisions according to the company’s profitability and the results achieved, while also taking account of the reference peer;
   - selective reviews of fixed remuneration;
   - use of objective parameters when reviewing pay;
   - determination of appropriate caps regarding both total incentives and the amount of individual bonuses;
f) compliance with the international, European and national legal and regulatory provisions and the consequent focus on Key Managers, Risk Takers and Corporate Control Functions.

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

Fixed remuneration
The fixed component is defined based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the employee.
In full compliance with the provisions of law, the fixed component includes:
- allowances tied to the role held, envisaged for the Risk Takers belonging to the Corporate Control Functions and for the heads of commercial roles within the scope of the Banca dei Territori 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 incentive system;
- variable result bonus;
- long-term variable component, based on certificates associated with Intesa Sanpaolo shares, introduced in 2014 at the time of launch of the 2014-2017 Business Plan through the Leveraged Employee Co-Investment Plans ("LECOIP Plans");
- any stability, non-competition, one-off retention and similar agreements.

The distinction of the variable remuneration in a short-term and a long-term component allows both to enhance the performance targets on the basis of an annual accrual period and to consider the long-term strategic targets defined in the Business Plan.

Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

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.

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 paragraph 4.5.2;
- -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 and the long-term component assigned through the LECOIP Plans. The latter 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 2017 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). 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 application of the "guided discretion principle", which translates into the assignment to the CEO of a limited part of the Group's bonus pool (10%), eligible for allocation once the threshold has been reached, to departments that have exceeded their access thresholds, as further recognition for the quality and level of performance achieved;
- 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 more general terms, compliance with the limits envisaged in its own Risk Appetite Framework (RAF);
  - 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, growth, productivity, cost of risk/sustainability) 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, Portfolio Mix (assets under management vs. assets under administration), Revenues/Assets;
  - Revenue development: Growth: Operating income, Asset management, Net inflows (private banking);
  - Productivity: Cost/Income, Optimisation of response times in relation to credit granting, Operating costs, Costs/Asset under Management;
  - Cost of risk/Sustainability: NPL Ratio, Concentration Risk, Balance sheet quality and active risks profile; 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.

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees, without prejudice to thorough assessment and analysis of market practice, solely for the first year.
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 golden parachutes, including any compensation paid according to the non-competition agreement.
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);
- alignment with international and domestic best practices.

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, except for the payment related to the indemnity for failed notice.

Social and environmental responsibility

Social and environmental responsibility

In 2017, in what is still a challenging macroeconomic context, Intesa Sanpaolo has confirmed its commitment to the three dimensions of sustainability - social, environmental and governance - in line with its leading role in Corporate Social Responsibility (CSR).

The Group's areas of social and environmental responsibility are overseen by the CSR Sub-department which reports - through the Chief Governance Officer - to the Managing Director and CEO and the Board of Directors, and collaborates with a network of Delegates that work in the various Group entities in Italy and abroad. In addition, specific CSR tasks are allocated to the Risks Committee which, established within the Board of Directors, helps the Board assess and examine CSR issues. The reference guidelines as regards the Group's founding values are found in the Code of Ethics, which outlines the principles of conduct towards all internal and external parties and also defines the implementation and verification mechanisms used by the Governance bodies to ensure that the values are firmly embedded in the life of the Bank. An independent body performs an assessment of the level of implementation of the principles of the Code in accordance with the ISO 26000 Guidelines, the international standard for the integration of social responsibility in practice and within business organisations. The principles and commitments expressed in the Code are also strengthened by the Group's participation in a number of international initiatives that promote dialogue between companies, international organisations and civil society and pursue respect for the environment and human rights. These initiatives include the UN Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Equator Principles.

The 2017 results include the implementation of the 2014-2017 Business Plan and solid value creation for all stakeholders, reflecting the strengths of the Intesa Sanpaolo business model which combines the solid generation of revenues and high efficiency with capital soundness and a low risk profile. Intesa Sanpaolo has created shared value by focusing on innovation, on the development of new products and services and on people's commitment to excellence, strengthening the awareness that sustainable business growth can foster long-term development reducing both social risks (increase in inequalities and situations of vulnerability) and environmental risks (with particular attention to climate change).

As regards social aspects, Intesa Sanpaolo has confirmed its position as a real economy Bank, by disbursing approximately 63 billion euro in new long- to medium-term loans during 2017 (around 50 billion euro in Italy, 43 billion euro of which to households and SMEs). Specific attention was paid to financial inclusion, vulnerable groups of customers, households and businesses affected by the financial crisis or earthquakes and environmental disasters in Italy, with the disbursement of around 4.5 billion euro in loans with a high social impact. With regard to Italian businesses, over 73,000 companies were brought back to performing loan positions during the 2014-2017 period, around 21,000 of which over the last year. As regards retail customers, initiatives continued for the renegotiation of mortgages (approximately 41,000 in 2017) or the suspension of instalments (over 3,400 in 2017). Relations with customers are built on dialogue, transparency and excellent quality of service and the offer of intelligent technology, through a multi-channel platform and digitisation and paperless policies. Intesa Sanpaolo is also committed to offering its customers sustainable investment products, integrating financial criteria with environmental and social considerations. Through Eurizon, the Group adheres to the PRI - Principles for Responsible Investments - and manages SRI (Socially Responsible Investment) funds for around 4 billion euro with three SRI funds launched in 2017. In 2017, around 300 million euro was granted to support social enterprises.

Close attention was also focused on supporting communities with numerous social and cultural initiatives and works and an overall financial contribution of around 50 million euro. In particular, the Intesa Sanpaolo Charity Fund disbursed approximately 9.5 million euro in 2017 to support over 900 projects carried out by non-profit bodies, with particular focus on the vulnerable segments of society. Specific initiatives were dedicated to children including the Intesa Sanpaolo Educational Programme for long-term inpatients, which offers crèche services for children admitted to the oncology wards of some top-level children's hospitals.

In the environmental sphere, Intesa Sanpaolo has continued its efforts to contain its CO_2 emissions, which it has reduced by over 53% since 2008, despite the increase recorded during the year largely due to the updating of the emission factors. The new Environmental Sustainability Plan approved in 2017 set the CO_2 emissions reduction goal for the 2012-2022 period at 37%. In 2017, Intesa Sanpaolo also provided around 1.3 billion euro of financial support to the renewable energy sector and to energy efficiency initiatives and, in June 2017, was the first Italian bank to issue a Green Bond, for an overall amount of 500 million euro. Furthermore, the focus on environmental sustainability is also demonstrated by the development of the Circular Economy project thanks to the partnership with the Ellen MacArthur Foundation.

These results were made possible by the people who work for Intesa Sanpaolo; helping those people develop and strengthening their sense of belonging represent the key forms of leverage for achieving the Group's strategic objectives. Specific attention was focused on protecting jobs, pursuing challenging goals with the reassignment of the excess production capacity of 4,500 people over the 2014-2017 period. In addition, employee share ownership schemes have been introduced, making it possible to share the value created over time, and an integrated welfare system has been established for employees and their families, with an offer of services aimed at improving their work-life balance, ranging from crèches to flexible working time, involving over 8,200 employees at the end of 2017. Another stimulus is represented by continuous training focused on strategic company projects, with 800,000 training days provided in 2017 (4.6 million over the 2014-2017 period).

Intesa Sanpaolo's social and environmental commitment was rewarded with the company's inclusion in numerous sustainability indexes, including the Dow Jones Sustainability Index (World and Europe) and the CDP Climate A List 2017. Lastly, Intesa Sanpaolo is the only Italian company to feature on the Corporate Knights ranking of the world's 100 most sustainable companies.

The following paragraph provides information on the economic value generated by the Group in 2017.
Social and environmental aspects are covered in depth in the Consolidated Non-financial Statement drafted in accordance with Italian Legislative Decree 254/2016, a separate report from the Report on operations and available on the Group's website.

Economic value generated and distributed

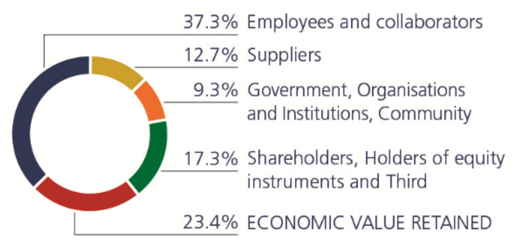
The economic value generated is calculated in accordance with ABI instructions and consistent with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required under Bank of Italy Circular 262. The economic value generated, which in 2017 was 21 billion euro (including government contributions to offset the impact of the acquisition of the operations of the former Venetian banks on capital ratios), came from net income from financial and insurance business – which therefore takes into account the impairment losses on loans and financial assets available for sale – plus the realised gains and losses on investments in associates and companies subject to joint control, investments and discontinued operations, and other operating income. The amount of the economic value generated expresses the value of the wealth produced, most of which 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 7.8 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received approximately 13% of the economic value generated, for a total of 2.7 billion euro in payment for goods and services;
- the Government, Organisations and Institutions recorded a total flow of funds of 1.9 billion euro, around 9% of the economic value generated, over 917 million euro of which referring to taxes on income from continuing operations, over 727 million euro to indirect taxes and duties, and 290 million euro to levies and other charges concerning the banking industry, consisting of ordinary and extraordinary 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 17% of the economic value generated was allocated to Shareholders and minority interests, largely in terms of the proposed dividend, for a total of 3.6 billion euro.

The remaining amount, about 4.9 billion euro, was withheld by the corporate system. The considerable size of this amount was due to the 3.5-billion-euro government contribution to offset the impact of the acquisition of certain assets and liabilities, and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, which was allocated to the extraordinary reserve. The remaining 1.4 billion euro mainly comprises deferred tax assets and liabilities, adjustments, and provisions for risks and charges. Self-financing is considered an investment that other stakeholder categories make each year to maintain efficiency and allow development of the Bank as a whole.

Economic value	**millions of euro**	
Economic value generated	21,003	100.0%
Economic value distributed	-16,082	76.6%
Employees and collaborators	-7,825	37.3%
Suppliers	-2,667	12.7%
Government, Organisations and Institutions, Community	-1,947	9.3%
Shareholders, Holders of equity instruments and Third	-3,643	17.3%
Economic value retained	**4,921**	**23.4%**

ECONOMIC VALUE IN 2017



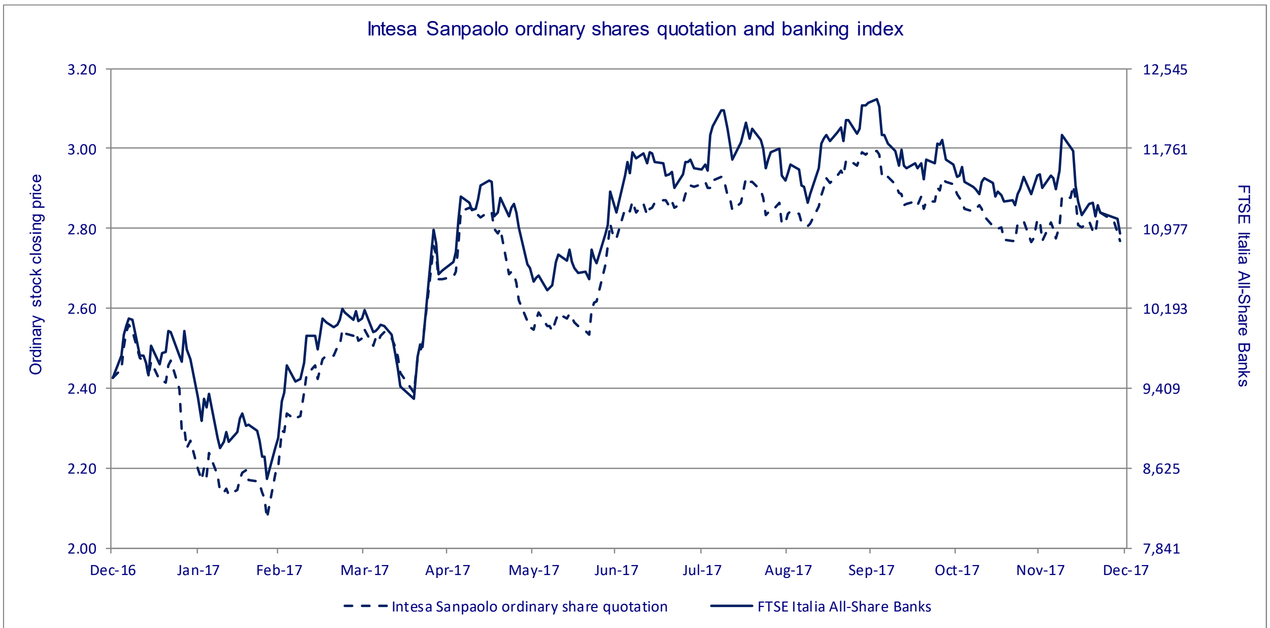
Intesa Sanpaolo stock

Intesa Sanpaolo stock

Stock price performance

In 2017, in a gradual context of reduction of risk aversion by the investors, driven by the consolidation of world economic growth, the upward revisions of the growth forecasts for the Eurozone and disappearance of the political risk following the elections in France and the Netherlands, the Euro banking index recorded progress of 10.9%, reporting an over-performance of 4.4% compared to the Eurostoxx 50 index.
In this context, the Italian banking industry benefited from a significant re-rating of the multiples, which caused the Italian banking index to close 2017 up by 14.9%, outperforming the FTSE MIB index by 1.3% and the European banking index by 4%.

In 2017, the performance of Intesa Sanpaolo ordinary shares mirrored the performance of the banking sector indices, with a fall at the start of the year, through to the end of February, followed by a rise, interrupted by a downturn in May, through to the end of the third quarter, when the maximum was reached. The price then declined through to the end of the year, with a rise of 14.2% recorded at the end of December compared to the end of 2016. The price of Intesa Sanpaolo savings shares increased by 19.1% at the end of 2017 compared to the end of 2016. The discount with respect to ordinary shares decreased to 4% at the end 2017 from 8% at the end of 2016.
Intesa Sanpaolo's capitalisation rose to 46.4 billion euro at the end of December 2017, from 40.6 billion euro at the end of 2016.



Earnings per share

Intesa Sanpaolo's share capital consists of ordinary and savings shares with different rights for the allocation of net income, which have been taken into account for the determination of the portion of net income attributable to each category of share.
Net income attributable to ordinary shares and savings shares was determined considering the most recent dividends proposed for each type of share and then allocating the residual portion of net income, in the hypothetical assumption of its total distribution, in equal weight to all 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 different categories of shares by the weighted average number of the shares outstanding; diluted EPS takes into account the effect of any future issues of ordinary shares.

	31.12.2017		31.12.2016	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Weighted average number of shares	15,837,253,005	932,490,561	15,841,479,283	932,490,561
Income attributable to the various categories of shares (millions of euro)	6,900	416	2,929	182
Basic EPS (euro)	0.44	0.45	0.18	0.20
Diluted EPS (euro)	0.44	0.45	0.18	0.20

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 – indicated in relation to both average figures and year-end figures for 2017 – was impacted significantly by the dynamics of the market.

(millions of euro)

	31.12.2017	2017	2016	2015	2014	2013
Market capitalisation	46,412	44,820	37,152	51,903	38,096	24,026
Group's shareholders' equity	56,205	52,558	48,344	46,230	44,599	46,918
Price / book value	**0.83**	**0.85**	**0.77**	**1.12**	**0.85**	**0.51**

Pay-out ratio

The index expresses the ratio between net income and the portion paid out as dividends.
Also in 2017, it was decided to submit a proposal to the Shareholders' Meeting, in addition to the allocation from the net income for the year, for the distribution of part of the share premium reserve for a total of 2,065 million euro, as described in detail in the chapter Proposals to the Shareholders' Meeting of the Intesa Sanpaolo financial statements.

(millions of euro)

	2017	2016	2015	2014	2013
Net income	7,316	3,111	2,739	1,251	-4,550
Dividends (*)	3,419	2,999	2,361	1,185	822
Pay-out ratio	**47%**	**96%**	**86%**	**95%**	**n.s.**

(*) For 2017 and 2016, the amounts were partially assigned from reserves.
For 2013 when a net loss was recorded, the amounts were assigned from reserves.

Dividend yield

This indicator measures percentage return on the share, calculated as the ratio between dividends 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.

(in euro)

	2017	2016	2015	2014	2013
Ordinary share					
Dividend per share	0.203	0.178	0.140	0.070	0.050
Average stock price	2.678	2.220	3.109	2.288	1.476
Dividend yield	7.58%	8.02%	4.50%	3.06%	3.39%
Savings share					
Dividend per share	0.214	0.189	0.151	0.081	0.050
Average stock price	2.517	2.084	2.784	1.973	1.229
Dividend yield	8.50%	9.07%	5.42%	4.11%	4.07%

Rating

On 20 January 2017, DBRS downgraded Intesa Sanpaolo's rating following the same action on Italy's rating: the rating on senior debt was lowered to "BBB (high)" with stable outlook, while the short-term rating of R-1 (low) with stable trend was confirmed.
On 20 February, Fitch confirmed Intesa Sanpaolo's long- and short-term ratings at "BBB+/F2", with a negative outlook. The agency also confirmed its viability rating at "bbb+". This action was taken as part of the periodic review of the ratings.
On 27 April, Fitch downgraded ISP's rating to "BBB" with stable outlook following the same action on Italy's rating on 21 April. The short-term rating was confirmed at "F-2".
Following the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the rating agencies Fitch, S&P and DBRS confirmed Intesa Sanpaolo's ratings and outlook: on 27 June, Fitch and S&P confirmed the ratings at "BBB/stable/F2" and "BBB-/stable/A3" respectively; on 29 June, DBRS confirmed the ratings "BBB(high)/R-1(low)" with stable trend.
On 31 October, S&P improved ISP rating to "BBB/stable/A-2". This action followed the similar upgrade of the Italy rating of 27/10/2017.
On 15 December, Fitch confirmed the long- and short-term ratings at "BBB/F2", with a stable outlook. The agency also confirmed its viability rating at "bbb". This action was taken as part of the periodic review of the ratings.

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

[1] Stable trend

[2] Senior debt rating. The rating on deposits is "A3" with negative outlook.

Other information

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 10), 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 – Section 1) information concerning obligations under Art. 15 of the Consob Market Regulation 20249 / 2017 (in force from 3 January 2018, previously Art. 36 of Consob Market Regulation 16191 / 2007) 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 Supervisory and Management Board Members, General Managers and Key Managers and on the Parent Company's shares, pursuant to Art. 123 ter of the Consolidated Law on Finance, is provided in brief in a specific chapter of this Report and to the Report on Remuneration, published every year 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 2018

The growth phase of the global economy will extend to 2018, encouraging the central banks to further reduce their monetary stimulus measures and pushing the rate curves to rise. There are still uncertainties at economic level (particularly due to the financial surpluses in China and the inflation response to the very mature level of the economic cycle in the United States), and at political level. The adaptation of the markets to the shift in monetary policy may lead to greater volatility in exchange and interest rates.
Growth in the emerging countries is expected to strengthen slightly in 2018. In the January update of the World Economic Outlook, the IMF forecasts a continued acceleration in GDP growth, to 4.9% from an estimated 4.7% in 2017. The cycle has probably reached its peak in Asia, with a slight slowdown expected in China, offset, however, by a forecast of an acceleration in India. In the commodity exporting emerging economies of Latin America, South Saharan Africa and the MENA area, a general strengthening of growth is now forecast, thanks to the recovery of commodity prices and the easing of the restrictive phase of fiscal policies in the Gulf countries.
In the countries of Central and South-Eastern Europe where ISP subsidiaries are located, the average growth rate is expected to be more moderate in 2018 than in the previous year, both in the CEE countries and SEE countries, along a path closer to their potential. In the CIS countries, GDP growth in Russia should be supported by favourable credit conditions and the boost to disposable income resulting from low inflation and the recovery of oil prices. However, both Russia and Ukraine will continue to be affected by the regional geopolitical tensions. In the MENA area, Egypt's economic growth is forecast to accelerate further, driven by the expected fall in inflation and interest rates and the start of exploitation of the Zohr gas reserve recently discovered in the Mediterranean.
Within the Italian banking system, credit access conditions continue to be favourable, thanks to the support of monetary policy and the availability of supply in a scenario of steady reduction in credit risk. The strengthening of economic growth and the recovery of fixed investments justify expectations of an increase in credit demand. As regards loans to businesses, a more robust recovery is expected during the year, though at still very modest rates, slowed down by liquidity conditions that will continue to be sufficient and the use of bond issues. For households, the lending scenario remains positive: growth in stocks will continue at a moderate pace in 2018, favoured by continued low interest rates, the positive outlook for the real estate market, and improved conditions in the labour market.
With regard to funding, the total aggregate will remain essentially unchanged, due to the low demand for customer deposits by banks, considering the evolution of loans and the significant liquidity available. In particular, the net redemption of bonds in the retail segment and the growth in deposits will continue. Once again, unattractive market yields will continue to fuel balances on overnight deposits. These factors will continue to favour the reduction of customer deposit costs. In a context of continuously very low, where not negative, market rates, and favourable credit access conditions, borrowing rates are expected to remain at lows.

In 2018, the Intesa Sanpaolo Group’s net income is expected to grow compared with 2017, excluding from the 2017 net income the 3.5 billion euro public cash contribution that offset the impact on the capital ratios resulting from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca. An increase in revenues, continuous cost management and a decrease in the cost of risk are envisaged to be the drivers of the expected performance of net income. The dividend policy for 2018 envisages a commitment to distributing an amount of cash dividends corresponding to a payout ratio of 85% of net income.

The Board of Directors

Torino, 23 February 2018

Intesa Sanpaolo Group
Consolidated financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		31.12.2017	31.12.2016	CHANGES amount	CHANGES %
10.	Cash and cash equivalents	9,353	8,686	667	7.7
20.	Financial assets held for trading	39,518	43,613	-4,095	-9.4
30.	Financial assets designated at fair value through profit and loss	75,269	63,865	11,404	17.9
40.	Financial assets available for sale	142,341	146,692	-4,351	-3.0
50.	Investments held to maturity	1,174	1,241	-67	-5.4
60.	Due from banks	72,462	53,146	19,316	36.3
70.	Loans to customers	410,746	364,713	46,033	12.6
80.	Hedging derivatives	4,217	6,234	-2,017	-32.4
90.	Fair value change of financial assets in hedged portfolios (+/-)	-204	321	-525	
100.	Investments in associates and companies subject to joint control	678	1,278	-600	-46.9
110.	Technical insurance reserves reassured with third parties	16	17	-1	-5.9
120.	Property and equipment	6,678	4,908	1,770	36.1
130.	Intangible assets	7,741	7,393	348	4.7
	of which				
	- goodwill	*4,056*	*4,059*	*-3*	-0.1
140.	Tax assets	16,887	14,444	2,443	16.9
	a) current	*3,688*	*3,313*	*375*	11.3
	b) deferred	*13,199*	*11,131*	*2,068*	18.6
	- of which convertible into tax credit (Law no. 214/2011)	*8,746*	*8,491*	*255*	3.0
150.	Non-current assets held for sale and discontinued operations	627	312	315	
160.	Other assets	9,358	8,237	1,121	13.6
Total Assets		**796,861**	**725,100**	**71,761**	**9.9**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2017	31.12.2016	CHANGES	
				amount	%
10.	Due to banks	99,990	72,641	27,349	37.6
20.	Due to customers	323,443	291,876	31,567	10.8
30.	Securities issued	94,239	94,783	-544	-0.6
40.	Financial liabilities held for trading	41,285	44,790	-3,505	-7.8
50.	Financial liabilities designated at fair value through profit and loss	68,169	57,187	10,982	19.2
60.	Hedging derivatives	7,489	9,028	-1,539	-17.0
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	478	773	-295	-38.2
80.	Tax liabilities	2,509	2,038	471	23.1
	a) current	*364*	*497*	*-133*	*-26.8*
	b) deferred	*2,145*	*1,541*	*604*	*39.2*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	264	272	-8	-2.9
100.	Other liabilities	12,574	11,944	630	5.3
110.	Employee termination indemnities	1,410	1,403	7	0.5
120.	Allowances for risks and charges	5,481	3,427	2,054	59.9
	a) post employment benefits	*1,104*	*1,025*	*79*	*7.7*
	b) other allowances	*4,377*	*2,402*	*1,975*	*82.2*
130.	Technical reserves	82,926	85,619	-2,693	-3.1
140.	Valuation reserves	-789	-1,854	-1,065	-57.4
150.	Redeemable shares	-	-	-	
160.	Equity instruments	4,103	2,117	1,986	93.8
170.	Reserves	10,921	9,528	1,393	14.6
180.	Share premium reserve	26,006	27,349	-1,343	-4.9
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-84	-72	12	16.7
210.	Minority interests (+/-)	399	408	-9	-2.2
220.	Net income (loss)	7,316	3,111	4,205	
Total Liabilities and Shareholders' Equity		**796,861**	**725,100**	**71,761**	**9.9**

Consolidated income statement

(millions of euro)

	2017	2016	CHANGES	
			amount	%
10. Interest and similar income	12,398	12,865	-467	-3.6
20. Interest and similar expense	-3,871	-4,250	-379	-8.9
30. Interest margin	**8,527**	**8,615**	**-88**	**-1.0**
40. Fee and commission income	9,544	8,465	1,079	12.7
50. Fee and commission expense	-2,116	-1,730	386	22.3
60. Net fee and commission income	**7,428**	**6,735**	**693**	**10.3**
70. Dividend and similar income	344	461	-117	-25.4
80. Profits (Losses) on trading	511	527	-16	-3.0
90. Fair value adjustments in hedge accounting	-15	-34	-19	-55.9
100. Profits (Losses) on disposal or repurchase of	818	990	-172	-17.4
a) loans	*-8*	*-34*	*-26*	*-76.5*
b) financial assets available for sale	*860*	*990*	*-130*	*-13.1*
c) investments held to maturity	*1*	*-*	*1*	
d) financial liabilities	*-35*	*34*	*-69*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	1,258	1,051	207	19.7
120. Net interest and other banking income	**18,871**	**18,345**	**526**	**2.9**
130. Net losses / recoveries on impairment	-3,162	-3,288	-126	-3.8
a) loans	*-2,717*	*-3,026*	*-309*	*-10.2*
b) financial assets available for sale	*-509*	*-314*	*195*	*62.1*
c) investments held to maturity	*-*	*-*	*-*	
d) other financial activities	*64*	*52*	*12*	*23.1*
140. Net income from banking activities	**15,709**	**15,057**	**652**	**4.3**
150. Net insurance premiums	6,817	8,433	-1,616	-19.2
160. Other net insurance income (expense)	-9,012	-10,508	-1,496	-14.2
170. Net income from banking and insurance activities	**13,514**	**12,982**	**532**	**4.1**
180. Administrative expenses	-11,052	-9,505	1,547	16.3
a) personnel expenses	*-7,177*	*-5,494*	*1,683*	*30.6*
b) other administrative expenses	*-3,875*	*-4,011*	*-136*	*-3.4*
190. Net provisions for risks and charges	-893	-241	652	
200. Net adjustments to / recoveries on property and equipment	-347	-354	-7	-2.0
210. Net adjustments to / recoveries on intangible assets	-532	-577	-45	-7.8
220. Other operating expenses (income)	5,902	430	5,472	
230. Operating expenses	**-6,922**	**-10,247**	**-3,325**	**-32.4**
240. Profits (Losses) on investments in associates and companies subject to joint control	1,150	125	1,025	
250. Valuation differences on property, equipment and intangible assets measured at fair value	-30	-	30	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	106	356	-250	-70.2
280. Income (Loss) before tax from continuing operations	**7,818**	**3,216**	**4,602**	
290. Taxes on income from continuing operations	-464	-1,003	-539	-53.7
300. Income (Loss) after tax from continuing operations	**7,354**	**2,213**	**5,141**	
310. Income (Loss) after tax from discontinued operations	-	987	-987	
320. Net income (loss)	**7,354**	**3,200**	**4,154**	
330. Minority interests	-38	-89	-51	-57.3
340. Parent Company's net income (loss)	**7,316**	**3,111**	**4,205**	
Basic EPS - Euro	**0.44**	**0.18**		
Diluted EPS - Euro	**0.44**	**0.18**		

Statement of consolidated comprehensive income

(millions of euro)

		2017	2016	Changes amount	%
10.	**NET INCOME (LOSS)**	**7,354**	**3,200**	**4,154**	
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**1,208**	**-174**	**1,382**	
20.	Property and equipment and legally-required revaluations	1,250	-	1,250	
30.	Intangible assets	-	-	-	
40.	Defined benefit plans	-42	-174	-132	-75.9
50.	Non-current assets held for sale	-	-	-	
60.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-142**	**-806**	**-664**	**-82.4**
70.	Hedges of foreign investments	-	-	-	
80.	Foreign exchange differences	-26	-284	-258	-90.8
90.	Cash flow hedges	229	-4	233	
100.	Financial assets available for sale	-175	-507	-332	-65.5
110.	Non-current assets held for sale	-	-	-	
120.	Share of valuation reserves connected with investments carried at equity	-170	-11	159	
130.	**Total other comprehensive income (net of tax)**	**1,066**	**-980**	**2,046**	
140.	**TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)**	**8,420**	**2,220**	**6,200**	
150.	**Total consolidated comprehensive income pertaining to minority interests**	**39**	**-55**	**94**	
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**8,381**	**2,275**	**6,106**	

Changes in consolidated shareholders' equity as at 31 December 2017

(millions of euro)

	31.12.2017											
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2017	**8,621**	**485**	**27,375**	**8,947**	**578**	**-1,930**	**2,117**	**-74**	**3,200**	**49,319**	***48,911***	***408***
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**1,535**					**-1,535**	**-**	***-***	***-***
Dividends and other allocations									**-1,665**	**-1,665**	***-1,656***	***-9***
CHANGES IN THE PERIOD												
Changes in reserves										**-**	***-***	***-***
Operations on shareholders' equity												
Issue of new shares								6		**6**	*6*	-
Purchase of treasury shares								-18		**-18**	*-18*	-
Extraordinary dividends			-1,343							**-1,343**	*-1,343*	-
Changes in equity instruments							1,986			**1,986**	*1,986*	-
Derivatives on treasury shares										**-**	*-*	-
Stock options										**-**	*-*	-
Changes in equity investmens										**-**	*-*	-
Other	-80		-1	-20						**-101**	*-62*	*-39*
Total comprehensive income for the period						**1,066**			**7,354**	**8,420**	*8,381*	*39*
SHAREHOLDERS' EQUITY AS AT 31.12.2017	**8,541**	**485**	**26,031**	**10,462**	**578**	**-864**	**4,103**	**-86**	**7,354**	**56,604**	***56,205***	***399***
- Group	**8,247**	**485**	**26,006**	**10,343**	**578**	**-789**	**4,103**	**-84**	**7,316**	**56,205**		
- minority interests	**294**	**-**	**25**	**119**	**-**	**-75**	**-**	**-2**	**38**	**399**		

[(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 2016

(millions of euro)

	31.12.2016											
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	*Group shareholders' equity*	*Minority interests*
	ordinary shares	savings shares		retained earnings	other							
AMOUNTS AS AT 1.1.2016	**8,804**	**485**	**27,521**	**8,544**	**578**	**-950**	**877**	**-72**	**2,806**	**48,593**	**47,776**	**817**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR [(a)]												
Reserves				**366**					**-366**	**-**		
Dividends and other allocations									**-2,440**	**-2,440**	***-2,371***	***-69***
CHANGES IN THE PERIOD												
Changes in reserves										**-**	**-**	**-**
Operations on shareholders' equity												
Issue of new shares								5		**5**	*5*	-
Purchase of treasury shares								-7		**-7**	*-7*	-
Extraordinary dividends												
Changes in equity instruments							1,240			**1,240**	*1,240*	-
Derivatives on treasury shares												
Stock options												
Changes in equity investmens	7			-7						**-**	-	-
Other	-190		-146	44						**-292**	*-7*	*-285*
Total comprehensive income for the period						**-980**			**3,200**	**2,220**	2,275	*-55*
SHAREHOLDERS' EQUITY AS AT 31.12.2016	**8,621**	**485**	**27,375**	**8,947**	**578**	**-1,930**	**2,117**	**-74**	**3,200**	**49,319**	**48,911**	**408**
- Group	**8,247**	**485**	**27,349**	**8,950**	**578**	**-1,854**	**2,117**	**-72**	**3,111**	**48,911**		
- minority interests	**374**	**-**	**26**	**-3**	**-**	**-76**	**-**	**-2**	**89**	**408**		

[(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)

	31.12.2017	31.12.2016
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**7,725**	**6,737**
- net income (loss) (+/-)	7,354	3,200
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-1,075	-458
- gains/losses on hedging activities (-/+)	15	34
- net losses/recoveries on impairment (+/-)	3,623	3,869
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	879	931
- net provisions for risks and charges and other costs/revenues (+/-)	1,034	452
- net insurance premiums to be collected (-)	-4	1
- other insurance revenues/charges to be collected (-/+)	-1,272	2,510
- taxes, duties and tax credits to be paid/collected(+/-)	-262	184
- net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
- other adjustments (+/-)	-2,567	-3,986
2. Cash flow from / used in financial assets	**-68,827**	**-51,540**
- financial assets held for trading	4,817	8,562
- financial assets designated at fair value through profit and loss	-9,000	-8,618
- financial assets available for sale	4,714	-15,214
- due from banks: repayable on demand	-830	-25,242
- due from banks: other	-18,472	6,542
- loans to customers	-49,190	-18,222
- other assets	-866	652
3. Cash flow from / used in financial liabilities	**63,120**	**44,419**
- due to banks: repayable on demand	-135	-597
- due to banks: other	27,499	14,183
- due to customers	31,627	36,601
- securities issued	-579	-15,410
- financial liabilities held for trading	-3,716	1,217
- financial liabilities designated at fair value through profit and loss	9,836	9,632
- other liabilities	-1,412	-1,207
Net cash flow from (used in) operating activities	**2,018**	**-384**
B. INVESTING ACTIVITIES		
1. Cash flow from	**1,108**	**1,799**
- sales of investments in associates and companies subject to joint control	940	374
- dividends collected on investments in associates and companies subject to joint control	39	-
- sales/reimbursements of investments held to maturity	68	145
- sales of property and equipment	-	167
- sales of intangible assets	-	-
- sales of subsidiaries and business branches	61	1,113
2. Cash flow used in	**-1,275**	**-822**
- purchases of investments in associates and companies subject to joint control	-	-
- purchases of investments held to maturity	-	-
- purchases of property and equipment	-391	-
- purchases of intangible assets	-884	-647
- purchases of subsidiaries and business branches	-	-175
Net cash flow from (used in) investing activities	**-167**	**977**
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares	-12	-2
- share capital increases	1,833	1,240
- dividend distribution and other	-3,008	-2,440
Net cash flow from (used in) financing activities	**-1,187**	**-1,202**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**664**	**-609**
RECONCILIATION		
Cash and cash equivalents at beginning of period	8,686	9,344
Net increase (decrease) in cash and cash equivalents	664	-609
Cash and cash equivalents: foreign exchange effect	3	-49
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**9,353**	**8,686**

LEGEND: (+) from (–) used in

In line with the amendment to IAS 7, introduced with Regulation 1990 of 6 November 2017, with first application starting from 1 January 2017, provided below is the information requested by paragraph 44 B in order to measure the movements in liabilities arising from financing activities, relating to both changes deriving from cash flows or non-cash changes.

(millions of euro)

"A. Operating activities - 3. Cash flow from / used in financial liabilities"	31.12.2017
a) Changes from cash flows from financing activities	26,135
b) Changes from obtaining or losing control of subsidiaries or other companies	49,998
c) Fair value changes	-10,116
d) Other changes	-2,897
CASH FLOW FROM / USED IN FINANCIAL LIABILITIES	**63,120**

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 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 2017 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 with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014 and 15 December 2015[2].
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 2017 (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 2017.

IFRS endorsed as at 31.12.2017 in force since 2017

Regulation endorsement	Title	Effective date
1989/2017	Amendments to IAS 12 Income taxes	01/01/2017 First financial year starting on or after 01/01/2017
1990/2017	Amendments to IAS 7 Statement of Cash Flows	01/01/2017 First financial year starting on or after 01/01/2017

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2017 consist of several limited amendments made to the existing standards, endorsed by the European Commission during 2017[3]. However, those amendments are not particularly significant for the Intesa Sanpaolo Group.

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 2018 - for financial statements reflecting the calendar year - or after this date.

[(*)] 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.

[2] For the sake of completeness, please note that, on 22 December 2017, the Bank of Italy published the 5th update of Circular 262. The update, which consists of a complete review of the Circular, will be applied starting from the financial statements as at and for the year ended 31 December 2018.

[3] In particular with Regulation 1989/2017, some interpretations are provided regarding the accounting of the deferred tax assets relating to debt instruments measured at fair value, while Regulation 1990/2017 introduced some changes to improve the information on liabilities arising from financing activities disclosed to the users of the financial statements.

IFRS endorsed as at 31.12.2017 applicable subsequent to 31.12.2017

The new accounting standards endorsed by the European Commission in 2016 and 2017 have particularly significant repercussions; accordingly, additional information has been provided below.
With regard to IFRS 9 in particular, and also in view of the disclosure provided regarding the implementation project at the Intesa Sanpaolo Group, further details can be found in a specific section in this Part A of the Notes to the consolidated financial statements.

Regulation endorsement	Title	Effective date
1905/2016	IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
2067/2016	IFRS 9 Financial instruments	01/01/2018 First financial year starting on or after 01/01/2018
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
1987/2017	Amendments to IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
1988/2017	Amendments to IFRS 4 Insurance contracts	01/01/2018 First financial year starting on or after 01/01/2018

New standard IFRS 15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from Contracts with Customers was endorsed by Regulation 1905/2016, effective from January 2018. As a result of the adoption of IFRS 15, with effect from the date of the standard coming into force, IAS 18 – Revenue and IAS 11 – Construction Contracts will be eliminated, together with their related interpretations.

The changes introduced with respect to the existing rules may be summarised as follows:
- the introduction – within a single accounting standard – of a “common framework” for revenue recognition for both the sale of goods and the provision of services;
- the adoption of a step based approach for revenue recognition (see below);
- an unbundling mechanism for the allocation of the total transaction price to each of the commitments (sale of goods and/or provision of services) in a sale contract.

In general terms, IFRS 15 requires the entity, when recognising revenues, to adopt an approach based on five steps:
1. identifying the contract(s) with a customer: the requirements of IFRS 15 apply to each contract that has been signed with a customer and meets specific conditions. In some specific cases, IFRS 15 requires an entity to combine/aggregate several contracts and account for them as a single contract;
2. identifying performance obligations: a contract represents the commitments to transfer goods or services to a customer. If these goods or services are “distinct”, these promises qualify as performance obligations and are accounted for separately;
3. determining the transaction price: the transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. The price established in the transaction may be a fixed amount, but sometimes it may include variable components or non-cash components;
4. allocating the transaction price to the performance obligations in the contract: an entity allocates the transaction price to the different performance obligations based on the standalone selling prices of each of the distinct contractually agreed goods or services. If a standalone selling price is not directly observable, the entity will need to estimate it. The standard identifies when an entity must allocate a discount or a variable component to some but not all the performance obligations (or to the distinct goods or services) agreed in the contract;
5. recognising the revenue when (or as) the entity satisfies a performance obligation: an entity recognises the revenue when it satisfies a performance obligation by transferring a good or providing a service, agreed contractually, to a customer (or when the customer gains control of that asset or service). The amount of revenue to be recognised is the amount that was allocated to the performance obligation that has been satisfied. A performance obligation may be satisfied at a point in time (typically for the transfer of goods) or over time (typically for the provision of services). For performance obligations that are satisfied over time, an entity recognises the revenue over the period of time concerned, by selecting the appropriate method for measuring the progress achieved towards the complete satisfaction of the performance obligation.

For completeness, it is also noted that Regulation 1987/2017 was endorsed in 2017, which amends IFRS 15 and is also applicable from 1 January 2018. These amendments are essentially aimed at clarifying certain aspects of the new standard and providing some helpful operational simplifications for the transition phase.
The impacts of IFRS 15 will depend, in practice, on the types of transactions measured (the standard has introduced estimation elements in the determination of the transaction price, for the variable component) and on the entity’s sector of operations (the sectors most affected appear to be telecommunications and residential real estate).

In this regard, an analysis was conducted within the Intesa Sanpaolo Group of the main cases of revenue from contracts with customers in order to identify any impacts resulting from the introduction of the new standard.
The main cases examined included:
- fees on current accounts and the treatment of bonds, including any discounts on the transaction price;
- bonuses for financial advisors for new customer deposits;
- bonus fees on credit cards arising from agreements between the Group banks and leading global payments companies and the treatment of the variable fees;
- placement fees for insurance policies and the treatment of the related performance obligation; and
- other types of fees, such as success fees, performance fees and underwriting fees.

The analyses conducted found that, in general, the accounting treatment of these cases was already in line with the provisions of the new standard and, consequently, no significant impacts will arise at accounting level.
The main effects for the Group will consist of greater disclosure requirements – since the standard requires a wide range of information on the nature, amount, timing and degree of uncertainty of revenues, as well as the cash flows arising from the contracts with customers – whereas there will be no quantitative impacts. In this regard, the Intesa Sanpaolo Group is preparing itself to be able to provide the more detailed disclosure in the 2018 financial statements, as required by the standard and by the instructions issued by the Bank of Italy in the 5th update of Circular 262.

Amendments to IFRS 4 - Insurance Contracts
Through Regulation 1988, in 2017, the European Commission endorsed the amendments to IFRS 4 published by the IASB on 12 September 2016. These amendments were necessary as a result of the observations made by the insurance industry, which had noted the potential volatility of the results due to the mismatch between the effective date of the new IFRS 9 relating to financial instruments and of IFRS 17 relating to insurance liabilities (published and, as detailed further below, still awaiting endorsement).
Indeed, while IFRS 9 became effective from 1 January 2018 in replacement of IAS 39, the effective date of IFRS 17, in replacement of the current IFRS 4, is scheduled for 1 January 2021.

The Endorsement regulation also extends the scope of the amendments of IFRS 4 to the "insurance sector of a financial conglomerate" and not just to "entities that predominantly undertake insurance activities", in order to avoid creating a situation of competitive disadvantage. This provision – when implemented by the financial conglomerates (it is in fact an option and not an obligation) – results in the application of two different accounting standards within the same financial conglomerate, which could result in opportunities for accounting arbitrage and create difficulties for investors in the understanding of the consolidated financial statements. Accordingly, the deferral of the application of IFRS 9 is subject to particular conditions which are listed below.

The main amendments to IFRS 4 consist of the introduction of two new options:
1. deferral approach: it allows full exemption from IFRS 9, deferring its application until 1 January 2021, and maintenance of the application of IAS 39 until the 2020 financial statements. This deferral can only be applied if the following conditions are satisfied:
   - after 29 November 2017, no financial instruments have been transferred between the insurance sector and the other sectors of the financial conglomerate other than financial instruments designated at fair value through profit or loss (FVTPL) by both the sectors (insurance and non-insurance) involved. This is designed to prevent the group from transferring financial instruments between sectors to take advantage of a more favourable accounting treatment;
   - the financial conglomerate must indicate in its consolidated financial statements the insurance entities of the group that apply IAS 39;
   - the disclosures required by IFRS 7 must be provided separately for the insurance sector (which applies IAS 39) and for the rest of the group (which applies IFRS 9);
2. overlay approach: the application of this option allows entities that issue insurance contracts to remove part of the accounting asymmetries from profit or loss for the period; the overlay approach involves continuing to apply IAS 39 to financial assets measured at FVTPL according to IFRS 9, but which would have been measured at fair value through other comprehensive income (FVTOCI) (mainly attributable to securities currently classified as AFS) in accordance with IAS 39, thereby having an impact on other comprehensive income rather than profit or loss.

Specific disclosures are required for the application of both options.

In view of the potential impacts in terms of increased volatility for the insurance businesses, the Intesa Sanpaolo Group has decided to implement the provisions of the above-mentioned Regulation and, in particular, to adopt the deferral approach.
The deferral of the adoption of IFRS 9 by the companies of the Insurance Division of the Intesa Sanpaolo Group means that, starting from 1 January 2018, different financial reporting standards will need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. In the absence of specific instructions from the Bank of Italy on how to adopt this approach, the Intesa Sanpaolo Group will use specific captions in the official layouts and will provide the related disclosure in the notes to the financial statements, in accordance with the requirements of IFRS 7 and IFRS 4.

New standard IFRS 16 - Leases
The new standard IFRS 16, endorsed in 2017 by EU Regulation 1986 and applicable from 1 January 2019, introduces significant changes to the accounting of leases in the financial statements of the lessee/user. In particular, the main amendment is the removal of the distinction, established by the current IAS 17 (which will be replaced by IFRS 16), between operating and finance leases: all leases must now be accounted for as finance leases. For the lessee/user enterprises this results – at the same levels of income and final cash flows – in an increase in the assets recorded in the balance sheet (the leased assets), an increase in the liabilities (the debt for the leased assets), a reduction in operating costs (lease rentals) and an increase in financial costs (for the repayment and remuneration of the debt 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;
- all the information that is potentially helpful for a better understanding of the entity’s activities with regard to the leases (for example, early repayment or extension options).

On the other hand, there are no particular changes, other than some additional disclosure requirements, for lessor entities, for which the current distinction is maintained between operating leases and finance leases.
Analyses are being conducted to determine the impacts for the Group resulting from the application of the new standard, mainly aimed at identifying the scope and the accounting treatment of the assets used by the Group through leases.

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

IFRS not endorsed as at 31.12.2017

Standard/ Interpretation	Title	Date of issue
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016
IFRS 17	Insurance Contracts	18/05/2017
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IFRS 2	Classification and Measurement of Share-based payment Transactions	20/06/2016
IFRS 1	First-time Adoption of International Financial Reporting Standards	08/12/2016
IFRS 12	Disclosure of Interests in Other Entities	08/12/2016
IAS 28	Investments in Associates and Joint Ventures	08/12/2016
IAS 40	Transfers of Investment Property	08/12/2016
IFRS 9	Prepayment Features with Negative Compensation	12/10/2017
IAS 28	Long-term Interest in Associates and Joint Ventures	12/10/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017

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.
Descriptions are provided below of the main elements of IFRS 17, which will be applicable from 1 January 2021[4]:
- 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 (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

[4] In this regard it is noted, as already mentioned above, that insurance entities have the option – through a specific amendment to the current IFRS 4 – of deferring some of the volatility effects resulting from the adoption of IFRS 9 (due to the accounting mismatch between assets and liabilities) prior to the introduction of IFRS 17, through the possibility of applying the option of the deferral approach or the overlay approach from 1 January 2018.

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"[5] 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.). Changes in the estimates of the premiums (cash flows to be received) and payments (cash flows be paid) are recognised in profit or loss, but are "spread" over the entire remaining contractual lifetime of the policies concerned;
- 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.
The Insurance Division has initiated a project for the introduction of IFRS 17 whose objective is to ensure both the management of the insurance business and an operating and accounting model that fully adopts this standard.

Lastly, in October an Amendment to IFRS 9 was published entitled "Prepayment feature with negative compensation", regarding the classification of financial instruments that have particular prepayment features. Specifically, following the amendment, debt instruments which include prepayment features that provide for the payment or receipt of reasonable compensation for early termination can pass the SPPI Test. Adoption of this amendment is mandatory from 1 January 2019, with the possibility of optional early adoption. If an entity exercises the option of early adoption of this amendment, it must disclose this in its financial statements.
Obviously, for European entities this amendment can only be adopted after the endorsement process has been completed.

Amendment to the accounting standard for properties and valuable art assets

Compared to the previous financial statements, in the financial statements as at 31 December 2017, the Intesa Sanpaolo Group amended the accounting criterion of recognition and measurement adopted for the following classes of property and equipment:
- owner-occupied properties and valuable art assets (governed by IAS 16 "Property, plant and equipment");
- properties held for investment (governed by IAS 40 "Investment property").

More specifically, the amendment in question involved:
- the transition from the cost model to the revaluation model for the measurement after the initial recognition of non-investment properties and valuable art assets;
- the transition from the recognition at cost to the recognition at fair value for the properties held for investment.

Since its establishment, one of Intesa Sanpaolo's priorities has been the full enhancement of its top valuable art assets and properties, inherited from about 250 financial institutions of various Italian regions, which became part of the Group. These assets, of unique extent and prestige, consist of buildings of great architectural and civil importance and precious works of art. As part of the latter, 3,500 works of particular importance have been identified based on the following criteria: i) the historical-critical and artistic value ii) the state of preservation and iii) the economic importance. These works have been included in the class called "valuable art assets".
Together with the top valuable art assets and properties, the Intesa Sanpaolo Group also inherited sizeable real estate assets, which combine prestigious buildings in main cities with traditional bank branches distributed throughout Italy.
The decision to enhance these artistic and real estate assets is strongly encouraged by some trends that have developed in the last few years:
- for the top valuable art assets and properties, the considerable growth of museum-related activities, for which 2016 was a record year in Italy and whose untapped potential remains important, and the increasing tendency to exchange works

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

among the various museums and foundations, with the number of exhibitions in Italy growing by about 10% a year in recent years;
- for the real estate assets held for operating activities, the gradual abandonment of traditional bank branches by customers, with the use of remote channels growing continuously (in Italy mobile banking users grew from 12% of the population in 2012 to 37% in 2016 and Intesa Sanpaolo already has 6.6 million multi-channel customers and 2.4 million app user customers), and the huge appreciation shown by employees for flexible working methods and opportunities to work from home (more than 7,000 Intesa Sanpaolo employees have already participated in the *Smart Working* programme launched less than two years ago).

In light of these trends and with the aim of fully enhancing both its artistic and real estate assets, Intesa Sanpaolo has defined a ten-year strategy which includes:
- increasing the Group's museum and cultural activities, continuing the path already taken with the creation of *Gallerie d'Italia* and with the cooperation, in Italy and abroad, of museums and foundations, progressively adding conference and reception activities, with the aim of maximising the background value;
- encouraging the evolution from simple and occasional home/office flexible working to a stable and widespread *Smart Working*, with the gradual abandonment of the physical workstations assigned to employees, in favour of distance working and the progressive consolidation of the various structures located in the main cities into business hubs with shared workstations;
- rationalising and consolidating physical branches into centres geared towards customer consultancy activities, leveraging the points of sale of the former Banca dei Tabaccai and the remote channels for the transactional activities.

This strategic evolution was reflected with in detail also in the 2018-2021 Intesa Sanpaolo Business Plan.
In preparation of the 2018-2021 Business Plan, Intesa Sanpaolo decided to launch the revaluation for accounting purposes of its valuable art assets and properties (both operating and held for investment purposes), with the purpose of aligning their carrying amount to the current market values thus providing more meaningful information for the users of the financial statements.
It is deemed that in this way, in line with the provisions of IAS 8 concerning the changes of accounting policies, it is possible to provide reliable and more meaningful information on the effects of the company operations and, ultimately, on the overall financial position and results of the Group.
Recognition at the present value of valuable art assets and owner-occupied properties, according to the "*revaluation model*" envisaged by IAS 16, and of the investment properties, according to the fair value method envisaged by IAS 40, will actually result in:
- a better alignment of financial disclosure with the future strategies for the management of the artistic and real estate assets of the group;
- a more straightforward understanding of the effects of the actions envisaged by the business plan on the financial position and results;
- a constant alignment of the accounting values of the substantial property and art assets to the values available on the market.

As already shown, the above-mentioned change, applied starting from these financial statements, resulted in particular in:
- the transition from the cost model to the revaluation model for the measurement after the initial recognition of non-investment properties and valuable art assets;
- the transition from the recognition at cost to the recognition at fair value, for the properties held for investment.

IAS 8 requires, as a general rule, that the voluntary accounting policy changes be represented retrospectively starting from the date furthest back that is feasible.
This means that, based on the general principle, at the time when the change takes place, also the opening balances of the furthest back comparison year and the data of the comparison years must be restated.
However, the general rule permits exceptions. In particular, IAS 8, § 17, establishes that for the purpose of measuring property, plant and equipment, regulated by IAS 16, and intangible assets, regulated by IAS 38, the passage from the "cost criterion" to the "revaluation model" must be represented as if it were a normal consistent application of the "revaluation model". This means that the initial application of the "revaluation model" must take place prospectively and not retrospectively as required by the general principle reported in IAS 8.
As a consequence, the change of accounting policy in the context of IAS 16 and IAS 38 does not lead to any adjustment of the opening balances and comparison figures, or of the financial statements of the interim years which precede the date of the change.
On the other hand, for investment property, neither IAS 40 or IAS 8 dictate special provisions with regard to the accounting effects of the policy change (from cost to fair value or vice versa).
It was assumed that the most appropriate criterion to represent the change of the accounting criterion pertaining to investment property must be assimilated to the criterion specifically laid down by IAS 16 and IAS 38 for property, equipment and intangible assets regulated by them.
In light of the above, the revaluation at present values produced, at the time of changing the accounting policy, equity effects, which are attributable to the positive revaluation portion to be recognised in equity, and economic effects, which are attributable to the negative revaluation component.
Taking into account that the change of the measurement criterion took place at the end of the year, the calculation of the depreciation for the year 2017 was made with the previous cost criterion; as a consequence, the properties, both non-investment properties and those held for investment, were subject to the depreciation until 31 December 2017. Starting from 2018, the properties used in operations, measured under the revaluation model pursuant to IAS 16, will continue to be depreciated over their useful life, while the investment properties under IAS 40 will no longer be subject to depreciation as they are measured at fair value through profit and loss. The valuable art assets, in line with what is currently done, will continue not to be depreciated, since it is deemed that the useful life of a work of art may not be estimated and its value is normally destined to increase over time.

The determination of the fair value of the properties and the valuable art assets was carried out through the preparation of specific appraisals by qualified and independent companies. Lease rentals, selling prices, discount rates and capitalisation rates were 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.

As regards the consolidated financial statements, as reported in greater detail in Section 12 – Property and equipment of Part B, the change in question led to the recognition of a revaluation of 1,767 million euro gross of tax (of which 215 million euro, gross of tax, refers to valuable art assets). This value, net of the deferred tax assets carried, equal to 515 million euro, was attributed to a specific valuation reserve as part of shareholders' equity. In addition to this capital gain, losses were recognised in profit or loss for an amount of 30 million euro gross of tax, as the net effect of losses of 57 million euro and write-backs of previous write-downs of 27 million euro.
Indeed, you are reminded that, at the time of the revaluation, if write-downs have been recognised through profit or loss in previous years, any gain may be recognised through profit or loss up to the total amount of the previous write-downs. Only the excess amount is allocated to a specific reserve, as required by IAS 16.

IFRS 9: the new financial reporting standard on financial instruments

In accordance with the instructions of the European Securities and Markets Authority (ESMA) and the requirements of IAS 8, paragraphs 30 and 31, in this section Intesa Sanpaolo provides its disclosure regarding the implementation of IFRS 9 – Financial Instruments.

The regulations

As is by now common knowledge and as already discussed in the 2016 Financial Statements, the new financial reporting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, has replaced IAS 39, which until 31 December 2017 had governed the classification and measurement of financial instruments, with effect from 1 January 2018.
IFRS 9 is structured into the three different areas of classification and measurement of financial instruments, impairment and hedge accounting.
In the first area, IFRS 9 requires the classification of financial assets to be guided, on the one hand, by the characteristics of the related contractual cash flows and, on the other hand, by the business model for which the assets are held. In replacement of the current four accounting categories, under IFRS 9 financial assets may be classified into three categories, according to the drivers indicated above: Financial assets measured at amortised cost, Financial assets measured at fair value through other comprehensive income (for debt instruments, the reserve is transferred to profit or loss in the event of disposal of the instrument) and, lastly, Financial assets measured at fair value through profit or loss. The financial assets can be recognised in the first two categories and can, therefore, be measured at amortised cost or at fair value through other comprehensive income, only if it is demonstrated that they give rise to cash flows that are "solely payments of principal and interest" (SPPI Test). Equity instruments are always recognised in the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), for equities not held for trading, to present changes in value in other comprehensive income, never to be transferred to profit or loss, even in the event of the disposal of the financial instrument (Financial assets designated at fair value through other comprehensive income without "recycling").
There are no major changes with respect to the classification and measurement of financial liabilities under the current standard. The sole change relates to the accounting treatment of own credit risk: for financial liabilities designated at fair value (fair value option liabilities), the standard requires that changes in fair value attributable to the change in own credit risk be recognised through other comprehensive income, unless this treatment creates or increases an accounting mismatch in profit or loss, whereas the remaining amount of changes in the fair value of the liabilities must be recognised in profit or loss.
With respect to impairment, a model has been introduced for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments) based on the concept of "expected loss" instead of the current "incurred loss", with the aim of recognising losses in a more timely manner. IFRS 9 requires that entities recognise expected losses in the next 12 months (stage one) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3). More specifically, the introduction of the new impairment rules involves the:

- allocation of performing financial assets to different credit risk stages (staging), which correspond to value adjustments based on 12-month Expected Credit Losses (ECL) (Stage 1), or lifetime ECL over the remaining duration of the instrument (Stage 2), if there is a significant increase in the credit risk (SICR) determined by comparing the Probabilities of Default at the initial recognition date and at the reporting date;
- allocation of the non-performing financial assets to Stage 3, again with value adjustments based on the lifetime ECL;
- inclusion of forward-looking information in the calculation of the ECL, also consisting of information on the evolution of the macroeconomic scenario.

Finally, with regard to hedge accounting, the new model for hedging - which, however, does not apply to macro-hedging - aims to ensure that accounting treatment is consistent with risk management activity and to enhance disclosure of risk management activity by the reporting entity.

The implementation project

Given the pervasive impacts of the new features introduced by IFRS 9, both on business and from an organisational and reporting point of view, from September 2015 the Intesa Sanpaolo Group has launched a specific project aimed at further studying the various areas of influence of the standard, determining its impact in qualitative and quantitative terms, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of the subsidiaries of which it is composed.
In the CFO and CRO Areas, and under the joint responsibility of the Administration and Tax Department, Credit Risk Management Department and Financial and Market Risks Department, and, with the active involvement of numerous Group Departments, themed working groups were formed on the basis of the areas into which the standard is divided.

In order to ensure the operational implementation of the standard in line with its instructions and international best practices (also on the basis of indications from international authorities, where relevant), a specific working table was created to aid the themed working groups in analysing and steering the decisions based on which the implementation activities will be organised.
In addition to the involvement of the operating divisions in the analysis of the impacts of the standard on the business areas, to develop the changes to IT systems it was necessary to create a Coordination Table with the other projects in progress, so as to design consistent IT solutions capable of building potential synergies.
This phase of the project, which is approaching the final stages, is aimed at supporting and monitoring the work related to the First Time Adoption (FTA) of the new standard and implementing the final application and organisational measures, designed to ensure consistent "fully loaded" application of the new rules.

Before analysing the main activities carried out by the project in relation to the aforementioned IFRS 9 impact areas, it is worth noting the choices of a "general" nature made by the Intesa Sanpaolo Group regarding the scope of companies subject to application of the new standard, the presentation of the impacts on own funds resulting from the application of the new impairment rules, according to the recent amendments made to the prudential regulations, and the presentation of the comparative figures in the year of first time adoption of the standard. In particular:

- the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has decided to exercise the option of adopting the Deferral Approach (or Temporary Exemption), according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division means that, starting from 1 January 2018, different accounting standards will need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. In view of the discretion given by the Bank of Italy regarding how this choice and its effects should be presented in the financial statements, the Group has decided to add specific captions to the official consolidated financial statements layouts provided by the 5th update to Circular 262 (effective from 2018) and provide the related disclosures in the Notes to the 2018 Financial Statements, in compliance with the requirements of IFRS 7, and the Amendment to IFRS 4, which are aimed at understanding how the insurer meets the requirements for benefiting from the temporary exemption and ensuring comparability between the insurers that apply the temporary exemption and the entities that apply IFRS 9;
- on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", which updates Regulation 575/2013 CRR, adding the new article 473a "Introduction of IFRS 9", which gives banks the possibility of mitigating the impact on their own funds resulting from the introduction of IFRS 9 over a transitional period of 5 years (from March 2018 to December 2022) by neutralising the impact on CET1 through the application of decreasing percentages over time. The Intesa Sanpaolo Group has decided to adopt the "static approach", to be applied to the impact resulting from the comparison between the IAS 39 value adjustments as at 31/12/2017 and IFRS 9 value adjustments as at 1/1/2018. From 2018, banks that opt for the transitional arrangements will, however, be required to provide market disclosure regarding the "fully loaded" Available Capital, RWA, Capital Ratio and Leverage Ratio, in accordance with the Guidelines issued on 12 January 2018;
- lastly, with regard to the methods of presentation of the effects of first-time adoption of the standard, the Group will exercise the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. According to the instructions contained in the document issuing the 5th update of Circular 262 "Bank financial statements: layouts and preparation" (published in December 2017), banks that make use of the exemption from the requirement to restate the comparative information must nonetheless include a reconciliation statement in the first financial statements prepared based on the new Circular 262. This statement must show the method used and provide a reconciliation between the information from the last approved financial statements and the first financial statements prepared according to the new provisions. The form and content of this disclosure is left to the independent discretion of the competent company bodies.

Moving on to the analysis of the progress of the IFRS 9 project, a brief outline is provided below of the work carried out and being completed in relation to the main areas of impact identified above.

Classification and Measurement

To be able to comply with the requirements of IFRS 9 – which introduces a model through which the classification of financial assets is guided, on one hand, by the contractual cash flow characteristics of the instruments and, on the other hand, by the business model within which they are held - methods were identified for testing the contractual cash flow characteristics (SPPI test), while the business models adopted by the various structures through which the Group operates have been formalised.
For the SPPI testing of financial assets, the method to be used has been established and, at the same time, an analysis of the composition of the existing securities and loans portfolios has been performed to identify the correct classification upon First Time Adoption (FTA) of the new standard.
With regard to debt securities, a detailed examination has been conducted on the cash flow characteristics of the instruments classified at amortised cost and in the Financial assets available for sale category according to IAS 39, in order to identify the assets which do not pass the SPPI test and must therefore be measured at fair value through profit or loss according to IFRS 9. The analyses conducted confirmed the outcomes reported in the 2016 Financial Statements: only an insignificant percentage of debt securities out of the overall Group portfolio do not pass the SPPI test, mainly instruments that create concentrations of credit risk (tranches) and structured securities. Furthermore, based on analyses conducted and the interpretations provided by the IFRS Interpretation Committee, investment funds (open funds and closed-end funds) must be measured on a mandatory basis at their fair value through profit or loss, leading to a future increase in the income statement volatility for these types of instruments classified, in accordance with IAS 39, as Financial assets available for sale.

For the loans segment, the project has carried out modular analyses that take account of the significance of the portfolios, of their homogeneity and of the business Division. The analyses used different approaches for the retail loan and corporate loan portfolios. As a result, only marginal cases were found which, due to their specific contractual clauses or the nature of the loan fail the SPPI test. Accordingly, there are no significant impacts also for the loans segment upon FTA.
With regard to the second classification driver for the financial assets (business model), the definition has been completed of the business models to be adopted under IFRS 9 (which are organised at the level of single Division). For the Hold to Collect portfolios, the limits have been set 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. Based on the analyses conducted, the securities portfolios currently classified at amortised cost generally have little movement, consistent with the management strategy of a Hold to Collect business model. With regard to the debt securities currently classified as Financial assets available for sale, a Hold to Collect and Sell business model has been defined for most portfolios; solely in a limited number of cases, in relation to small-sized portfolios, several portfolio reclassifications have been carried out upon FTA to take account of the underlying business model on the IFRS 9 first-time adoption date.
In addition, in principle, the current procedures for managing loans, both with retail and corporate counterparties, are essentially consistent with the Hold to Collect business model.
Lastly, in more general terms, with regard to the business models under which the financial assets are held, a specific set of Rules has been produced, approved by the competent governance levels, aimed at defining and setting out the components of the business model, specifying its role in relation to the classification model governed by IFRS 9.
With regard to equity instruments, the instruments have been identified (classified in the financial assets available for sale category in accordance with IAS 39) for which to exercise the option of classification at fair value through other comprehensive income (without recycling to profit or loss) upon FTA. The general criteria have also been established that will guide this choice when the standard is “fully loaded” and the related organisational process has been formalised.
Lastly, it is noted that on conclusion of a specific valuation process, it was decided not to use the fair value option (with separate recognition through other comprehensive income of the fair value changes attributable to the changes in the Group’s credit rating) for the stock of financial liabilities as at 1 January 2018.
In view of the above, the transition to the new standard will essentially mean the reclassification of:

- available for sale debt securities in accordance with IAS 39 (60.1 billion euro), of which an estimated 3.5 billion euro will be transferred to financial assets measured at amortised cost and 0.6 billion euro to financial assets designated at fair value through profit or loss;
- units of investment funds, for an amount of around 1.2 billion euro, which will be classified to assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9, whereas under IAS 39 they were recognised under available for sale financial instruments (AFS);
- equity instruments, of around 3.7 billion euro, classified under AFS in accordance with IAS 39, of which, on FTA, an estimated 3.3 billion euro will be transferred to the financial assets for which the optional designation at fair value through other comprehensive income (without recycling to profit or loss) has been irrevocably exercised and 0.4 billion euro to financial assets mandatorily measured - at fair value through profit or loss.

Impairment

In the Impairment area (in relation to which specific projects have been developed for both loan and debt securities operations):

- the methods have been established for the tracking of the credit quality of the positions included in the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters for determining the significant increase in credit risk have been defined, for the correct allocation of performing exposures to stage 1 or stage 2. With regard to impaired exposures, on the other hand, the alignment of the definitions of accounting and regulatory default – already currently present – means that the current criteria for the classification of exposures as “non-performing”/”impaired” can be considered the same as the classification criteria for exposures within stage 3.
- the models have been produced – which include the forward-looking information – to be used for the stage allocation (based on the lifetime PD) and for the calculation of the 12-month expected credit loss (ECL) (to be applied to exposures in stage 1) and the lifetime ECL (to be applied to stage 2 and stage 3 exposures). To take into account forward-looking information and the macroeconomic scenarios in which the Group may have to operate, it was decided to adopt, as reported in greater detail below, the so-called “most likely scenario+Add-on” approach.

With regard to the tracking of credit quality, in line with the regulatory content of the standard and the guidelines from the Supervisory Authorities regarding the methods for applying the reporting standard for larger sized banks, a specific review of the credit quality of each individual relationship (both in the form of securitised exposure and the form of loans) has been conducted – within specific project streams and as a policy choice to be applied uniformly to all the types of exposures after IFRS 9 enters into force – in order to identify any “significant deterioration” in the credit quality on the initial recognition date and the consequent need for classification as stage 3 and, vice versa, the conditions for returning to stage 1 from stage 2. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase.
With regard to the above, the factors that will constitute the main drivers to be taken into consideration for the assessments regarding the “transfers” between the different stages are the following:

- the variation of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);

- the presence of 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 will be considered for the purposes of the transfer between "stages" and where appropriate.

Some specific considerations apply for the "staging" of the debt securities. Unlike loans, for this type of exposure, sales 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.
Lastly, solely with regard to the first-time adoption of the standard, for certain categories of exposures (specifically identified and mainly related to performing debt securities designated at fair value through other comprehensive income, held by the Parent Company and Italian bank subsidiaries), the low credit risk exemption established by IFRS 9 will be used. Based on the exemption, exposures which, at the date of transition to the new standard, have a credit rating equivalent to "investment grade" or above will be considered to have a low credit risk and therefore in stage 1.
As noted earlier above, the inclusion of forward-looking factors, and macroeconomic scenarios in particular, is a crucial element for the estimates of the expected losses. In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach, which, for the calculation of the expected credit losses (ECL) and the "stage assignment", involves considering the credit losses generated by the base scenario believed to be most likely and used also for other purposes within the Group (for example, for the preparation of the budget and business plan), plus an add-on adjustment aimed at reflecting the effects from the non-linear nature of the variables used, in relation to determining the macro-economic parameters. This add-on is determined based on alternative scenarios to the baseline scenario, identified based on benchmark variables, such as the annual average GDP growth rate of several countries (Italy, United States, Germany, France, Spain and the United Kingdom), European and US stock exchange indices, and residential real estate prices in the United States and Italy.

Finally, specific considerations apply to "stage 3" exposures (consisting, as reported above, of the current scope of non-performing assets). With regard to non-performing loans in particular, it should be noted that, despite the fact that the definition of credit-impaired financial assets contained in IFRS 9 compared to the previous standard is substantially the same, the methods of calculation of the lifetime ECL have methodological repercussions also for the purposes of the measurements to be carried out in this segment, mainly in relation to the following aspects:

- the inclusion of forward looking information such as the information on recovery estimates and times and the likelihood of migration into worse classes, as well as information that can have an influence on the value of the collateral or the expected recovery time;
- the consideration of alternative recovery scenarios, such as the sale of the credit assets, in connection with possible disposals of parts of the non-performing portfolio, in relation to company objectives of reduction of the non-performing assets, to which a probability of realisation must be assigned, to be considered within the overall measurement.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding bad 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. 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, can also be accompanied by scenarios that envisage the sale of the loans as a strategy. As a result, in order to determine the total expected loss of the exposures, for a defined perimeter of bad loans that have the characteristics of disposability, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from sale, estimated based on market valuations carried out by an external expert, are weighted according to the portion of the portfolio destined for sale, envisaged by the NPL strategy, with respect to the total of the disposable portfolio.

In addition, a specific Impairment Policy has been drawn up in accordance with the requirements of IFRS 9 and has been approved by the competent levels of governance.

Hedge accounting

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

Impact on the IT systems

The smooth and effective implementation of the changes introduced by IFRS 9 regarding Classification and Management and, above all, Impairment, resulted in the need to carry out measures that have a big impact in the area of information technology. To that end, specific analyses have been conducted to identify the main areas of impact and the target application architectures to be developed have been outlined. The applications and procedures to be adapted have been identified, as well as the amendments to be made.
The measures implemented on the systems – which are designed to achieve compliance with the new requirements established by the standard in terms of classification of the portfolios, tracking and measurement of credit risk, accounting and disclosure – therefore involved both the implementation, within the existing procedures, of the features required for that

purpose, and the addition of new software applications required for the more efficient and effective management of the issues concerned.
More specifically, for the Classification and Measurement area, once the methods for conducting the SPPI Test have been defined, the applications and procedures for its implementation have been identified and, where necessary, purchased/adjusted, both for securities and for credit exposures in the strict sense.
For the Impairment area, after having made the main choices regarding the parameters to be considered for the assessment of significant deterioration, as well as for the calculation methods for the ECL (also taking into account forward-looking information), the risk management applications to be used for tracking the credit risk of the individual exposures and calculating the ECL have been identified and implemented, together with the necessary adaptations and upgrades. Similar analyses and measures were also identified and are at advanced stage of implementation for the adaptation of the accounting applications, in order to ensure suitable disclosure, as required by the new version of the FINREP and the update to Circular 262 of the Bank of Italy applicable from 1 January 2018.
In general, these measures have been defined and developed centrally in Intesa Sanpaolo for all the Group companies that have IT systems that are shared with or are the same as those of the Parent Company. However, these measures have been managed independently by the subsidiaries (for example, the international subsidiaries) that have different application systems, also due to the specific nature of their business, with oversight by the Parent Company, to ensure that the solutions are aligned to its guidelines.

Organisational impacts and further developments

The IT Implementations have been carried out alongside similar measures of an organisational nature. Specifically, the main organisational impacts related to the revision and adaptation of existing operating processes, the design and implementation of new processes and the related controls, as well as the revision of the available resources and expansion of the competencies available within the various operational and administrative and control departments.
Specifically, the work related to the Classification and Measurement area initially involved business and marketing departments, with the aim of identifying and defining business models and developing management and monitoring procedures for the process of performing the SPPI test.
With regard to Impairment, the Group’s objective was the increasingly effective and integrated implementation of the procedures for ongoing monitoring of credit risk, in line with the requirements of IFRS 9, in order to establish preventive measures, aimed at monitoring the potential “sliding” of positions into stage 2 and recording fair and timely impairment adjustments based on the real credit risk.
Lastly, the introduction of IFRS 9 also required analyses in terms of the commercial offering and, consequently, in terms of the possible revision of the product catalogue and the identification of possible actions aimed at mitigating the risk of significant impairment.
That said, the main impacts for the Intesa Sanpaolo Group’s banking business deriving from the combination of the different subject areas of the new standard, and taken into account in this area of analysis, include:

- the possible need/opportunity – at least for some portfolios – to re-examine the credit strategies adopted;
- the amendment of some catalogue products (potentially including both their pricing and duration, based on their supporting guarantees, and their repayment mechanisms);
- the possible restatement of the mission of certain operating units, with the related implications for the governance of portfolios, control methods, risk/measurement parameters and the related limits and ceilings.

The process of moving towards First Time Adoption (FTA) of IFRS 9

Starting in the second half of 2017, the Intesa Sanpaolo Group launched the parallel running of the application of the new standard, which involved a modular approach that will progressively be rendered complete as the necessary information and support applications become available. The aim of this parallel running is to verify the correct implementation of the supporting applications for the management of the changes introduced by IFRS 9, in addition to ensuring a more coherent estimate of the FTA impacts.

In addition, in the first quarter of 2017 the European Central Bank (ECB) conducted a Thematic Review, which also involved Intesa Sanpaolo, focused on the process of implementing IFRS 9. Intesa Sanpaolo received from the ECB the final version of its conclusions, according to which the implementation of the new standard is generally in line with the authority’s expectations. These conclusions also contain several suggestions and findings which have already been included in the implementation plan for the new standard. The findings substantially relate to the definition of internal policies and regulations which, as usual, was carried out in the final part of the project. In brief, the findings deal with the need to supplement the processes and define in detail the internal rules and regulations (especially those regarding review and updating the methods of determining the SICR and calculating expected loss), which have been in force since the introduction of IFRS 9, and highlight the importance of the role of Internal Validation and back testing. In this regard, the internal regulations – relating in particular to the Group Accounting Rules, the new Impairment Policy and the structure of the business model within the Group – have been duly updated and approved by competent governance levels. For completeness, it is also noted that the Internal Validation and Audit functions have been involved from the outset in the process of implementation of IFRS 9 and the related operational activities. The checks conducted by the Internal Validation function concerned the impairment of the loans and bonds and the criteria for determining the business model and were aimed at assessing the soundness and sustainability of the methodological solutions proposed and their compliance with IFRS 9. With regard to the impairment of loans, assessments were conducted on the design of the methodological solutions for the various risk parameters (PD, LGD, and EAD), also by means of backtesting, and the adequacy of the staging criteria (with a particular focus on the setting of the limits for the assessment of significant deterioration in the credit rating and the inclusion of forward-looking information). With regard to the impairment of bonds, sample-based analyses confirmed the correctness of the assignment of the external ratings (in the absence of internal ratings) and compliance with the rules established for the staging (both for securities and for securitisations). The Internal Validation function examined the documentation prepared by the Bank regarding the business model, verifying, on one hand, the completeness and compliance with the requests made by the ECB during the Thematic Review and, on the other hand, for a sample desk, the adherence to the highlighted principles. Lastly, the analyses examined the methodology developed for the Benchmark Cash Flow Test. In order to ensure adequate monitoring over the process of adoption of the new standard, the Internal Audit function structured its activities throughout 2017 according to the evolution of the individual project initiatives implemented in this area. The checks were carried out through the continuous monitoring of the progress of the various project initiatives, dialogue with the relevant specialist structures in the areas concerned, and in-depth analysis of specific issues and operational choices. In view of their importance for the correct adoption of the new standard, particular attention was paid to the assessment of the impairment models. The checks in this area focused on the adequacy of the models in terms of compliance with regulatory requirements and emerging international best practices.

The effects of First Time Adoption (FTA)

On the basis of the above, an estimate is provided below of the expected impact of the first-time adoption of IFRS 9 on the consolidated shareholders' equity of the Intesa Sanpaolo Group as at 1 January 2018. These effects, which involve both the amount and composition of equity, mainly derive from:

- the requirement to recalculate the value adjustments on the financial assets held in the portfolio (both performing and non-performing) using the expected credit losses model – including the forward-looking components – instead of the previous incurred credit losses model. Specifically, for the performing exposures, the increase in the value adjustments is attributable (i) to the allocation of part of the performing portfolio to Stage 2, based on the stage allocation criteria defined, with the consequent need to calculate the expected loss over the lifetime of the financial assets and (ii) the inclusion within the expected losses calculation of forward-looking parameters resulting from future macroeconomic scenarios. With regard to non-performing loans, the impact is essentially due to the inclusion within the expected losses calculation of forward-looking parameters resulting from the consideration of future macroeconomic scenarios for all the NPL categories, and the inclusion of the sale scenario envisaged by the company targets of reduction of the non-performing assets for a part of the bad loans portfolio that has characteristics of disposability. The application of this criterion results in an estimated impact in terms of additional provisions of 1.3 billion euro (1 billion euro net of the tax effect) for the performing loans and debt securities and 3.1 billion euro (2.2 billion euro net of the tax effect) for the non-performing loans;
- the need to reclassify some financial assets held in the portfolio based on the combined result of the two classification drivers envisaged by the standard: the business model according to which the instruments are managed and the contractual characteristics of the related cash flows (SPPI test). It is estimated that the reclassification of the financial assets will have a positive impact of 0.3 billion euro (0.2 billion euro net of tax).

With regard to the prudential ratios, the negative impact of the first-time adoption of IFRS 9 on the CET 1 of the Intesa Sanpaolo Group is estimated at around 100 bps, taking into account the shortfall, resulting from the prudential expected losses in excess of the book value adjustments.

To mitigate this effect on the CET 1, the Intesa Sanpaolo Group has decided to adopt the “static approach”, to be applied to the FTA impact, net of the tax effect, resulting from the comparison between the IAS 39 value adjustments as at 31 December 2017 and the IFRS 9 value adjustments as at 1 January 2018, which therefore does not include the reclassification of the financial instruments, and after having set to zero the shortfall referred to above. The resulting amount of -2.9 billion euro, represents the base to which the decreasing factors must be applied during the transitional period to determine the amounts to be neutralised in the CET 1 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022).
As a result, in 2018 the Group will be able to neutralise around 2.7 billion euro in the CET 1, corresponding to 95% of the net negative impact of the performing loans and debt securities and the non-performing loans, thereby achieving a substantially nil impact on CET 1 capital.

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 Art. 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 accounting principles endorsed by the European Commission and illustrated in Part A.2 of these Notes to the consolidated financial statements financial statements, as well as in compliance with the general assumptions set forth by the 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.

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 2016.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2016 financial statements, together with specific reconciliations between the 2016 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 present amounts for the reference year and the previous year are in any case included. 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 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 reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

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

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.

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

Compared to the situation as at 31 December 2016, worth mentioning is that the scope of consolidation has been expanded to include Neva Finventures S.p.A. and Intesa Sanpaolo Harbourmaster S.A.
In addition, as part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, the contract also envisaged the acquisition of the shareholdings of the two banks, now in liquidation, in Banca Nuova S.p.A., Servizi Bancari S.c.p.A., Banca Apulia S.p.A., SEC Servizi S.c.p.A., Veneto Banka d.d.(Croatia), Veneto Banka sh.a. (Albania) and Eximbank s.a. (Moldova). This last stake was not included in the scope of consolidation for the purposes of the Financial Statements as at 31 December 2017, since a local legislative provision is being approved, aimed at the transfer of the bank's non-performing loans to compulsory administrative liquidation procedure. Without this operation, it will not be possible to register the change of ownership that, according to local legislation, would allow the new shareholder to exercise the shareholder prerogatives and therefore the control over the company.
Meanwhile, during the year the following left the scope of consolidation: - Infogroup S.c.p.A, sold; Cib Car Trading LLC- in voluntary liquidation; Brivon Hungary ZRT. - in voluntary liquidation.

Several extraordinary intragroup transactions were carried out in 2017, which had no effects on the Consolidated financial statements; they consisted in transfers of business lines 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 in the individual financial statements of the companies involved, using the continuing values method, without recognition of any economic effect.
In this context, the transactions carried out were: the partial demerger of CIB Factor into CIB Bank, the merger by incorporation of Accedo into Intesa Sanpaolo, the sale by Intesa Sanpaolo to PBZ of 51% of Banka Intesa Sanpaolo d.d. (Slovenia) and the sale by Intesa Sanpaolo to Intesa Sanpaolo Holding International of the stake held in Intesa Sanpaolo Bank Luxembourg.

The following table lists the investments in subsidiaries that are included in the line-by-line scope of consolidation of the Consolidated financial statements as at 31 December 2017.

1. Consolidated companies

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
1	Banca 5 S.p.A. (formerly Banca ITB S.p.A.) Capital 30,000,000.00 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
2	Banca Apulia S.p.A. (c) Capital 39,943,987 euro	San Severo	San Severo	1	Intesa Sanpaolo	70.41	69.47
3	Banca IMI S.p.A. Capital 962,464,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
4	Banca Imi Securities Corp Capital USD 44.500.000	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
5	Banca Intesa a.d., Beograd Capital RSD 21,315,900,000	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International	100.00	
6	Banca Intesa Joint-Stock Company Capital RUB 10,820,180,800	Moscow	Moscow	1	Intesa Sanpaolo Holding International Intesa Sanpaolo	53.02 46.98 100.00	
7	Banca Nuova S.p.A. Capital 256,300,000 euro	Palermo	Palermo	1	Intesa Sanpaolo	100.00	
8	Banca Prossima S.p.A. (h) Capital 82,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	80.16	
9	Banco di Napoli S.p.A. Capital 1,000,000,000 euro	Napoli	Napoli	1	Intesa Sanpaolo	100.00	
10	Bank of Alexandria S.A.E. (e) Capital EGP 800,000,000	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
11	Banka Intesa Sanpaolo d.d (formerly Banka Koper d.d.) (f) Capital 22,173,218.16 euro	Koper	Koper	1	Intesa Sanpaolo Privredna Banka Zagreb d.d.	48.07 51.00 99.07	
12	Cassa dei Risparmi di Forlì e della Romagna S.p.A. Capital 214,428,465 euro	Forlì	Forlì	1	Intesa Sanpaolo	84.01	
13	Cassa di Risparmio del Friuli Venezia Giulia S.p.A. Capital 210,263,000 euro	Udine	Gorizia	1	Intesa Sanpaolo	100.00	
14	Cassa di Risparmio del Veneto S.p.A. Capital 781,169,000 euro	Padova	Padova	1	Intesa Sanpaolo	100.00	
15	Cassa di Risparmio di Firenze S.p.A. Capital 418,230,435 euro	Firenze	Firenze	1	Intesa Sanpaolo	100.00	
16	Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. Capital Euro 171,846,280	Pistoia	Pistoia	1	Cassa di Risparmio di Firenze Intesa Sanpaolo	74.88 25.01 99.89	
17	Cassa di Risparmio in Bologna S.p.A. Capital 703,692,000 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
18	Cib Bank Ltd Capital HUF 50,000,000,003	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
19	CIB Factor Financial Services Ltd Capital HUF 50,000,000	Budapest	Budapest	1	Cib Bank	100.00	
20	CIB Insurance Broker Ltd Capital HUF 10,000,000	Budapest	Budapest	1	Cib Bank	100.00	
21	CIB Investment Fund Management Ltd Capital HUF 600,000,000	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost	100.00	
22	CIB Leasing Ltd Capital HUF 53,000,000	Budapest	Budapest	1	Cib Bank	100.00	
23	CIB Rent Operative Leasing Ltd Capital HUF 5,000,000	Budapest	Budapest	1	Cib Bank	100.00	
24	Compagnia Italiana Finanziaria - CIF S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
25	Consumer Finance Holding a.s. Capital 53,110,277 euro	Kezmarok	Kezmarok	1	Vseobecna Uverova Banka	100.00	
26	Consumer Finance Holding Ceska Republika a.s. Capital Czk 86,300,000	Prague	Prague	1	Consumer Finance Holding	100.00	
27	Duomo Funding Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	
28	Epsilon SGR S.p.A. Capital 5,200,000 euro	Milano	Milano	1	Eurizon Capital SGR Banca IMI	51.00 49.00 100.00	
29	Etoile Actualis S.a.r.l. Capital 29,709,643 euro	Paris	Paris	1	Risanamento Europa	100.00	
30	Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
31	Etoile Saint Florentin S.a.r.l. Capital 540,720 euro	Paris	Paris	1	Risanamento Europa	100.00	

Companies		Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
32	Etoile Services S.a.r.l. Capital 1,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
33	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
34	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
35	Eurizon Slj Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	
36	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
37	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	London	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
38	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
39	Fideuram Fiduciaria S.p.A. Capital 1,551,000 euro	Torino	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
40	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
41	Fideuram Vita S.p.A. Capital 357,446,836.42 euro	Roma	Roma	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking	80.01 19.99 100.00	
42	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
43	IMI Capital Markets USA Corp. Capital USD 5.000	New York	New York	1	IMI Investments	100.00	
44	IMI Finance Luxembourg S.A. Capital 100,000 euro	Luxembourg	Luxembourg	1	IMI Investments	100.00	
45	IMI Fondi Chiusi S.G.R. S.p.A. Capital 2,000,000 euro	Bologna	Bologna	1	IMI Investimenti	100.00	
46	IMI Investimenti S.p.A. Capital 579,184,200 euro	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
47	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
48	Immobiliare Cascina Rubina S.r.l.(i) Capital 1,371,066 euro	Milano	Milano	1	Risanamento	100.00	
49	IN.FRA - Investire nelle Infrastrutture S.r.l. (formerly IN.FRA - Investire nelle Infrastrutture S.p.A.) Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
50	Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
51	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
52	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
53	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
54	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
55	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
56	Intesa Sanpaolo Bank Luxembourg S.A. Capital 989,370,720.28 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
57	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
58	Intesa Sanpaolo Brasil S.A. - Banco Multiplo Capital BRL 306,065,234.44	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo Intesa Sanpaolo Holding International	99.90 0.10 100.00	
59	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25.000	New York	Wilmington	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
60	Intesa Sanpaolo Group Services S.c.p.A. Capital 272,586,637 euro	Torino	Torino	1	Intesa Sanpaolo Fideuram - Intesa Sanpaolo Private Banking Cassa di Risparmio del Veneto Cassa di Risparmio di Firenze Banco di Napoli Banca Imi Eurizon Capital SGR Intesa Sanpaolo Vita other smaller investments	99.91 0.01 0.01 0.01 0.01 0.01 0.01 0.01 0.01 100.00	
61	Intesa Sanpaolo Harbourmaster III S.A. Capital 5,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
62	Intesa Sanpaolo Holding International S.A. Capital 2,157,957,270 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
63	Intesa Sanpaolo Immobilière S.A. Capital 350,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
64	Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life Ltd) Capital 625,000 euro	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
65	Intesa Sanpaolo Private Bank (Suisse) S.A. Capital CHF 20,000,000	Lugano	Lugano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
66	Intesa Sanpaolo Private Banking S.p.A. Capital 105,497,424 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
67	Intesa Sanpaolo Provis S.p.A. Capital 5,125,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
68	Intesa Sanpaolo RE.O.CO. S.p.A. Capital 13,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
69	Intesa Sanpaolo Real Estate S.A. Capital 2,940,476 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
70	Intesa Sanpaolo Romania S.A. Commercial Bank Capital RON 886,639,410	Bucharest	Bucharest	1	Intesa Sanpaolo Cassa di Risparmio di Firenze Intesa Sanpaolo Holding International	91.47 8.18 0.35 100.00	
71	Intesa Sanpaolo Sec S.A. Capital 31,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
72	Intesa Sanpaolo Securitisation Vehicle S.r.l. Capital 60,000 euro	Milano	Milano	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 Intesa Sanpaolo Vita	51.01 48.99 100.00	
75	Intesa Sanpaolo Vita S.p.A. Capital 320,422,508.16 euro	Milano	Torino	1	Intesa Sanpaolo	99.99	
76	Intesa Sec. 3 S.r.l. Capital 70,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
77	Intesa Sec. Npl S.p.A. Capital 129,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
78	Intesa Sec. S.p.A. Capital 100,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
79	ISP CB Ipotecario S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
80	ISP CB Pubbico S.r.l. Capital 120,000 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
81	ISP OBG S.r.l. Capital 42,038 euro	Milano	Milano	1	Intesa Sanpaolo	60.00	
82	Lunar Funding V Plc (g)	Dublin	Dublin	4	Intesa Sanpaolo	-	
83	Lux Gest Asset Management S.A. Capital 200,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
84	Mediocredito Italiano S.p.A. Capital 992,043,495 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
85	Milano Santa Giulia S.p.A. (i) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
86	MSG Comparto Quarto S.r.l. (i) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
87	MSG Comparto Secondo S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
88	MSG Comparto Terzo S.r.l. (i) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
89	MSG Residenze S.r.l. (i) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
90	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo	100.00	
91	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	

	Companies	Place of business	Registered office	Type of relationship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
92	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
93	PBZ Leasing d.o.o. za poslove leasinga Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
94	PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
95	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
96	Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 968,370,561.86	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
97	Private Equity International S.A. (d) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	85.80	90.90
					IMI Investimenti	8.59	9.10
						94.39	100.00
98	Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
99	Qingdao Yicai Wealth Management Co. Ltd. Capital CNY 146,000,000	Qingdao	Qingdao	1	Eurizon Capital SGR	20.00	
					Fideuram - Intesa Sanpaolo Private Banking	25.00	
					Intesa Sanpaolo	55.00	
						100.00	
100	Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
101	Ri. Estate S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
102	Ri. Progetti S.p.A. (i) Capital 510,000 euro	Milano	Milano	1	Risanamento	100.00	
103	Ri. Rental S.r.l. (i) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
104	Risanamento Europa S.r.l. (i) Capital 100,125,050 euro	Milano	Milano	1	Risanamento	100.00	
105	Risanamento S.p.A. (i) Capital 382,301,503.75 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
106	Romulus Funding Corporation (g)	New York	New York	4	Intesa Sanpaolo	-	
107	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
108	Sec Servizi - Società consortile per azioni Capital 25,000,000 euro	Padova	Padova	1	Intesa Sanpaolo	73.61	
					Banca Nuova	1.66	
					Banca Apulia	0.28	
					Banca 5	0.06	
						75.60	
109	Servizi bancari S.C.P.A. Capital 120,000 euro	Vicenza	Vicenza	1	Intesa Sanpaolo	95.95	
					Banca Nuova	1.00	
					Intesa Sanpaolo Group Services	0.05	
					Sec Servizi - Società consortile per azioni	1.00	
						98.00	
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	Sviluppo Comparto 3 S.r.l.(i) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
112	Trade Receivables Investment Vehicle Sarl	Luxembourg	Luxembourg	4	Banca IMI/Duomo Funding		
113	Veneto Banka DD Capital HRK 597,082,000	Zagreb	Zagreb	1	Intesa Sanpaolo	100.00	
114	Veneto Banka Sh.A. Capital 72,543,750 euro	Tirana	Tirana	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT Direct ownership	% held	Votes available (b)
115	Vseobecna Uverova Banka a.s. Capital 430,819,063.81 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 Factoring a.s. Capital 2,232,334 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
118	VUB Leasing a.s. Capital 16,600,000 euro	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	

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

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

(c) Taking into account the payment for future capital increase not subscried by minority shareholders the stake held would be approximately 96%.

(d) On 23/12/2016, 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 in portfolio by Private Equity International.

(e) 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.

(f) Minority shareholders are subject to a legal commitment to purchase the remaining 0.93% of share capital.

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

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

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

Though the stake in Joint Stock Commercial Bank Eximbank (Moldova), 100%-owned, with registered office in Chisinau, deriving from the acquisition of certain assets and liabilities of Veneto Banca in compulsory administrative liquidation, was included in the Aggregate Set transferred to Intesa Sanpaolo, it was not included in the scope of consolidation as at 31 December 2017, since a local legislative provision is being approved, aimed at the transfer of the Moldovan bank's non-performing loans to compulsory administrative liquidation procedure. Without this operation, it will not be possible to register the change of ownership that would allow Intesa Sanpaolo to exercise the shareholder prerogatives and therefore the control over the company.

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:
  - o the control of more than half the voting rights as enshrined in an agreement with other investors;

- o the power to determine the financial and operational policies of the entity, as conferred by the Articles of Association or by contract;
- o the power to nominate or remove the majority of the members of the Board of Directors or of the equivalent corporate governance body;
- o 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 control 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	Banca Apulia S.p.A.	29.59	30.53	-
2	Banca Prossima S.p.A.	19.84	19.84	-
3	Bank Of Alexandria S.A.E (2)	20.00	29.75	1
4	Banka Intesa Sanpaolo d.d (formerly Banka Koper d.d.)	0.93	0.93	-
5	Cassa Dei Risparmi di Forlì e della Romagna S.p.A.	15.99	15.99	-
6	Cassa Di Risparmio di Pistoia e della Lucchesia S.p.A.	0.10	0.10	-
7	Compagnia Italiana Finanziaria - CIF S.r.l.	38.56	38.56	-
8	Eurizon Slj Capital L.t.d.	35.00	35.00	-
9	Fideuram Investimenti - Società di Gestione del Risparmio S.p.A.	0.50	0.50	-
10	Iniziative Logistiche S.r.l.	39.98	39.98	-
11	Intesa Sanpaolo Banka D.D. Bosna I Hercegovina	0.01	-	4
12	Intesa Sanpaolo Vita S.p.A.	0.02	0.02	-
13	Intesa Sec 3 S.r.l.	40.00	40.00	-
14	Intesa Sec Npl S.r.l.	40.00	40.00	-
15	ISP CB Ipotecario S.r.l.	40.00	40.00	-
16	ISP CB Pubblico S.r.l.	40.00	40.00	-
17	ISP OBG S.r.l.	40.00	40.00	-
18	Private Equity International S.A.	5.61	-	-
19	Privredna Banka Zagreb d.d.	2.53	2.53	2
20	Risanamento S.p.A.	51.12	51.12	-
21	Sec Servizi S.c.p.a.	24.40	24.40	-
22	Servizi Bancari S.c.p.a.	2.00	2.00	-
23	Vseobecna Uverova Banka a.s.	2.97	2.97	2

(1) Available voting rights at Ordinary Shareholders' Meeting.

(2) In March 2009 the sale of 9.75% of Bank of Alexandria (BOA) share capital to International Finance Corporation was finalised (IFC); at the same time a Put&Call Agreement was executed between the parties concerning the share sold by Intesa Sanpaolo. The percent interest includes the portion sold and the voting rights were transferred to the buyer in accordance with the agreement, in the absence of the requirements for derecognition as dictated by the proper application of international accounting standards.

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	Risanamento S.p.A.	1,056	-	18	45	430	197	-21	-25	-10	-33	-25	-	-25	-	-25
2	Bank Of Alexandria S.A.E	3,713	69	3,507	97	3,031	445	241	288	-108	166	122	-	122	-16	106
3	Vseobecna Uverova Banka A.S.	14,444	127	13,960	182	12,780	1,541	307	442	-216	195	153	-	153	2	155

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, as modified by Regulation 495/2009, 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.
The financial statements of the Parent Company and of other companies used to prepare the Consolidated financial statements refer to the same date.
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 SUBSEQUENT TO FINANCIAL STATEMENT DATE

Subsequent to the financial statement date, no significant events have occurred, except for those referred to in the Report on operations.

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. The group companies participating in the Fiscal Consolidation do not include those acquired from the two Venetian Banks, which will only be able to take part from next year.

Other aspects

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.

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

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;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit and 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.

Recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

On initial recognition, financial assets held for trading are recorded at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of derivative are recorded at fair value separately from the host contract, which is recognised at cost.

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 derivative instruments 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.

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, financial assets sold 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, to third parties.

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 designated at fair value through profit and 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 and 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.

Recognition criteria
Initial recognition of the financial asset occurs at settlement date for debt securities and equities 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.
If, in the cases provided for by the accounting standards, recognition occurs following the reclassification from Investments held to maturity or, in rare circumstances, from Financial assets held for trading, the recognition value is the fair value as at the time of transfer.

Measurement criteria
After initial recognition, Financial assets available for sale are measured at fair value, through the registration 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.

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, financial assets sold 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, to third parties.

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 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.

Recognition criteria
Initial recognition of financial assets occurs at settlement date.
On initial recognition, financial assets classified in this category are recorded at fair value, inclusive of any costs and revenues directly attributable to the asset.
If inclusion in this category occurs following reclassification from Financial assets available for sale or, in rare circumstances, from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

Measurement criteria
After the initial recognition, Investments held to maturity are valued 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.

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, financial assets sold 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, to third parties.

4. Loans

Classification criteria

Loans include loans to customers and due from banks, both disbursed directly and acquired by 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.

Recognition criteria

Initial recognition of a loan occurs at the date of subscription of the contract that usually coincides with the disbursement date. Should this not be the case, a commitment to disburse funds is made along 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.
If, in rare circumstances, the inclusion in this category occurs following reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

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.
There are three different categories of restructured credit exposures:
- renegotiations for "commercial" reasons/practices;
- forborne exposures (as defined in Bank of Italy Circular 272);
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

With respect to the first category, the renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, only when it is due to commercial reasons other than the deterioration in the borrower's financial situation (and thus does not fall within the scope of forborne exposures, as described below), provided that the interest rate applied is a market rate at the renegotiation date.

According to Bank of Italy regulations, a "forborne exposure" is defined as a debt contract to which "forbearance measures" have been applied. Forbearance measures consist of concessions, in terms of the modification and/or refinancing of the pre-existing debt contract, towards a borrower who is currently experiencing, or about to experience, difficulty in meeting his financial obligations (in other words, the debtor is in financial difficulty). Accordingly, forborne exposures may occur in each of the categories of non-performing loans (bad loans, unlikely to pay, and past due), as well as among performing loans, on the basis of the risk status of the exposure at the reporting date.
Non-performing forborne exposures are those for which there are objective indications of impairment, in addition to forbearance measures.

As an alternative to the scenarios outlined above (renegotiations due to difficulty of the debtor and renegotiations for commercial reasons/practices), the bank and debtor may agree on the discharge of the original debt through:
- novation or assumption by another debtor (assignment with release);
- substantial modification of the nature of the contract involving a debt-equity swap.

Such events, since they entail a substantial modification of the contractual terms, from an accounting standpoint result in the extinguishment of the previous relationship and the ensuing recognition of the new relationship at fair value, with the recognition in the income statement of a gain or loss equal to the difference between the book value of the former loan and the fair value of the assets received.
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 though the relationship has been restructured with a variation of the contractual interest rate and even though 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.

Derecognition criteria
Loans sold are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the loans. Conversely, if a significant part of the risks and rewards relative to the sold loans 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 loans are derecognised where no control over the loans has been maintained. If this is not the case, when control, even partial, is maintained, then the loans continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of loans sold and by variations in the relevant cash flows.
Lastly, loans sold are derecognised if the entity retains the contractual rights to receive the cash flows of the loan but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

5. Financial assets designated at fair value through profit and loss

Classification criteria
IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated 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 has only classified in this category investments with respect to insurance policies and certain debt securities with embedded derivatives or debt securities subject to financial hedging and equity investments held, directly or through funds, in companies involved in the venture capital business.

Recognition criteria
On initial recognition, financial assets are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

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.

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 by variations in the relevant cash flows.
Lastly, financial assets sold 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, to third parties.

6. Hedging transactions

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 and 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.

Recognition criteria
Hedging derivative instruments, 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 (as concerns 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 90. "Fair value change of financial assets in hedged portfolios" or under caption 70. "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 measures 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 macro-hedging relationship is discontinued, the cumulative revaluations/impairment losses carried under caption 90 "Fair value change of financial assets in hedged portfolios" or caption 70. "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.

7. Investments in associates and companies subject to joint control

Recognition, classification 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.
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.

8. 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.
Lastly, property and equipment also include the goods used in financial lease contracts, even though the ownership remains in the books of the lessor.

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.

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.
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.

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 other comprehensive income and accumulated in the shareholders’ equity under the caption revaluation reserve; instead, in the case where a decrease in a revaluation of the same asset recognised previously in the income statement is reversed, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in other comprehensive income as revaluation excess 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.

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 value 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.

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.

9. Intangible assets

Classification criteria
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 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, 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 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 should be 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.

10. Other assets

Apart from items awaiting classification and items not attributable to other captions of the balance sheet, other assets include property and other assets deriving from credit collection through the enforcement of guarantees or purchases at auction, in the event the property was acquired during normal operations of the credit business, with the intention to sell in the near future without carrying out any significant refurbishment works. In addition, with respect to the Group's real-estate companies, other assets also include the real-estate portfolio, comprehensive of buildable areas, properties under construction, completed properties for sale and real-estate development initiatives, held for disposal, in that they are regarded "inventories" as defined in IAS 2.
These assets, pursuant to IAS 2, are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying value 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.

11. 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. Such assets/liabilities are measured at the lower between the carrying amount and their fair value less costs to sell.
The income and charges (net of tax) 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.

12. Current and deferred tax

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents 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 compensated.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by income taxes.
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, evaluations of financial assets available for sale 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).
Deferred 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 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.
Deferred 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.

13. Allowances for risks and charges

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 reference date of the financial statements 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 reference date of the financial statements and take 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.

14. 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 financial 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.

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.

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.

15. 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 and certificates.

Measurement criteria
All financial liabilities held for trading are designated at fair value through profit and 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 sold with the substantial transfer of all the risks and rewards connected to it.

16. Financial liabilities designated at fair value through profit and loss

Classification criteria
Financial liabilities designated at fair value through profit and 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.

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 through profit and loss.

Derecognition criteria
The financial liabilities measured at fair value through profit and loss are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

17. 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 between the functional currency and the foreign currency 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.

18. Insurance assets and liabilities

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, 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. In accordance with IFRS 4, the Group assesses the adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT);
- 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 recorded at fair value through profit or loss, the difference between the book 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.

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. These principles may be summarised as:
- 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.

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 valued 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 charges 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 standards, contained in IAS 39 and 18, 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.

19. 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”, therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions 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.

Provisions for guarantees and commitments
Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, determined applying the same criteria set out above with respect to loans, are recorded under Other liabilities, as set out by Bank of Italy instructions.

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 recognised when they are collected or:

- in case of sale of goods or products, when it is probable that the economic benefits will be received and these benefits may be measured reliably;
- in the case of services, when these have been rendered.

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 until the reference date of the financial statements, 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 and 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 in the financial year when their distribution is approved;
- 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 are recognised under interest;
- costs and revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- 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, unless most of the risks and rewards related to the asset are maintained.

Costs are recorded in the income statement for the periods to which their income relates. If matching can only be attributed generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis.
Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

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.

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 measurement of the fair value of the properties 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.

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;
- 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 future cash flow estimates from loans for which no objective evidence of loss has emerged (collective measurement), past time-series and other objective elements observable at the measurement date are used, which enable the latent loss to be estimated for each loan category;
- 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;
- to determine the fair value of the properties and valuable art assets specific appraisals have been conducted by qualified and independent companies. Lease rentals, selling prices, discount rates and capitalisation rates were 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 provisions 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).

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 variable 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 variable) over the life of the loan. For financial assets/liabilities with a variable 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.

Loans, investments held to maturity and financial assets available for sale, payables and securities issued are 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 of services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. commissions for facility and arrangement) and, lastly, intragroup costs and income.

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 of syndicated loans and brokerage commissions received.

For securities not classified as held for trading, 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 registration 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, also structured assets and liabilities which are not measured at fair value through profit and loss for which the embedded derivative has been separated from the financial instrument are measured at amortised cost.
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 and 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 paragraph relative to measurement criteria of due to and from banks and customers and securities issued, 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 every balance sheet date, the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subject to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.
A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.
The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.
With reference to loans to customers and due from banks, positions attributed the status of bad loan, unlikely to pay or past due loan according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.
These 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. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value of money is immaterial.
Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower’s country of residence.
The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the regulations known as “Basel 3”. In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages that showed an average period of six months between the first missed payment and the classification as default. The time horizon of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.
The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the scenario available in the fourth quarter (used in ICAAP) to actual PD. Cyclical coefficients are updated annually and submitted to the Chief Risk Officer for approval.
With reference to assets available for sale, 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: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.
Within the first category, the following indicators are considered significant: 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. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the latter amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.
The amount of the impairment is calculated with reference to the fair value of the financial asset.
For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 Information on fair value.

Impairment of investments in associates or companies subject to joint control

At each balance sheet date, the investments in associates or 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 the chapter 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.
In order to test its real-estate assets for signs of impairment, the Group conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.
For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value 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.
Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each balance sheet 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 value of the CGUs consisting of companies that belong to a single operating division (Asset Management, Private Banking, Insurance and International Subsidiary Banks) 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 the chapter 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. Also, given the diverse risks of the respective operating areas, different Beta coefficients are used for each CGU. All the resulting rates have been corrected 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 the chapter 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 and IAS 39.
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, 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.

Criteria for the preparation of segment reporting

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

in which the Group operates are also given. Geographical areas are defined on the basis of the territorial breakdown of Group activities and take into account the economic and strategic importance and the potential of the reference markets. Three main geographical areas have been identified, based on the residence of the legal entities making up the Group: Italy, Europe and Rest of the World.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

A.3.1. Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

The following table shows financial instrument reclassifications mainly carried out in 2008. No reclassifications were made in 2017.

(millions of euro)

Type of financial instrument	Previous portfolio	New portfolio	Book value at 31.12.2017	Fair value at 31.12.2017	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets held for trading	Loans	169	155	13	8	-2	11
Debt securities	Financial assets available for sale	Loans	4,757	4,013	90	118	-60	122
Loans	Financial assets available for sale	Loans	6	6	-	-	-	-
TOTAL			**4,932**	**4,174**	**103**	**126**	**-62**	**133**

The income components related to net decreases attributable to the risk profile being hedged of reclassified assets amount to 61 million euro.

Had the Group not reclassified the above financial assets, positive income components would have been recognised for an amount of 103 million euro (before tax), instead of negative income components of 62 million euro, generating a positive effect of 165 million euro (before tax), broken down as follows:

– write-off of the negative income components recognised during the year following the 62-million-euro transfer. Of this amount, 1 million euro relates to adjustments and 61 million euro to fair value decreases following hedges;
– reversal of the positive income components which would have been recognised had no transfer taken place, totalling 103 million euro. Of this amount, 14 million euro refers to recoveries of reclassified securities, 61 million euro to fair value decreases following hedges and 150 million euro to the increase in Valuation reserves.

Moreover, had no reclassification taken place, other positive income components amounting to 7 million euro would have not been recognised.

Overall, starting from the respective reclassification dates, reclassified assets as at 31 December 2017 would have been written down by 753 million euro, of which 9 million to be recognised in the income statement (negative components for 2008: 460 million euro, positive components for 2009: 73 million euro, positive components for 2010: 92 million euro, negative components for 2011: 11 million euro, positive components for 2012: 135 million euro, positive components for 2013: 94 million euro, positive components for 2014: 60 million euro, positive components for 2015: 2 million euro, negative components for 2016: 9 million euro and negative components for 2017: 15 million euro) and 744 million euro to be recognised in the Valuation reserve in Shareholders' equity (against 894 million euro as at 31 December 2016 with a positive net variation of 150 million euro had no transfer occurred).

As at 31 December 2017, reclassifications amount to a nominal 4,070 million euro. Of this amount:

– 3,463 million euro was reclassified by 1 November 2008 and therefore taking as reference the value of these assets as at 1 July 2008 if already present as at that date in the portfolio, or with reference to the purchase price if this took place after 1 July 2008, or at nominal value for loans issued after that date;
– 607 million euro was reclassified after 1 November 2008 and therefore on the basis of fair value as at the date of reclassification; the latter figure also refers to reclassifications carried out in 2009 concerning structured credit products arising from the transformation of unfunded instruments (derivatives) into funded instruments (securities), while maintaining the same risk profile to which the Group is exposed.

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

No portfolio transfers were made in 2017.

A.3.3 Transfer of financial assets held for trading

The financial crisis which marked 2008 was classed by the IASB as a rare circumstance. Consequently, the Intesa Sanpaolo Group has identified certain securities - mainly consisting of bonds not quoted on active markets originally classified under trading assets which due to present and prospective market conditions could no longer be managed actively. These assets were kept in portfolio and reclassified to the loan category and financial assets available for sale. With respect to the trading book, mainly structured credit products held by Intesa Sanpaolo and Banca IMI were reclassified.

A.3.4 Effective interest rate and expected future cash flows from reclassified assets

The effective interest rate attributable to the reclassified securities portfolio is equal to 3.58% and estimated cash flows at the date financial assets were reclassified amount to 4,070 million euro.

A.4 – INFORMATION ON FAIR VALUE

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 also applied to the Parent Company and to all consolidated subsidiaries.
The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risks 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 Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposal of which falls to the Financial and Market Risks Head Office Department.

In accordance with international financial reporting standards (IFRS13), the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

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

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

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

In specific cases regulated by internal policies and despite being quoted on regulated markets, adequate research is carried out in order to verify the significance of 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 prudent valuation principles

The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group's Prudent Value Policy, prepared by the Financial and Market Risks Head Office Department and also applied to the Parent Company and to all consolidated subsidiaries.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risks 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 Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposal of which falls to the Financial and Market Risks Head Office Department.

In accordance with the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), prudent valuation means the calculation of specific additional valuation adjustments (AVA) for the financial instruments measured at fair value, aimed at intercepting various sources of valuation uncertainty to ensure 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

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 contained in the trading book.

If there is no active market, the fair value is determined using measurement 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 measurement 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 measurement 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 measurement technique used to measure fair value or the risk relating to the inputs of the measurement 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 reflects 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 measurement techniques rather than the measurement 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. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations are available on an active market (for example, exchange traded futures and options)[6] and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and the checklist does not identify any critical issues in terms of liquidity risk or counterparty risk.
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.

[6] Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be classified as level 1, but only for foreign branches and international banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.

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 valuation.
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;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABS for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed 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;
- loans measured through the discounting of future cash flows.

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:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- funds, shareholding and other equity instruments measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

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

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide – a document prepared and updated by the Financial and Market Risks Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the 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. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.
The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Valuation of financial instruments and Model Risk Management

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement. The validation process is particularly important when a new financial instrument is introduced to the operations, or when it is considered necessary to update the pricing models for already managed products. In both cases, the validation consists of adapting an existing pricing model or developing new pricing models. In all cases, the models used for the pricing are subject to an internal certification process that involves the various competent structures or independent companies, in highly complex or particularly critical cases;
- periodic monitoring of the consistency of the valuation models over time: the monitoring consists in checking the adherence to the market of the valuation model in order to promptly discover any gaps and start the necessary verifications and interventions.

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

Model Validation

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 approach’s ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models in operation 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 and sufficiently liquid. For interest rate derivatives, 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. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and

commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against 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.

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

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.
In addition to the adjustments relating to the abovementioned factors, also other types of adjustments ("Mark-to-Market Adjustment") relating to other factors that may influence the valuation are included. These factors essentially involve:
- high and/or complex risk profile;
- illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities[7] are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).
Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.
Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and "quanto" correlation (connected to pay offs and index-linking expressed in different currencies).
The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

[7] Securities are considered liquid if they have a maturity of more than 6 months, and at least five contributors of bid and ask prices can be identified that meet the conditions established in the Fair Value Policy, with a bid-ask spread within a set limit.

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), on the valuation models used.

I· *Valuation model for non-contributed 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 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 relatively 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, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group 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 models for interest rate, foreign exchange, equity, inflation, commodity and credit derivatives*

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA.

The Intesa Sanpaolo Group introduced the Credit and Debt Value Adjustment (CVA/DVA) in the past, and implemented the Funding Value Adjustment (FVA) with effect from 31 March 2016. The metrics of the FVA have been extended, during 2017, to the scope of proprietary transactions, completing the process begun in 2016. Accordingly, 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 liquidity and counterparty risk.

a. For CSA transactions with characteristics that reduce counterparty and liquidity 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 liquidity 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 (see point above), and several additional valuation components related to the counterparty and liquidity risk premium, referred to jointly as XVA.
   - An initial assessment component, called Bilateral Credit Value Adjustment (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.
   - A second assessment component, the so-called Funding Value Adjustment (FVA), takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

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 on the basis of the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor 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, Black-Scholes generalizzato, 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	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.

Valuation model for structured credit products

Regarding 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/consensus platforms, 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. The results of these analyses are subject to backtesting with actual sales prices.

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 CLO HY loans that may influence the waterfall. For this asset class, the process of determining fair value also involves stress of the main unobservable variables and a credit analysis aimed at identifying any weaknesses of the individual assets securing the CLOs that results in a revision of the input parameters.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.
The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.
For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.
The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.
For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in the valuations, a series of corrections have been prepared for the valuations referred to the main input parameters; in particular:
- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for REITS underlying securities);
- stress of asset value correlation: inter and intra correlations have been increased and decreased by 15% or 25% depending on the type of product;
- stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 25%;
- stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets were 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 ABS/CDO 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. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are measured at level 3 when no reliable and verifiable quotes are available from the Financial and Market Risks Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

IV. *Valuation of equities with relative and absolute models*

Financial instruments for which fair value is determined using level 2 inputs also 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 at constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions. Equities to which the above "relative" models are not applied are measured using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

V. *The valuation model for 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 funds managed through a Managed Account Platform (MAP), which ensures full daily transparency of the instruments underlying the funds, and the funds not managed via MAP.

For the funds managed via MAP, the Fair Value corresponds to the Net Asset Value (NAV) provided by the Fund Administrator. It is not deemed necessary to apply the fair value adjustments described below to the NAV, since:
- the counterparty risk is mitigated by the fact that the MAP is subject to limited recourse clauses and non-petition provisions, through which each fund managed in the MAP achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the units managed via MAP;
- the liquidity risk is managed via a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary;
- due diligence was carried out, which ascertained that the methods to value the instruments in which the fund invests used by the Fund Administrator are consistent with the requirements of the Intesa Sanpaolo Group for the type of instruments considered.

If these conditions are not met, a possible adjustment to the fair value is assessed.
The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For the funds not managed via the MAP, the fair value is calculated by applying to the NAV provided by the Fund Administrator a deduction deriving from a measurement process aimed at taking into account the effect of any idiosyncratic risks, which may be reclassified mainly into the two following types:
- counterparty 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.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

VII. Other level 2 and 3 valuation models

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

The prudent value of financial instruments

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 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;
– 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.

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	Discounting Cash Flows	Credit Spread	-9	286	%	3,611	-94,793
Structured securities	Two-factor model	Correlation	-49	41	%	3,530	-2,662
ABSs	Discounting Cash Flows	Credit Spread	-28	102	%	1,579	-7,884
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-5	2
CLOs Cash	Discounting Cash Flows	Credit Spread	-6	109	%	1,508	-27,319
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	-282	113
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	38	-38
OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparies	bCVA	Loss Given Default Rate (LGD)	0	100	%	4,998	-14,021
OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparies	bCVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	79	-86
OTC derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	32.05	93.63	%	143	-92
OTC derivatives - Equity option	Black - Scholes model	Historical volatility	9.24	70.83	%	1,979	-1,078
OTC derivatives - Equity option	Marshall Olkin model	Historical correlation	32.21	82.56	%	239	-391
OTC derivatives - Spread option on swap rates	Lognormale bivariato model	Correlation between swap rates	-79.23	97.35	%	1,979	-1,684
OTC derivatives - Equity option	Black - Scholes model	Historical volatility - EuroClass	27.98	76.60	%	396	-86
OTC derivatives - JPY swaption	Black model	Historical volatility - swap rate	13.47	56.79	%	1,046	-39

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
Held for trading and available for sale securities	Credit spread	-247	1 bp
Held for trading and available for sale securities	Correlation	-126	1%
Held for trading and available for sale securities	CPR	-4	1%
Held for trading and available for sale securities	Recovery rate	-12	-1%
OTC Derivatives - Equity	Historical volatility - EuroClass S.p.A.	-99	10%
OTC Derivatives - Interest rate	Correlation for spread options between swap rates	-216	0.1
OTC Derivatives - Equity	Correlation between underlying equity baskets	-71	0.1
OTC Derivatives - Equity	Historical volatility	-1,202	10%
OTC Derivatives - Equity CPPI	Historical correlation	-125	0.1
OTC Derivatives - Interest rate	JPY swaption volatility	-283	10%

A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, the Intesa Sanpaolo Group carries out level changes based on 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 reference date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reference 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 reference date, some of the significant parameters used in determining fair value are not directly observable on the market.
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 **equity instruments** recognised among assets available for sale, 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 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) and others are not available. In this case, the Group uses valuation techniques that use unobservable inputs.

A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.
The Intesa Sanpaolo Group refers to the net positions in derivatives of each counterparty in order to calculate the bCVA (for more information on the valuation of derivatives refer to paragraph A.4.1 above).However, for other cases, the Group does not apply the options set out in IFRS 13, par. 48, that 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.”

Methodological process adopted to estimate the fair value of real estate assets and valuable art assets

Estimate of fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, during 2017 the Group decided to amend the measurement criteria for real estate assets, changing from the cost method to revaluation method (for owner-occupied properties recorded on the basis of IAS 16) and the fair value method (investment property, recorded on the basis of IAS 40).

The fair value of properties is determined by setting up specific appraisals by qualified, independent companies.
In terms of methodology, for all properties with the exception of the skyscraper housing the headquarters in Turin, the "Market Value" is estimated. Based on the standards generally applied with regard to property appraisals[8] the Market Value is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". That configuration of value (Market Value) is substantially equivalent to that of fair value defined in the international accounting standards.
Only for the skyscraper in Turin – a tower with 38 floors above ground and 6 underground floors, fully occupied by the New Headquarters of ISP – given its strong Group connotation, as well as the particular construction and functional characteristics, the "Investment Value" is estimated. In the standards cited, the investment value is defined as: "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives".
That value configuration reflects the highest and best use of that asset in the estimate.

In terms of application, the appraisals are carried out using the Discounted Cash Flow method for all properties held. Under that method, the valuation parameters (firstly, lease rentals, sale price, discounting rates and capitalisation rates) applied are estimated in line with the sector best practices and are based on market surveys relating to real estate scenarios comparable to that being measured.

Estimate of fair value of valuable art assets

The move from the cost method to revaluation method also concerned the Bank's valuable art assets.
Also in this case, the fair value is determined by setting up specific appraisals by qualified, independent companies.
Valuable art assets are measured by estimating the "commercial value or fair value" of the individual works in the various categories, taken from the trend in sales and purchases of equivalent works (in terms of technique, size and subject) by the same artist, or by regional schools and movements that are similar in terms of style and artistic philosophy.
The market references are extracted from specialised international databases. These are online databases containing over 100 million works, such as Artnet and Artprice, which monitor the results of the main Italian and international auction houses such as Christie's, Sotheby's, Dorotheum, Pandolfini, Wannenes and Il Ponte. The market data extracted from those databases are considered objective parameters to be compared with the market as a whole, in an analysis that also monitors art galleries and antiques shops, private dealers and market exhibitions.
In addition to the performance of the reference market, in-depth studies are conducted that are necessary to appreciate the most important qualitative and quantitative factors that contribute to determining the fair value of a work of art, including: i) its state of preservation; ii) the historical importance of the artist; iii) the importance of the work in terms of art critique/art history; iv) its illustrious origin; v) its quality and certain attribution and vi) a declaration of interest.

[8] 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").

Quantitative information

A.4.5. Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level

(millions of euro)

Assets / liabilities at fair value	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	12,140	26,582	796	10,685	31,978	950
of which: Equities	*626*	*-*	*-*	*885*	*-*	*-*
of which: quotas of UCI	*1,189*	*3*	*143*	*584*	*86*	*165*
2. Financial assets designated at fair value through profit or loss	74,288	542	439	62,341	1,072	452
of which: Equities	*1,605*	*-*	*-*	*1,295*	*-*	*-*
of which: quotas of UCI	*68,629*	*-*	*123*	*57,438*	*-*	*127*
3. Financial assets available for sale	132,868	6,562	2,911	137,354	6,341	2,997
of which: Equities	*2,108*	*2,448*	*704*	*1,765*	*2,728*	*970*
of which: quotas of UCI	*8,852*	*69*	*1,711*	*7,942*	*30*	*1,663*
4. Hedging derivatives	-	4,203	14	-	6,214	20
5. Property and equipment	-	-	5,899	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**219,296**	**37,889**	**10,059**	**210,380**	**45,605**	**4,419**
1. Financial liabilities held for trading	15,517	25,636	132	12,983	31,541	266
2. Financial liabilities designated at fair value through profit or loss	-	68,169	-	-	57,187	-
3. Hedging derivatives	-	7,484	5	-	9,024	4
Total	**15,517**	**101,289**	**137**	**12,983**	**97,752**	**270**

As highlighted in the table, financial instruments measured at fair value – level 3 include:
– 740 million euro of equities, i.e. equity interests that cannot be recognised as investments in associates or companies subject to joint control;
– 103 million euro of units of UCIs relating to the Atlante Fund.

In addition, 5,899 million euro relate to the fair value measurement of owner-occupied properties, investment properties and valuable art assets. Specifically, the revaluation recorded with respect to the purchase price net of depreciation and impairment losses amounts to 1,767 million euro.

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed in the tables below, note that the following transfers were made in 2017:

- from level 1 to level 2:
  - financial assets held for trading for 35 million euro (book value as at 31 December 2017);
  - financial assets designated at fair value through profit and loss for 31 million euro (book value as at 31 December 2017);
  - financial assets available for sale for 200 million euro (book value as at 31 December 2017);
- from level 2 to level 1:
  - financial assets held for trading for 324 million euro (book value as at 31 December 2017);
  - financial assets designated at fair value through profit and loss for 9 million euro (book value as at 31 December 2017);
  - financial assets available for sale for 104 million euro (book value as at 31 December 2017);
  - financial liabilities held for trading for 114 million euro (book value as at 31 December 2017).

Transfers between fair value levels derive from the empirical observation of phenomena inherent in the instrument in question or its market.

The transfer from level 1 to level 2 is due to an adequate number of contributors no longer being present, namely to the limited number of investors holding the existing float. These cases often occur when approaching maturity of the instruments. Conversely, securities that have limited liquidity and number of negotiations upon issue – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

As at 31 December 2017, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of financial instruments, and financial and credit derivatives, amounted to a reduction of 203 million euro in positive fair value and a reduction of 70 million euro in negative fair value.

The amount of 5,899 million euro relating to the measurement of Property and equipment stems from the change in the accounting policy (from cost to fair value) for the measurement of owner-occupied properties, investment properties and valuable art assets.

A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**950**	**452**	**2,997**	**20**	**-**	**-**
2. Increases	**598**	**1**	**2,473**	**-**	**5,899**	**-**
2.1 Purchases	494	-	1,536	-	-	-
2.2 Gains recognised in:	32	1	443	-	-	-
2.2.1 Income statement	*32*	*1*	*182*	-	-	-
- of which capital gains	*25*	*1*	*1*	-	-	-
2.2.2 Shareholders' equity	*X*	*X*	*261*	-	-	-
2.3 Transfers from other levels	24	-	102	-	-	-
2.4 Other increases	48	-	392	-	5,899	-
3. Decreases	**-752**	**-14**	**-2,559**	**-6**	**-**	**-**
3.1 Sales	-401	-10	-850	-	-	-
3.2 Reimbursements	-145	-2	-307	-	-	-
3.3 Losses recognized in:	-147	-2	-860	-6	-	-
3.3.1 Income statement	*-147*	*-2*	*-704*	*-6*	-	-
- of which capital losses	*-79*	*-2*	*-593*	*-6*	-	-
3.3.2 Shareholders' equity	*X*	*X*	*-156*	-	-	-
3.4 Transfers to other levels	-39	-	-151	-	-	-
3.5 Other decreases	-20	-	-391	-	-	-
4. Final amount	**796**	**439**	**2,911**	**14**	**5,899**	**-**

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 through profit or loss	Hedging derivatives
1. Initial amount	**266**	**-**	**4**
2. Increases	**10**	**-**	**1**
2.1 Issues	-	-	-
2.2 Losses recognised in:	4	-	1
2.2.1 Income statement	*4*	-	*1*
- of which capital losses	*4*	-	*1*
2.2.2 Shareholders' equity	*X*	*X*	-
2.3 Transfers from other levels	6	-	-
2.4 Other increases	-	-	-
3. Decreases	**-144**	**-**	**-**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-72	-	-
3.3.1 Income statement	*-72*	-	-
- of which capital gains	*-42*	-	-
3.3.2 Shareholders' equity	*X*	*X*	-
3.4 Transfers to other levels	-2	-	-
3.5 Other decreases	-70	-	-
4. Final amount	**132**	**-**	**5**

"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.4.5.4 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	31.12.2017				31.12.2016			
	Book value	Level 1	Level 2	Level 3	**Book value**	**Level 1**	**Level 2**	**Level 3**
1. Investments held to maturity	1,174	508	695	-	1,241	422	866	-
2. Due from banks	72,462	16	61,232	11,263	53,146	-	40,669	12,364
3. Loans to customers	410,746	1,306	284,280	127,672	364,713	1,474	261,573	112,194
4. Investment property	-	-	-	-	136	-	-	155
5. Non-current assets held for sale and discontinued operation	627	-	-	556	312	-	-	315
Total	**485,009**	**1,830**	**346,207**	**139,491**	**419,548**	**1,896**	**303,108**	**125,028**
1. Due to banks	99,990	-	88,476	11,556	72,641	-	58,890	13,319
2. Due to customers	323,443	58	295,471	28,202	291,876	114	257,681	34,613
3. Securities issued	94,239	52,550	40,378	3,600	94,783	42,702	49,721	3,322
4. Liabilities associated with non-current assets	264	-	247	17	272	-	255	17
Total	**517,936**	**52,608**	**424,572**	**43,375**	**459,572**	**42,816**	**366,547**	**51,271**

Financial assets and liabilities

For assets and liabilities not measured at fair value (securities held to maturity, 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 debt securities classified under held to maturity and 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:
  o demand financial items (assets and liabilities) or financial items with an original maturity equal to or less than 12 months and residual maturity equal to or less 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;
  o 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 IAS 39, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.
The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.
Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).
This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's investing activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the Group entity (the investment bank) carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.
The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
The following table shows the DOP amount trend deferred in the balance sheet, indicating the portion taken to the income statement.

(millions of euro)

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

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)

	31.12.2017	31.12.2016
a) Cash	3,498	3,177
b) On demand deposits with Central Banks	5,855	5,509
TOTAL	**9,353**	**8,686**

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	9,840	2,545	383	8,559	2,775	339
1.1 structured securities	*189*	*156*	*5*	*322*	*107*	*6*
1.2 other debt securities	*9,651*	*2,389*	*378*	*8,237*	*2,668*	*333*
2. Equities	626	-	-	885	-	-
3. Quotas of UCI	1,189	3	143	584	86	165
4. Loans	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**11,655**	**2,548**	**526**	**10,028**	**2,861**	**504**
B. Derivatives						
1. Financial derivatives	485	22,887	257	654	27,910	426
1.1 trading	*483*	*22,491*	*257*	*654*	*27,446*	*425*
1.2 fair value option	*2*	*2*	-	-	-	-
1.3 other	-	*394*	-	-	*464*	*1*
2. Credit derivatives	-	1,147	13	3	1,207	20
2.1 trading	-	*1,147*	-	*3*	*1,207*	*7*
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	*13*	-	-	*13*
Total B	**485**	**24,034**	**270**	**657**	**29,117**	**446**
TOTAL (A+B)	**12,140**	**26,582**	**796**	**10,685**	**31,978**	**950**

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 1,432 million euro, of which 1,086 million euro is senior, 329 million euro is mezzanine and 17 million euro is junior.

2.1 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	9,624	2,534	383	8,336	2,745	339
1.1 structured securities	*189*	*156*	*5*	*322*	*107*	*6*
1.2 other debt securities	*9,435*	*2,378*	*378*	*8,014*	*2,638*	*333*
2. Equities	626	-	-	885	-	-
3. Quotas of UCI	984	3	94	381	86	120
4. Loans	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**11,234**	**2,537**	**477**	**9,602**	**2,831**	**459**
B. Derivatives						
1. Financial derivatives	478	22,885	257	646	27,909	426
1.1 trading	*478*	*22,491*	*257*	*646*	*27,445*	*425*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	*394*	-	-	*464*	*1*
2. Credit derivatives	-	1,147	13	-	1,207	20
2.1 trading	-	*1,147*	-	-	*1,207*	*7*
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	*13*	-	-	*13*
Total B	**478**	**24,032**	**270**	**646**	**29,116**	**446**
TOTAL (A+B)	**11,712**	**26,569**	**747**	**10,248**	**31,947**	**905**

2.1 Of which: Insurance companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	216	11	-	223	30	-
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	*216*	*11*	-	*223*	*30*	-
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	205	-	49	203	-	45
4. Loans	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**421**	**11**	**49**	**426**	**30**	**45**
B. Derivatives						
1. Financial derivatives	7	2	-	8	1	-
1.1 trading	*5*	-	-	*8*	*1*	-
1.2 fair value option	*2*	*2*	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	3	-	-
2.1 trading	-	-	-	*3*	-	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**7**	**2**	**-**	**11**	**1**	**-**
TOTAL (A+B)	**428**	**13**	**49**	**437**	**31**	**45**

2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companie	31.12.2016
A) CASH ASSETS					
1. Debt securities	**12,768**	***12,541***	***227***	**-**	**11,673**
a) Governments and Central Banks	7,768	*7,569*	*199*	-	6,784
b) Other public entities	394	*394*	-	-	559
c) Banks	2,116	*2,104*	*12*	-	1,859
d) Other issuers	2,490	*2,474*	*16*	-	2,471
2. Equities	**626**	***626***	**-**	**-**	**885**
a) Banks	39	*39*	-	-	39
b) Other issuers	587	*587*	-	-	846
- insurance companies	*2*	*2*	-	-	*24*
- financial institutions	*32*	*32*	-	-	*61*
- non-financial companies	*553*	*553*	-	-	*761*
- other	-	-	-	-	-
3. Quotas of UCI	**1,335**	***1,081***	***254***	**-**	**835**
4. Loans	**-**	**-**	**-**	**-**	**-**
a) Governments and Central Banks	-	-	-	-	-
b) Other public entities	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other counterparties	-	-	-	-	-
Total A	**14,729**	***14,248***	***481***	**-**	**13,393**
B) DERIVATIVES					
a) Banks	13,539	*13,530*	*9*	-	16,790
b) Customers	11,250	*11,250*	-	-	13,430
Total B	**24,789**	***24,780***	***9***	**-**	**30,220**
TOTAL (A+B)	**39,518**	***39,028***	***490***	**-**	**43,613**

SECTION 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 30

3.1 Financial assets designated at fair value through profit and loss: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	3,685	530	67	3,575	1,062	67
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	*3,685*	*530*	*67*	*3,575*	*1,062*	*67*
2. Equities	1,605	-	-	1,295	-	-
3. Quotas of UCI	68,629	-	123	57,438	-	127
4. Loans	369	12	249	33	10	258
4.1 structured	-	*12*	-	-	*10*	-
4.2 other	*369*	-	*249*	*33*	-	*258*
Total	**74,288**	**542**	**439**	**62,341**	**1,072**	**452**
Cost	**71,930**	**534**	**427**	**60,113**	**1,051**	**439**

3.1 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	-	373	64	-	929	64
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	-	*373*	*64*	-	*929*	*64*
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	-	-	105	12	-	107
4. Loans	-	12	-	-	10	-
4.1 structured	-	*12*	-	-	*10*	-
4.2 other	-	-	-	-	-	-
Total	**-**	**385**	**169**	**12**	**939**	**171**
Cost	**-**	**389**	**157**	**12**	**933**	**159**

In this category the Group has classified some debt securities with embedded derivatives, debt securities subject to financial hedging, equity investments held, directly or through funds, in companies involved in the venture capital business and loans connected to the LECOIP for the employment agreements, terminated early, of its employees and those of Group companies, managed based on fair value.
On the basis of the debt securities and the loans included in the aggregate, no hedges were arranged and no credit derivatives or similar instruments exist to mitigate the relevant credit risk. The total fair value change attributable to the credit risk changes occurred in the period was a positive 9.6 million euro, while the amount of the annual change was insignificant.

3.1 Of which: Insurance companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	3,685	157	3	3,575	133	3
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	*3,685*	*157*	*3*	*3,575*	*133*	*3*
2. Equities	1,605	-	-	1,295	-	-
3. Quotas of UCI	68,629	-	18	57,426	-	20
4. Loans	369	-	249	33	-	258
4.1 structured	-	-	-	-	-	-
4.2 other	*369*	-	*249*	*33*	-	*258*
Total	**74,288**	**157**	**270**	**62,329**	**133**	**281**
Cost	**71,930**	**145**	**270**	**60,101**	**118**	**280**

Assets designated at fair value essentially included assets with respect to insurance policies where the total risk is borne by the policyholders (so-called Class D).

3.2 Financial assets designated at fair value through profit and loss: borrower/issuer breakdown

(millions of euro)

	31.12.2017	Of which:			31.12.2016
		Banking group	*Insurance companies*	*Other companies*	
1. Debt securities	**4,282**	***437***	***3,845***	**-**	**4,704**
a) Governments and Central Banks	3,568	*224*	*3,344*	-	3,965
b) Other public entities	18	-	*18*	-	9
c) Banks	415	*201*	*214*	-	447
d) Other issuers	281	*12*	*269*	-	283
2. Equities	**1,605**	**-**	***1,605***	**-**	**1,295**
a) Banks	152	-	*152*	-	134
b) Other issuers	1,453	-	*1,453*	-	1,161
- insurance companies	*32*	-	*32*	-	*29*
- financial institutions	*21*	-	*21*	-	*12*
- non-financial companies	-	-	-	-	-
- other	*1,400*	-	*1,400*	-	*1,120*
3. Quotas of UCI	**68,752**	***105***	***68,647***	**-**	**57,565**
4. Loans	**630**	***12***	***618***	**-**	**301**
a) Governments and Central Banks	-	-	-	-	-
b) Other public entities	-	-	-	-	-
c) Banks	630	*12*	*618*	-	301
d) Other counterparties	-	-	-	-	-
TOTAL	**75,269**	***554***	***74,715***	**-**	**63,865**

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40

4.1 Financial assets available for sale: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	121,908	3,997	493	127,647	3,563	361
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*121,908*	*3,997*	*493*	*127,647*	*3,563*	*361*
2. Equities	2,108	2,448	704	1,765	2,728	970
2.1 Measured at fair value	*2,108*	*2,448*	*692*	*1,765*	*2,728*	*958*
2.2 Measured at cost	-	-	*12*	-	-	*12*
3. Quotas of UCI	8,852	69	1,711	7,942	30	1,663
4. Loans	-	48	3	-	20	3
TOTAL	**132,868**	**6,562**	**2,911**	**137,354**	**6,341**	**2,997**

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 securitisation transactions for a total amount of approximately 676 million euro, of which approximately 640 million euro is senior, 29 million euro is mezzanine and 7 million euro is junior.

Financial assets available for sale (equities measured at fair value – level 2) include the stakes issued by the Bank of Italy in application of Law Decree 133 of 30 November 2013, converted into Law 5 of 29 January 2014, and as a consequence of the amendments to the articles of association approved by the Bank of Italy's general meeting on 23 December 2013 and entered into force on 31 December 2013.
During 2017 Intesa Sanpaolo sold - at nominal value, equal to the book value - a total stake of approximately 5.8% in the capital of the Bank of Italy, for an equivalent value of approximately 435 million euro. The number of shares held dropped from 98,539 to 81,129 (27.04% of capital), for a carrying value of 2,028 million euro.

For the 2017 Financial Statements, in order to check the fair value of the stake in the Bank of Italy's capital, in compliance with the provisions of IFRS 13, reference was made to the value expressed by the market transactions performed as from 2015; IFRS 13 establishes that the fair value must be determined according to a hierarchy of criteria that assigns top priority to market input and less importance to inputs unobservable on the market. These transactions, also performed by other holders of the supervisory authority's capital, were deemed significant as they involved various market operators and implied the transfer of a considerable component of the Bank of Italy's capital. The transactions in question were all performed at the nominal value of the stakes, equal to 25,000 euro each. The fair value of the stakes consequently equalled the one recognised in Intesa Sanpaolo financial statements, i.e. 2,028 million euro. The considerations set out above are also supported by the impairment test conducted using a control method based on discounting the future cash flows deriving from such investment (DCF – “Discount Cash Flow”).

Finally, it should be noted that the measurement of the stake in the Bank of Italy according to the direct transactions method entails the classification of the investment to the category of instruments with level 2 fair value.

4.1 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	56,522	3,272	295	58,962	2,914	243
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*56,522*	*3,272*	*295*	*58,962*	*2,914*	*243*
2. Equities	500	2,448	704	191	2,728	970
2.1 Measured at fair value	*500*	*2,448*	*692*	*191*	*2,728*	*958*
2.2 Measured at cost	-	-	*12*	-	-	*12*
3. Quotas of UCI	274	8	894	262	2	1,112
4. Loans	-	48	3	-	20	3
TOTAL	**57,296**	**5,776**	**1,896**	**59,415**	**5,664**	**2,328**

4.1 Of which: Insurance companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	65,386	725	198	68,685	649	118
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*65,386*	*725*	*198*	*68,685*	*649*	*118*
2. Equities	1,608	-	-	1,574	-	-
2.1 Measured at fair value	*1,608*	-	-	*1,574*	-	-
2.2 Measured at cost	-	-	-	-	-	-
3. Quotas of UCI	8,578	61	817	7,680	28	551
4. Loans	-	-	-	-	-	-
TOTAL	**75,572**	**786**	**1,015**	**77,939**	**677**	**669**

4.1 Of which: Other companies

As at 31 December 2017, there were no financial assets available for sale attributable to other companies. At the end of 2016 there were no financial assets available for sale attributable to other companies.

4.2 Financial assets available for sale: borrower/issuer breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Debt securities	**126,398**	***60,089***	***66,309***	**-**	**131,571**
a) Governments and Central Banks	106,781	*54,709*	*52,072*	-	112,877
b) Other public entities	380	*178*	*202*	-	301
c) Banks	6,595	*2,526*	*4,069*	-	6,387
d) Other issuers	12,642	*2,676*	*9,966*	-	12,006
2. Equities	**5,260**	***3,652***	***1,608***	**-**	**5,463**
a) Banks	2,633	*2,534*	*99*	-	2,621
b) Other issuers	2,627	*1,118*	*1,509*	-	2,842
- insurance companies	*89*	*6*	*83*	-	*81*
- financial institutions	*287*	*287*	-	-	*369*
- non-financial companies	*2,251*	*825*	*1,426*	-	*2,392*
- other	-	-	-	-	-
3. Quotas of UCI	**10,632**	***1,176***	***9,456***	**-**	**9,635**
4. Loans	**51**	***51***	**-**	**-**	**23**
a) Governments and Central Banks	-	-	-	-	-
b) Other public entities	-	-	-	-	-
c) Banks	3	*3*	-	-	2
d) Other counterparties	48	*48*	-	-	21
TOTAL	**142,341**	***64,968***	***77,373***	**-**	**146,692**

Equities issued by non-financial companies include 144 million euro resulting from the conversion of loans.

4.3 Financial assets available for sale with specific hedges

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Financial assets with specific fair value hedges	**41,437**	***41,437***	**-**	**-**	**37,666**
a) Interest rate risk	41,280	*41,280*	-	-	37,327
b) Price risk	-	-	-	-	-
c) Foreign exchange risk	-	-	-	-	-
d) Credit risk	-	-	-	-	-
e) Various risks	157	*157*	-	-	339
2. Financial assets with specific cash flow hedges	**-**	**-**	**-**	**-**	**-**
a) Interest rate risk	-	-	-	-	-
b) Foreign exchange risk	-	-	-	-	-
c) Other	-	-	-	-	-
TOTAL	**41,437**	***41,437***	**-**	**-**	**37,666**

Impairment tests for financial assets available for sale

As required under IFRS, financial assets available for sale are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.
The Intesa Sanpaolo Group's policy for managing impairment testing calls for the verification of the presence of impairment indicators and the determination of any losses.
The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.
Within the first category, the following indicators, for example, are considered significant: 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.
With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the initial recognition value, a fair value reduction of over 30% is considered “significant”, and a continuous reduction of over 24 months is considered a “prolonged” reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.
The amount of the impairment is calculated with reference to the fair value of the financial asset.

The tests performed indicated the need for adjustments to the value of several equity investments. The main adjustments affected the Atlante Fund (449 million euro, attributable to the write-down of the investments made by the fund in the capital of Banca Popolare di Vicenza and Veneto Banca, now in compulsory administrative liquidation), the National Interbank Deposit Guarantee Fund - Voluntary Scheme (39 million euro attributable to the write-down of the Voluntary Scheme's investment in junior notes deriving from the securitisation of loans of the three Casse di Risparmio di Cesena, Rimini e San Miniato).

SECTION 5 - INVESTMENTS HELD TO MATURITY - CAPTION 50

5.1 Investments held to maturity: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,174	508	695	-	1,241	422	866	-
Structured securities	-	-	-	-	-	-	-	-
Other	*1,174*	*508*	*695*	-	*1,241*	*422*	*866*	-
2. Loans	-	-	-	-	-	-	-	-
TOTAL	**1,174**	**508**	**695**	**-**	**1,241**	**422**	**866**	**-**

For the illustration of the criteria for the determination of the fair value reference should be made to Part A – Accounting policies.

5.1 Of which: Banking group

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,174	508	695	-	1,241	422	866	-
Structured securities	-	-	-	-	-	-	-	-
Other	*1,174*	*508*	*695*	-	*1,241*	*422*	*866*	-
2. Loans	-	-	-	-	-	-	-	-
TOTAL	**1,174**	**508**	**695**	**-**	**1,241**	**422**	**866**	**-**

5.2 Investments held to maturity: borrowers/issuers

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
1. Debt securities	**1,174**	***1,174***	**-**	**-**	**1,241**
a) Governments and Central Banks	1,081	*1,081*	-	-	1,241
b) Other public entities	-	-	-	-	-
c) Banks	93	*93*	-	-	-
d) Other issuers	-	-	-	-	-
2. Loans	**-**	**-**	**-**	**-**	**-**
a) Governments and Central Banks	-	-	-	-	-
b) Other public entities	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other counterparties	-	-	-	-	-
TOTAL	**1,174**	***1,174***	**-**	**-**	**1,241**
TOTAL FAIR VALUE	**1,203**	***1,203***	**-**	**-**	**1,288**

5.3 Investments held to maturity with specific hedges

As at 31 December 2017, no investments held to maturity with specific hedges were recorded.

SECTION 6 – DUE FROM BANKS – CAPTION 60

6.1 Due from banks: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	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	**40,449**	**-**	**38,037**	**2,412**	**27,351**	**-**	**25,493**	**1,858**
1. Time deposits	2,490				1,265			
2. Compulsory reserve	36,983				25,223			
3. Repurchase agreements	809				-			
4. Other	167				863			
B. Due from banks	**32,013**	**16**	**23,195**	**8,851**	**25,795**	**-**	**15,176**	**10,506**
1. Loans	31,347	-	22,769	8,643	25,009	-	14,681	10,256
1.1 Current accounts and deposits	*13,510*				*10,375*			
1.2 Time deposits	*1,645*				*1,689*			
1.3 Other loans	*16,192*				*12,945*			
- Reverse repurchase agreements	*7,591*				*3,978*			
- Financial leases	*7*				*3*			
- Other	*8,594*				*8,964*			
2. Debt securities	666	16	426	208	786	-	495	250
2.1 Structured	*-*				*-*			
2.2 Other	*666*				*786*			
TOTAL	**72,462**	**16**	**61,232**	**11,263**	**53,146**	**-**	**40,669**	**12,364**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

There were no non-performing assets due from banks as at 31 December 2017, just as at the end of 2016.

6.1 Of which: Banking group

(millions of euro)

	31.12.2017				31.12.2016			
	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	**40,449**	**-**	**38,037**	**2,412**	**27,351**	**-**	**25,493**	**1,858**
1. Time deposits	2,490				1,265			
2. Compulsory reserve	36,983				25,223			
3. Repurchase agreements	809				-			
4. Other	167				863			
B. Due from banks	**31,434**	**16**	**22,869**	**8,597**	**24,923**	**-**	**14,923**	**9,887**
1. Loans	30,809	-	22,484	8,389	24,178	-	14,469	9,637
1.1 Current accounts and deposits	*13,146*				*9,547*			
1.2 Time deposits	*1,644*				*1,686*			
1.3 Other loans	*16,019*				*12,945*			
- Reverse repurchase agreements	*7,591*				*3,978*			
- Financial leases	*7*				*3*			
- Other	*8,421*				*8,964*			
2. Debt securities	625	16	385	208	745	-	454	250
2.1 Structured	-				-			
2.2 Other	*625*				*745*			
TOTAL	**71,883**	**16**	**60,906**	**11,009**	**52,274**	**-**	**40,416**	**11,745**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

6.1 Of which: Insurance companies

(millions of euro)

	31.12.2017				31.12.2016			
	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. Repurchase agreements	-				-			
4. Other	-				-			
B. Due from banks	**405**	**-**	**325**	**81**	**862**	**-**	**253**	**609**
1. Loans	364	-	284	81	821	-	212	609
1.1 Current accounts and deposits	*364*				*821*			
1.2 Time deposits	-				-			
1.3 Other loans	-				-			
- Reverse repurchase agreements	-				-			
- Financial leases	-				-			
- Other	-				-			
2. Debt securities	41	-	41	-	41	-	41	-
2.1 Structured	-				-			
2.2 Other	*41*				*41*			
TOTAL	**405**	**-**	**325**	**81**	**862**	**-**	**253**	**609**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

6.1 Of which: Other companies

As at 31 December 2017 amounts due from banks referring to other companies amount to 174 million euro and consist of other loans for 173 million euro and term deposits for 1 million euro (total fair value amounting to 174 million euro). As at 31 December 2016 amounts due from banks were 10 million euro, of which 7 million euro was attributable to current accounts and deposits and 3 million euro to term deposits (total fair value of 10 million euro).

6.2 Due from banks with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Due from banks with specific fair value hedges	**274**	**454**
a) Interest rate risk	238	412
b) Foreign exchange risk	-	-
c) Credit risk	-	-
d) Various risks	36	42
2. Due from banks with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**274**	**454**

6.3 Financial leases

Financial lease receivables included under Due from banks were immaterial as at 31 December 2017.

SECTION 7 – LOANS TO CUSTOMERS – CAPTION 70

7.1 Loans to customers: breakdown

(millions of euro)

	31.12.2017						31.12.2016					
	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	**372,158**	**1**	**25,422**	**-**	**277,556**	**124,239**	**320,523**	**7**	**29,716**	**-**	**255,346**	**107,246**
1. Current accounts	22,261	-	3,164				21,142	-	3,652			
2. Reverse repurchase agreements	31,483	-	-				29,940	-	-			
3. Mortgages	171,344	1	14,872				145,342	3	17,093			
4. Credit card loans, personal loans and transfer of one fifth of salaries	19,052	-	508				16,740	-	604			
5. Finance leases	12,368	-	2,781				13,525	-	3,147			
6. Factoring	11,146	-	91				10,638	-	139			
7. Other loans	104,504	-	4,006				83,196	4	5,081			
Debt securities	**13,124**	**-**	**41**	**1,306**	**6,724**	**3,433**	**14,423**	**-**	**44**	**1,474**	**6,227**	**4,948**
8. Structured securities	10	-	-				11	-	-			
9. Other debt securities	13,114	-	41				14,412	-	44			
TOTAL	**385,282**	**1**	**25,463**	**1,306**	**284,280**	**127,672**	**334,946**	**7**	**29,760**	**1,474**	**261,573**	**112,194**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.
Loans to customers include loans disbursed on public funds under administration for which Group banks hold the risk in the amount of 111 million euro.
The caption above includes the securities connected with securitisation transactions for a total amount of approximately 693 million euro, of which 616 million euro is senior, 53 million euro is mezzanine and 24 million euro is junior.

7.1 Of which: Banking group

(millions of euro)

	31.12.2017						31.12.2016					
	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	**371,947**	**1**	**25,422**	**-**	**277,553**	**124,032**	**320,518**	**7**	**29,716**	**-**	**255,344**	**107,243**
1. Current accounts	22,261	-	3,164				21,142	-	3,652			
2. Reverse repurchase agreements	31,483	-	-				29,940	-	-			
3. Mortgages	171,344	1	14,872				145,342	3	17,093			
4. Credit card loans, personal loans and transfer of one fifth of salaries	19,052	-	508				16,740	-	604			
5. Finance leases	12,368	-	2,781				13,525	-	3,147			
6. Factoring	11,146	-	91				10,638	-	139			
7. Other loans	104,293	-	4,006				83,191	4	5,081			
Debt securities	**11,185**	**-**	**41**	**1,306**	**6,709**	**1,509**	**11,679**	**-**	**44**	**1,474**	**6,227**	**2,204**
8. Structured securities	10	-	-				11	-	-			
9. Other debt securities	11,175	-	41				11,668	-	44			
TOTAL	**383,132**	**1**	**25,463**	**1,306**	**284,262**	**125,541**	**332,197**	**7**	**29,760**	**1,474**	**261,571**	**109,447**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

7.1 Of which: Insurance companies

As at 31 December 2017, 18 million euro was attributable to insurance companies, of which 3 million euro was attributable to other performing loans and 15 million euro to other performing debt securities (total fair value of 18 million euro). As at 31 December 2016, loans to customers were related to insurance companies in the amount of 22 million euro, of which 5 million euro was attributable to other performing loans and 17 million euro to other performing debt securities (total fair value of 22 million euro).

7.1 Of which: Other companies

As at 31 December 2017, loans to customers referring to other companies amount to 2,130 million euro and consist of performing debt securities for 1,924 million euro and other loans for 206 million euro, (total fair value amounting to 2,130 million euro). As at 31 December 2016, they amounted to 2,727 million euro, also attributable to other performing debt securities (total fair value of 2,727 million euro).

7.2 Loans to customers: borrower/issuer breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Performing	Non-performing		Performing	Non-performing	
		purchased	other		purchased	other
1. Debt securities	**13,124**	**-**	**41**	**14,423**	**-**	**44**
a) Governments	3,790	-	-	4,064	-	-
b) Other public entities	4,280	-	27	4,611	-	26
c) Other issuers	5,054	-	14	5,748	-	18
- non-financial companies	*1,343*	*-*	*14*	*1,274*	*-*	*17*
- financial institutions	*3,578*	*-*	*-*	*4,357*	*-*	*1*
- insurance companies	*51*	*-*	*-*	*52*	*-*	*-*
- other	*82*	*-*	*-*	*65*	*-*	*-*
2. Loans	**372,158**	**1**	**25,422**	**320,523**	**7**	**29,716**
a) Governments	6,952	-	4	6,897	-	9
b) Other public entities	8,728	-	271	10,402	-	318
c) Other counterparties	356,478	1	25,147	303,224	7	29,389
- non-financial companies	*182,101*	*-*	*21,167*	*159,289*	*4*	*24,776*
- financial institutions	*59,403*	*-*	*598*	*50,897*	*-*	*682*
- insurance companies	*49*	*-*	*-*	*34*	*-*	*-*
- other	*114,925*	*1*	*3,382*	*93,004*	*3*	*3,931*
TOTAL	**385,282**	**1**	**25,463**	**334,946**	**7**	**29,760**

7.2 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Performing	Non-performing		Performing	Non-performing	
		purchased	other		purchased	other
1. Debt securities	**11,185**	**-**	**41**	**11,679**	**-**	**44**
a) Governments	3,790	-	-	4,064	-	-
b) Other public entities	4,280	-	27	4,611	-	26
c) Other issuers	3,115	-	14	3,004	-	18
- non-financial companies	*1,343*	-	*14*	*1,274*	-	*17*
- financial institutions	*1,654*	-	-	*1,630*	-	*1*
- insurance companies	*51*	-	-	*52*	-	-
- other	*67*	-	-	*48*	-	-
2. Loans	**371,947**	**1**	**25,422**	**320,518**	**7**	**29,716**
a) Governments	6,952	-	4	6,897	-	9
b) Other public entities	8,728	-	271	10,402	-	318
c) Other counterparties	356,267	1	25,147	303,219	7	29,389
- non-financial companies	*182,101*	-	*21,167*	*159,289*	*4*	*24,776*
- financial institutions	*59,194*	-	*598*	*50,895*	-	*682*
- insurance companies	*49*	-	-	*34*	-	-
- other	*114,923*	*1*	*3,382*	*93,001*	*3*	*3,931*
TOTAL	**383,132**	**1**	**25,463**	**332,197**	**7**	**29,760**

7.2 Of which: Insurance companies

As at 31 December 2017, there was 19 million euro attributable to insurance companies, of which 2 million euro relating to loans to financial institutions, 15 million euro to debt securities of other issuers and 2 million euro to loans to other parties, whereas as at 31 December 2016 there were 22 million euro, of which 2 million euro relating to loans to financial institutions, 17 million euro to debt securities of other issuers and 3 million euro to loans to other parties.

7.2 Of which: Other companies

As at 31 December 2017, 2,131 million euro was attributable to other companies, referring to debt securities issued by financial institutions for 1,924 million euro and loans to financial institutions for 207 million euro, whereas as at 31 December 2016 there was 2,727 million euro, also consisting of debt securities issued by financial institutions.

7.3 Loans to customers with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Loans to customers with specific fair value hedges	**12,929**	**17,191**
a) Interest rate risk	12,418	16,589
b) Foreign exchange risk	-	-
c) Credit risk	-	-
d) Various risks	511	602
2. Loans to customers with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**12,929**	**17,191**

As illustrated in Part A – Accounting policies and Part E – Information on risks and relative hedging policies, loans to customers are hedged via specific fair value hedges of the interest rate risk as well as via the stabilisation of the interest flows (cash flow hedges) of floating rate funding, to the extent that this is used to finance fixed rate loans, and via macro fair value hedges.

7.4 Financial leases

(millions of euro)

Time bands	31.12.2017					
	Non-performing loans	**Minimum lease payments**			**Gross investment**	
		Capital	*of which guaranteed residual value*	Interest		*of which unguaranteed residual value*
Up to 3 months	170	466	-	115	751	*7*
Between 3 and 12 months	226	1,237	-	324	1,787	*16*
Between 1 and 5 years	1,302	4,756	-	1,252	7,310	*46*
Over 5 years	1,058	5,516	-	886	7,460	*4*
Unspecified maturity	-	1	-	-	1	-
Total, gross	**2,756**	**11,976**	**-**	**2,577**	**17,309**	***73***
Loans for assets to be leased	25	467	-	-	492	-
Adjustments	-	-75	-	-	-75	-
- collective	-	*-75*	-	-	*-75*	-
Total, net	**2,781**	**12,368**	**-**	**2,577**	**17,726**	***73***

The interest portion has been fully written down.

SECTION 8 – HEDGING DERIVATIVES – CAPTION 80 OF ASSETS

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 listed only if traded on regulated markets.

8.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2017			**Notional value 31.12.2017**	**Fair value 31.12.2016**			**Notional value 31.12.2016**
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives	**-**	**4,203**	**14**	**151,956**	**-**	**6,214**	**20**	**150,096**
1) fair value	-	4,198	14	151,589	-	6,214	20	149,655
2) cash flows	-	5	-	367	-	-	-	441
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**4,203**	**14**	**151,956**	**-**	**6,214**	**20**	**150,096**

8.1 Of which: Banking group

(millions of euro)

	Fair value 31.12.2017			Notional value 31.12.2017	Fair value 31.12.2016			Notional value 31.12.2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives	**-**	**4,199**	**14**	**151,869**	**-**	**6,214**	**20**	**150,010**
1) fair value	-	4,198	14	151,589	-	6,214	20	149,655
2) cash flows	-	1	-	280	-	-	-	355
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**4,199**	**14**	**151,869**	**-**	**6,214**	**20**	**150,010**

8.1 Of which: Insurance companies

As at 31 December 2017, 4 million euro was attributable to insurance companies, referring entirely to cash flow hedges through level 2 financial derivatives (notional value of 79 million euro). At the end of 2016 the amount was nil.

8.1 Of which: Other companies

As at 31 December 2017, there was an insignificant amount attributable to other companies, all of which hedged cash flows through level 2 derivatives (notional amount of 8 million euro), whereas the amount at the end of 2016 was insignificant, also hedging cash flows through level 2 derivatives (notional amount of 86 million euro).

8.2 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	Specific	Generic	
	interest rate risk	foreign exchange risk	credit risk	price risk	various risks				
1. Financial assets available for sale	42	-	-	-	-	X	4	X	X
2. Loans	93	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	277	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**135**	**-**	**-**	**-**	**-**	**277**	**4**	**-**	**-**
1. Financial liabilities	3,092	1	-	X	278	X	1	X	X
2. Portfolio	X	X	X	X	X	429	X	-	X
Total liabilities	**3,092**	**1**	**-**	**-**	**278**	**429**	**1**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

8.2 Of which: Banking group

(millions of euro)

Operations/Type of hedge	FAIR VALUE						CASH FLOWS		FOREIGN INVESTM.
	Specific					Generic	Specific	Generic	
	interest rate risk	foreign exchange risk	credit risk	price risk	various risks				
1. Financial assets available for sale	42	-	-	-	-	X	-	X	X
2. Loans	93	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	277	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**135**	**-**	**-**	**-**	**-**	**277**	**-**	**-**	**-**
1. Financial liabilities	3,092	1	-	X	278	X	1	X	X
2. Portfolio	X	X	X	X	X	429	X	-	X
Total liabilities	**3,092**	**1**	**-**	**-**	**278**	**429**	**1**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	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).

8.2 Of which: Other companies

As at 31 December 2017, the amount pertaining to other companies, relating entirely to the macro-hedging of the cash flows from financial assets, was immaterial.

SECTION 9 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 90

9.1 Fair value change of financial assets in hedged portfolios: breakdown by hedged portfolios

(millions of euro)

	31.12.2017	*Of which:*			31.12.2016
		Banking group	*Insurance companies*	*Other companies*	
1. Positive fair value change	**6**	***6***	**-**	**-**	**321**
1.1. of specific portfolios	6	*6*	-	-	321
a) loans	*6*	*6*	-	-	*321*
b) financial assets available for sale	-	-	-	-	-
1.2. overall	-	-	-	-	-
2. Negative fair value change	**-210**	***-210***	**-**	**-**	**-**
2.1. of specific portfolios	-210	*-210*	-	-	-
a) loans	*-210*	*-210*	-	-	-
b) financial assets available for sale	-	-	-	-	-
2.2. overall	-	-	-	-	-
TOTAL	**-204**	***-204***	**-**	**-**	**321**

9.2 Assets subject to macrohedging of interest rate risk

(millions of euro)

Hedged assets	**31.12.2017**	**31.12.2016**
1. Loans	49,558	39,128
2. Assets available for sale	-	-
3. Portfolio	-	-
TOTAL	**49,558**	**39,128**

The table shows assets subject to macrohedging of interest rate risk.
Additional information on fair value hedging is available in Part E – Information on risks and relative hedging policies of the Notes to the consolidated financial statements.

SECTION 10 – INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 100

10.1 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	% held	Votes available %
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	5.00
2	Colombo S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	5.00
3	Diocleziano S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	5.00
4	Ideami S.p.A. Capital Euro 25,875,000 in shares of Euro 1	Milano	Milano	7	Banca Imi	9.66	8.25
5	Immobiliare Novoli S.P.A. Capital Euro 15,635,514 in shares of Euro 0.60	Firenze	Firenze	7	Cassa di Risparmio di Firenze	50.00	50.00
6	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	50.00
7	Manucor S.p.A. Capital Euro 10,000,000 in shares of Euro 1	Milano	Sessa Aurunca	7	Intesa Sanpaolo	72.75	45.50
8	Mir Capital Management S.A. Capital Euro 31,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	50.00
9	Mir Capital S.C.A. SICAR Capital Euro 46,830,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	50.00
10	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	50.00
11	Tangenziale Esterna S.p.A. Capital Euro 464,945,000.00 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	2.58	2.58
12	Tangenziali Esterne di Milano S.p.A. Capital Euro 220,344,608.25 in shares of Euro 0.75	Milano	Milano	7	Intesa Sanpaolo	17.53	17.53
13	Themys Investimenti S.p.A. Capital Euro 448,998 in shares of Euro 1	Milano	Milano	7	Imi Investimenti	50.00	50.00
14	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	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	5.00
2	Apulia Finance N. 2 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
3	Apulia Finance N. 4 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
4	Apulia Mortgages Finance N. 3 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
5	Autostrada Pedemontana Lombarda S.p.A. Capital Euro 300,926,000 in shares of Euro 1,000	Assago	Assago	4	Intesa Sanpaolo	17.37	17.37
6	Autostrade Lombarde S.p.A. Capital Euro 467,726,626 in shares of Euro 1	Brescia	Brescia	4	Intesa Sanpaolo	42.45	42.45
7	Bancomat SPA Capital Euro 1,100,000 in shares of Euro 5	Roma	Roma	4	Intesa Sanpaolo Banca 5	20.28 0.01	20.28 0.01
8	Berica 10 Residential MBS S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
9	Berica 5 Residential MBS S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
10	Berica 6 Residential MBS S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
11	Berica 8 Residential MBS S.r.l. (c) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
12	Berica 9 Residential MBS S.r.l. (c) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
13	Berica ABS 2 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
14	Berica ABS 3 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
15	Berica ABS S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT		Votes available %
					direct ownership	% held	
16	Berica Residential MBS 1 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
17	Brera Sec S.R.L. (c) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	5.00
18	Cassa di Risparmio di Fermo S.p.A. Capital Euro 39,241,087.50 in shares of Euro 51.65	Fermo	Fermo	4	Intesa Sanpaolo	33.33	33.33
19	Claris Finance 2005 S.r.l. (c) Capital Euro 10,000 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	5.00	5.00
20	Class Digital Service S.r.l. Capital Euro 100,000 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	31.25	31.25
21	Compagnia Aerea Italiana S.p.A. Capital Euro 3,526,845.53 in shares of Euro 0.00004	Fiumicino	Fiumicino	4	Intesa Sanpaolo	27.49	27.49
22	Cr Firenze Mutui S.r.l. Capital Euro 10,000 in shares of Euro 1	Conegliano Veneto	Conegliano Veneto	8	C.R. di Firenze	10.00	10.00
23	Destination Italia S.p.A. Capital Euro 2,112,450 in shares of Euro 211.25	Milano	Milano	4	Intesa Sanpaolo	38.00	38.00
24	Emisys Capital SGR S.p.A. Capital Euro 1,400,000 in shares of Euro 1	Milano	Milano	4	Imi Investimenti	35.00	35.00
25	Equiter S.p.A. Capital Euro 150,004,017 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	33.68	33.68
26	Euromilano S.p.A. Capital Euro 1,356,582 in shares of Euro 15.51	Milano	Milano	4	Intesa Sanpaolo	43.43	43.43
27	Eurotlx Società di Intermediazione Mobiliare S.p.A. Capital Euro 5,000,000 in shares of Euro 1.00	Milano	Milano	4	Banca Imi	15.00	15.00
28	Eusebi Holdings B.V. Capital Euro 100 in shares of Euro 1	Amsterdam	Amsterdam	4	Intesa Sanpaolo	47.00	47.00
29	Experientia Global S.A. Capital Chf 112,500 in shares of Chf 100	Lausanne	Lausanne	4	Intesa Sanpaolo	11.11	11.11
30	Fenice S.r.l. Capital Euro 500,000 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	9.08	9.08
31	Focus Investments S.p.A. Capital Euro 183,333.30 in shares of Euro 0.14	Milano	Milano	4	Intesa Sanpaolo	8.33	25.00
32	Ism Investimenti S.p.A. Capital Euro 6,654,902 in shares of Euro 1	Mantova	Mantova	4	Imi Investimenti	27.36	27.36
33	Italconsult S.p.A. Capital Euro 18,071,378.08 in shares of Euro 0.88	Roma	Roma	4	Intesa Sanpaolo	10.00	10.00
34	Leonardo Technology S.r.l. Capital Euro 242,081 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	26.60	26.60
35	Mandarin Capital Management S.A. Capital Euro 271,000 in shares of Euro 10	Luxembourg	Luxembourg	4	Private Equity International	20.00	20.00
36	Manzoni S.r.l. (b) Capital Euro 8,285,457 in shares of Euro 1	Milano	Milano	4	Private Equity International	27.39	53.00
37	Marketwall S.r.l. Capital Euro 20,409 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	33.00	33.00
38	Mezzanove Capital Management S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Private Equity International	47.00	47.00
39	Misr International Towers Co. Capital EGP 50,000,000 in shares of EGP 10	Cairo	Cairo	4	Bank of Alexandria	27.86	27.86
40	Network Impresa S.p.A. Capital Euro 562,342 in shares of Euro 1	Limena	Limena	4	CR Veneto	28.95	28.95
41	Penghua Fund Management Co. Ltd. Capital CNY 150,000,000 in shares of CNY 1	Shenzhen	Shenzhen	4	Eurizon Capital SGR	49.00	49.00
42	Pietra S.r.l. Capital Euro 40,000 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	22.22	22.22
43	Portocittà S.r.l. Capital Euro 10,000 in shares of Euro 1	Trieste	Trieste	4	Intesa Sanpaolo C.R. del Friuli Venezia Giulia	12.50 12.50	12.50 12.50
44	Rainbow Capital Euro 48,500,000 in shares of Euro 50,000	Verona	Verona	4	Banco di Napoli Intesa Sanpaolo	40.72 2.48	0.00 0.00
45	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	23.96
46	Schuttrange Nucleus S.c.a. Capital Euro 31,000 in shares of Euro 0.01	Luxembourg	Luxembourg	4	Banca Imi	15.74	15.74

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT direct ownership	% held	Votes available %
47	Sicily Investments S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	25.20
48	Slovak Banking Credit Bureau s.r.o. Capital Euro 9,958.17 in shares of Euro 3,319.39	Bratislava	Bratislava	4	Vseobecna Uverova Banka	33.33	33.33
49	Società di Progetto Autostrada Diretta Brescia Milano S.p.A. Capital Euro 175,089,679 in shares of Euro 0.53	Brescia	Brescia	4	Intesa Sanpaolo	0.05	0.05
50	Solar Express S.r.l. Capital Euro 116,000 in shares of Euro 1	Firenze	Firenze	4	Intesa Sanpaolo	40.00	40.00
51	Trinacria Capital S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	25.20
52	Umbria Export Società Consortile a.r.l. Capital Euro 108,500 in shares of Euro 0.01	Perugia	Perugia	4	Intesa Sanpaolo	33.87	33.87
53	Varese Investimenti S.p.A. Capital Euro 4,350,000 in shares of Euro 10	Varese	Varese	4	Intesa Sanpaolo	40.00	40.00
54	Venture Capital Partners SGR S.p.A. Capital Euro 750,000 in shares of Euro 0.50	Milano	Milano	4	Imi Investimenti	24.50	24.50
55	Consorzio Bancario SIR S.p.A. in liquidation Capital Euro 1,515,151.42 in shares of Euro 0.01	Roma	Roma	4	Intesa Sanpaolo	38.49	38.49
56	Europrogetti e Finanza S.p.A. in liquidation Capital Euro 5,636,400 in shares of Euro 0.30	Roma	Roma	4	Intesa Sanpaolo	15.97	15.97
57	Impianti S.r.l. in liquidation Capital Euro 92,952 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	27.95	27.95
58	Impresol S.r.l. in liquidation Capital Euro 112,100 in shares of Euro 1	Milano	Milano	4	RI.Estate	30.00	30.00
59	Iniziative Immobiliari Industriali S.p.A. in liquidation Capital Euro 510,000 in shares of Euro 0.51	Arquà Polesine	Arquà Polesine	4	C.R. del Veneto	20.00	20.00
60	Sviluppo Industriale S.p.A. in liquidation and under arrangement with creditors (formerly Sviluppo Industriale S.p.A. under arrangement with creditors) Capital Euro 628,444.32 in shares of Euro 22.26	Pistoia	Pistoia	4	CR Pistoia	28.27	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) Please note that the Intesa Sanpaolo Group’s exposure to the variable returns generated by Manzoni equals approximately 1.37%. Furthermore, Manzoni is subject to control pursuant to Article 2359 of the Italian Civil Code. However, given the low exposure of the ISP Group to both positive and negative variable returns generated by this company, the latter is not a subsidiary anymore under IFRS, but is consolidated at equity.

(c) These are vehicles used for securitisation transactions within the Group.

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.

Though the stake in Joint Stock Commercial Bank Eximbank (Moldova), 100%-owned, with registered office in Chisinau, deriving from the acquisition of certain assets and liabilities of Veneto Banca in compulsory administrative liquidation, was included in the Aggregate Set transferred to Intesa Sanpaolo, it was not included in the scope of consolidation as at 31 December 2017, since a local legislative provision is being approved, aimed at the transfer of the Moldovan bank’s non-performing loans to compulsory administrative liquidation procedure. Without this operation, it will not be possible to register the change of ownership that would allow Intesa Sanpaolo to exercise the shareholder prerogatives and therefore the control over the company.

10.2 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	Autostrade Lombarde S.p.A.	46	-	-
2	Cassa di Risparmio di Fermo S.p.A.	55	-	1
3	Equiter S.p.A.	102	-	2
4	Manzoni S.r.l.	36	-	-
5	Penghua Fund Management Co. Ltd.	181	-	19
TOTAL		**420**	**-**	**22**

[(a)] Dividends are received by group companies and are thus netted.

10.3 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														
Autostrade Lombarde S.p.A.	X	341	2	6	44	7	X	X	1	1	-	1	-	1
Cassa di Risparmio di Fermo S.p.A.	X	1,555	73	1,454	75	48	X	X	4	3	-	3	-	3
Equiter S.p.A.	X	158	130	-	7	10	X	X	-	-	-	7	-	7
Manzoni S.r.l.	X	129	-	-	-	72	X	X	-	-	-	-	-	-
Penghua Fund Management Co. Ltd.	X	168	103	100	93	273	X	X	99	74	-	74	-	74

(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					
Autostrade Lombarde S.p.A.	294	125	-	-79	46
Cassa di Risparmio di Fermo S.p.A.	165	55	-	-	55
Equiter S.p.A.	281	95	7	-	102
Manzoni S.r.l.	133	36	-	-	36
Penghua Fund Management Co. Ltd.	256	125	56	-	181
	1,129	**436**	**63**	**-79**	**420**

10.4 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	40	2,365	1,375	229	7	-	7	-	7
COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE	218	6,777	6,195	3,688	-68	-	-68	-	-68

10.5 Investments in associates and companies subject to joint control: annual changes

(millions of euro)

	31.12.2017	*Of which:*			31.12.2016
		Banking group	*Insurance companies*	*Other companies*	
A. Initial amount	**1,278**	***1,235***	**-**	***43***	**1,727**
B. Increases	**1,026**	***1,014***	**-**	***12***	**468**
B.1 purchases	98	*86*	-	*12*	51
of which business combinations	*33*	*33*			-
B.2 write-backs	-	-	-	-	-
B.3 revaluations	89	*89*	-	-	223
B.4 other changes	839	*839*	-	-	194
C. Decreases	**-1,626**	***-1,596***	**-**	***-30***	**-917**
C.1 sales	-971	***-971***	**-**	**-**	-557
C.2 impairment losses [(a)]	-39	*-39*	-	-	-135
C.3 other changes	-616	*-586*	-	*-30*	-225
D. Final amount	**678**	***653***	**-**	***25***	**1,278**
E. Total revaluations	**2,740**	***2,661***	**-**	***79***	**2,651**
F. Total impairment losses	**1,963**	***1,899***	***1***	***63***	**1,924**

[(a)] Includes - 25 million euro due to losses on investments in associates and companies subject to joint control carried at equity.

10.6 Significant judgments 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.

10.7 Commitments referred to investments in companies subject to joint control

As at 31 December 2017, there were commitments to subscribe the recapitalisations of Themys Investimenti S.p.A. for approximately 14 million euro (there is an additional commitment of 16 million euro regarding the equity instruments) and of Tangenziale Esterna S.p.A. for 8 million euro.

10.8 Commitments referred to investments in companies subject to significant influence

As at 31 December 2017, there were commitments to subscribe the recapitalisations of Società Di Progetto Autostrada Diretta Brescia Milano S.p.A. for 6 million euro and of Autostrade Lombarde S.p.A. for 4 million euro.

10.9 Significant restrictions

In terms of significant restrictions on the ability of the associates subject to joint control or significant influence to transfer funds to the participating entity, worth noting is that some Private Equity investments, pursuant to the Articles of Association, entail some limitations to distributing profits in proportion to the stakes held, in order to ensure, towards certain investors and until reaching specific thresholds, distributions that are more than proportional to the stake held.

10.10 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 equity investments

As required under 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 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 most significant impairment losses referred to the investments in Autostrada Pedemontana Lombarda (7 million euro), Tangenziali Esterne di Milano (3 million euro) and Class Digital Service (3 million euro).
In terms of any differences between the market values and the "fundamental" values provided by the values in use, reference is made to the considerations on impairment testing of goodwill in the relative chapter of these Notes to the consolidated financial statements. Furthermore, the estimate of cash flows and discounting rates in the assessment of equity investments was also carried out on a prudential basis.

SECTION 11 – TECHNICAL INSURANCE RESERVES REASSURED WITH THIRD PARTIES – CAPTION 110

11.1 Technical insurance reserves reassured with third parties: breakdown

(millions of euro)

	31.12.2017	31.12.2016
A. Non-life business	**15**	**16**
A.1 premiums reserves	5	7
A.2 claims reserves	10	9
A.3 other reserves	-	-
B. Life business	**1**	**1**
B.1 mathematical reserves	-	-
B.2 reserves for amounts to be disbursed	1	1
B.3 other reserves	-	-
C. Technical reserves for investment risks to be borne by the insured	-	-
C.1 reserves for contracts with disbursements connected with investment funds and market indices	-	-
C.2 reserves from pension fund management	-	-
D. Total insurance reserves carried by reinsurers	**16**	**17**

11.2 Change in caption 110 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 2017.

SECTION 12 – PROPERTY AND EQUIPMENT – CAPTION 120

12.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Property and equipment owned	**778**	***767***	***5***	***6***	**4,755**
a) land	-	-	-	-	1,391
b) buildings	-	-	-	-	2,574
c) furniture	161	*161*	-	-	233
d) electronic equipment	557	*557*	-	-	504
e) other	60	*49*	*5*	*6*	53
2. Property and equipment acquired under finance lease	**1**	***1***	-	-	**17**
a) land	-	-	-	-	7
b) buildings	-	-	-	-	8
c) furniture	-	-	-	-	-
d) electronic equipment	1	*1*	-	-	1
e) other	-	-	-	-	1
Total	**779**	***768***	***5***	***6***	**4,772**

Property and equipment used in operations of other companies include 6 million euro attributable to Risanamento.

12.2 Investment property: breakdown of assets measured at cost

(millions of euro)

	31.12.2017 Book value	31.12.2017 Fair value Level 1	31.12.2017 Fair value Level 2	31.12.2017 Fair value Level 3	31.12.2016 Book value	31.12.2016 Fair value Level 1	31.12.2016 Fair value Level 2	31.12.2016 Fair value Level 3
1. Property and equipment owned	-	-	-	-	**136**	-	-	**155**
a) land	-	-	-	-	*16*	-	-	*24*
b) buildings	-	-	-	-	*120*	-	-	*131*
2. Property and equipment acquired under finance lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	**136**	-	-	**155**

As a result of the change in the principle for measurement, investment properties as at 31 December 2017 are shown in the tables below in Section 12.4

12.2 Of which: Banking group

(millions of euro)

	31.12.2017 Book value	31.12.2017 Fair value Level 1	31.12.2017 Fair value Level 2	31.12.2017 Fair value Level 3	31.12.2016 Book value	31.12.2016 Fair value Level 1	31.12.2016 Fair value Level 2	31.12.2016 Fair value Level 3
1. Property and equipment owned	-	-	-	-	**135**	-	-	**154**
a) land	-	-	-	-	*16*	-	-	*24*
b) buildings	-	-	-	-	*119*	-	-	*130*
2. Property and equipment acquired under finance lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	**135**	-	-	**154**

12.2 Of which: Other companies

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	*1*
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**

12.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**5,607**	**-**	**-**	**-**
a) land	-	-	2,154	-	-	-
b) buildings	-	-	3,183	-	-	-
c) valuable art assets	-	-	270	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**21**	**-**	**-**	**-**
a) land	-	-	6	-	-	-
b) buildings	-	-	15	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**5,628**	**-**	**-**	**-**

12.3 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**5,538**	**-**	**-**	**-**
a) land	-	-	2,148	-	-	-
b) buildings	-	-	3,120	-	-	-
c) valuable art assets	-	-	270	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**21**	**-**	**-**	**-**
a) land	-	-	6	-	-	-
b) buildings	-	-	15	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**5,559**	**-**	**-**	**-**

12.3 Of which: Insurance companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**9**	**-**	**-**	**-**
a) land	-	-	5	-	-	-
b) buildings	-	-	4	-	-	-
c) valuable art assets	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**9**	**-**	**-**	**-**

12.3 Of which: Other companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**60**	**-**	**-**	**-**
a) land	-	-	1	-	-	-
b) buildings	-	-	59	-	-	-
c) valuable art assets	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**60**	**-**	**-**	**-**

Property and equipment used in operations of other companies mainly include buildings referring to Risanamento for 40 million euro.

12.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**271**	**-**	**-**	**-**
a) land	-	-	*56*	-	-	-
b) buildings	-	-	*215*	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
TOTAL	**-**	**-**	**271**	**-**	**-**	**-**

12.4 Of which: Banking group

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**270**	**-**	**-**	**-**
a) land	-	-	*56*	-	-	-
b) buildings	-	-	*214*	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
TOTAL	**-**	**-**	**270**	**-**	**-**	**-**

This table also includes 84 million euro relating to property deriving from leases, held by financial intermediaries.

12.4 Of which: Other companies

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**1**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	*1*	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
TOTAL	**-**	**-**	**1**	**-**	**-**	**-**

There were no amounts referring to investment property belonging to insurance companies.

12.5 Property and equipment used in operations: annual changes

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**1,416**	**4,663**	**1,105**	**3,778**	**62**	**469**	**11,493**
A.1 Total net adjustments	-18	-2,081	-934	-3,273	-	-415	-6,721
A.2 Net initial carrying amount	**1,398**	**2,582**	**171**	**505**	**62**	**54**	**4,772**
B. Increases	**958**	**1,263**	**96**	**231**	**216**	**26**	**2,790**
B.1 Purchases	48	226	31	227	1	22	555
of which business combinations	*40*	*190*	*10*	*25*	-	-	*265*
B.2 Capitalised improvement costs	-	26	-	1	-	-	27
B.3 Write-backs	-	3	-	-	-	-	3
B.4 Positive fair value differences recognised in:	762	873	-	-	215	-	1,850
a) shareholders' equity	*756*	*852*	-	-	*215*	-	*1,823*
b) income statement	*6*	*21*	-	-	-	-	*27*
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	2	4	-	-	-	-	6
B.7 Other changes	146	131	65	3	-	4	349
C. Decreases	**-196**	**-647**	**-106**	**-178**	**-8**	**-20**	**-1,155**
C.1 Sales	-54	-216	-	-1	-	-3	-274
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-119	-40	-170	-	-13	-342
C.3 Impairment losses recognised in:	-1	-1	-	-1	-	-	-3
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	*-1*	*-1*	-	*-1*	-	-	*-3*
C.4 Negative fair value differences recognised in:	-28	-113	-	-	-8	-	-149
a) shareholders' equity	*-4*	*-89*	-	-	-	-	*-93*
b) income statement	*-24*	*-24*	-	-	*-8*	-	*-56*
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to:	-38	-61	-	-	-	-	-99
a) investment property	*-33*	*-44*	-	-	-	-	*-77*
b) non-current assets held for sale and discontinued operations	*-5*	*-17*	-	-	-	-	*-22*
C.7 Other changes	-75	-137	-66	-6	-	-4	-288
D. Net final carrying amount	**2,160**	**3,198**	**161**	**558**	**270**	**60**	**6,407**
D.1 Total net adjustments	-	-	974	3,444	-	428	4,846
D.2 Gross final carrying amount	**2,160**	**3,198**	**1,135**	**4,002**	**270**	**488**	**11,253**
E. Measurement at cost	**2,367**	**1,496**	**-**	**-**	**63**	**-**	**3,926**

The sub-caption "Sales" and the sub-caption "Other changes" relating to land and buildings include a transaction to develop a real-estate portfolio used in operations, consisting of a value of the property of approximately 160 million euro and a capital gain of 53 million euro, respectively.

Fair value changes recognised in equity amount to 1,730 million euro (of which 215 million euro referring to valuable art assets), shown – net of the relative tax effect - in the valuation reserves following the change in the principle used by the Group to measure property.

12.5 Of which: Banking group

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**1,408**	**4,568**	**1,101**	**3,777**	**62**	**453**	**11,369**
A.1 Total net adjustments	-18	-2,049	-931	-3,272	-	-408	-6,678
A.2 Net initial carrying amount	**1,390**	**2,519**	**170**	**505**	**62**	**45**	**4,691**
B. Increases	**958**	**1,261**	**96**	**231**	**216**	**23**	**2,785**
B.1 Purchases	48	226	31	227	1	19	552
of which business combinations	*40*	*190*	*10*	*25*	-	-	*265*
B.2 Capitalised improvement costs	-	26	-	1	-	-	27
B.3 Write-backs	-	3	-	-	-	-	3
B.4 Positive fair value differences recognised in	762	871	-	-	215	-	1,848
a) shareholders' equity	*756*	*850*	-	-	*215*	-	*1,821*
b) income statement	*6*	*21*	-	-	-	-	*27*
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	2	4	-	-	-	-	6
B.7 Other changes	146	131	65	3	-	4	349
C. Decreases	**-194**	**-645**	**-105**	**-178**	**-8**	**-19**	**-1,149**
C.1 Sales	-54	-216	-	-1	-	-3	-274
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-117	-40	-170	-	-12	-339
C.3 Impairment losses recognised in	-	-1	-	-1	-	-	-2
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	*-1*	-	*-1*	-	-	*-2*
C.4 Negative fair value differences recognised in	-28	-113	-	-	-8	-	-149
a) shareholders' equity	*-4*	*-89*	-	-	-	-	*-93*
b) income statement	*-24*	*-24*	-	-	*-8*	-	*-56*
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to	-38	-61	-	-	-	-	-99
a) investment property	*-33*	*-44*	-	-	-	-	*-77*
b) non-current assets held for sale and discontinued operations	*-5*	*-17*	-	-	-	-	*-22*
C.7 Other changes	-74	-137	-65	-6	-	-4	-286
D. Net final carrying amount	**2,154**	**3,135**	**161**	**558**	**270**	**49**	**6,327**
D.1 Total net adjustments	-	-	971	3,443	-	420	4,834
D.2 Gross final carrying amount	**2,154**	**3,135**	**1,132**	**4,001**	**270**	**469**	**11,161**
E. Measurement at cost	**2,361**	**1,434**	**-**	**-**	**63**	**-**	**3,858**

12.5 Of which: Insurance companies

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**7**	**9**	**3**	**-**	**-**	**10**	**29**
A.1 Total net adjustments	-	-7	-2	-	-	-7	-16
A.2 Net initial carrying amount	**7**	**2**	**1**	**-**	**-**	**3**	**13**
B. Increases	**-**	**2**	**-**	**-**	**-**	**3**	**5**
B.1 Purchases	-	-	-	-	-	3	3
of which business combinations	-	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	2	-	-	-	-	2
a) shareholders' equity	-	*2*	-	-	-	-	*2*
b) income statement	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-	-
C. Decreases	**-2**	**-**	**-1**	**-**	**-**	**-1**	**-4**
C.1 Sales	-	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-	-	-	-	-1	-1
C.3 Impairment losses recognised in	-1	-	-	-	-	-	-1
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	*-1*	-	-	-	-	-	*-1*
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 property	-	-	-	-	-	-	-
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-
C.7 Other changes	-1	-	-1	-	-	-	-2
D. Net final carrying amount	**5**	**4**	**-**	**-**	**-**	**5**	**14**
D.1 Total net adjustments	-	-	2	-	-	8	10
D.2 Gross final carrying amount	**5**	**4**	**2**	**-**	**-**	**13**	**24**
E. Measurement at cost	**5**	**3**	**-**	**-**	**-**	**-**	**8**

12.5 Of which: Other companies

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**1**	**86**	**1**	**1**	**-**	**6**	**95**
A.1 Total net adjustments	-	-25	-1	-1	-	-	-27
A.2 Net initial carrying amount	**1**	**61**	**-**	**-**	**-**	**6**	**68**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	-	-	-
C. Decreases	**-**	**-2**	**-**	**-**	**-**	**-**	**-2**
C.1 Sales	-	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-	-
C.2 Depreciation	-	-2	-	-	-	-	-2
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 property	-	-	-	-	-	-	-
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-	-
D. Net final carrying amount	**1**	**59**	**-**	**-**	**-**	**6**	**66**
D.1 Total net adjustments	-	-	1	1	-	-	2
D.2 Gross final carrying amount	**1**	**59**	**1**	**1**	**-**	**6**	**68**
E. Measurement at cost	**1**	**59**	**-**	**-**	**-**	**-**	**60**

Total net adjustments attributable to buildings refer to other companies whose assets were not subject to revaluation, as they are already recorded at fair value.

12.6 Investment property: annual changes

(millions of euro)

	TOTAL		Of which:					
			Banking group		*Insurance companies*		*Other companies*	
	Land	Buildings	*Land*	*Buildings*	*Land*	*Buildings*	*Land*	*Buildings*
A. Gross initial carrying amount	**16**	**188**	***16***	***180***	**-**	**-**	**-**	***8***
A.1 Total net adjustments	-	-68	-	*-61*	-	-	-	*-7*
A.2 Net initial carrying amount	**16**	**120**	***16***	***119***	**-**	**-**	**-**	***1***
B. Increases	**58**	**184**	***58***	***184***	**-**	**-**	**-**	**-**
B.1 Purchases	3	15	*3*	*15*	-	-	-	-
of which business combinations	*1*	*4*	*1*	*4*	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-	-	-
B.3 Positive fair value differences	-	37	-	*37*	-	-	-	-
B.4 Write-backs	-	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-	-
B.6 Transfer from property used in operations	33	44	*33*	*44*	-	-	-	-
B.7 Other changes	22	88	*22*	*88*	-	-	-	-
C. Decreases	**-18**	**-89**	***-18***	***-89***	**-**	**-**	**-**	**-**
C.1 Sales	-4	-12	*-4*	*-12*	-	-	-	-
of which business combinations	-	-	-	-	-	-	-	-
C.2 Depreciation	-	-4	-	*-4*	-	-	-	-
C.3 Negative fair value differences	-	-1	-	*-1*	-	-	-	-
C.4 Impairment losses	-	-1	-	*-1*	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-	-
C.6 Transfer to other assets	-5	-15	*-5*	*-15*	-	-	-	-
a) property used in operations	*-2*	*-4*	*-2*	*-4*	-	-	-	-
b) non-current assets held for sale and discontinued operations	*-3*	*-11*	*-3*	*-11*	-	-	-	-
C.7 Other changes	-9	-56	*-9*	*-56*	-	-	-	-
D. Final carrying amount	**56**	**215**	***56***	***214***	**-**	**-**	**-**	***1***
E. Fair value measurement	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Fair value changes recognised in equity amount to 37 million euro, shown, net of the relative tax effect, in the valuation reserves following the change in the principle used by the Group to measure property.

12.7 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2017 amounted to approximately 6 million euro.

SECTION 13 – INTANGIBLE ASSETS - CAPTION 130

13.1 Intangible assets: breakdown by type of asset

(millions of euro)

	31.12.2017		*Of which:* Banking group		*Of which:* Insurance companies		*Of which:* Other companies		31.12.2016	
	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**	**4,056**	***X***	***3,562***	***X***	***494***	***X***	**-**	**X**	**4,059**
A.1.1 Group	x	4,056	*x*	*3,562*	*x*	*494*	*x*	-	x	4,059
A.1.2 Minority interests	x	-	*x*	-	*x*	-	*x*	-	x	-
A.2 Other intangible assets	**1,803**	**1,882**	***1,625***	***1,882***	***178***	**-**	**-**	**-**	**1,452**	**1,882**
A.2.1 Assets measured at cost	1,803	1,882	*1,625*	*1,882*	*178*	-	-	-	1,452	1,882
a) Internally generated intangible assets	*1,168*	-	*1,168*	-	-	-	-	-	*948*	-
b) Other assets	*635*	*1,882*	*457*	*1,882*	*178*	-	-	-	*504*	*1,882*
A.2.2 Assets measured at fair value	-	-	-	-	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-	-	-	-
Total	**1,803**	**5,938**	***1,625***	***5,444***	***178***	***494***	**-**	**-**	**1,452**	**5,941**

The allocation of goodwill between “Cash Generating Units” is reported in the following table.

(millions of euro)

CGUs/Goodwill	**31.12.2017**	**31.12.2016**
Banca dei Territori	1,211	1,214
Corporate and Investment Banking	-	-
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)	-	-
Total	**4,056**	**4,059**

For a breakdown of the CGUs, see the next chapter “Information on intangible assets and goodwill”.

13.2 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	**20,313**	**3,710**	**-**	**8,261**	**2,384**	**34,668**
A.1 Total net adjustments	-16,254	-2,762	-	-7,757	-502	-27,275
A.2 Net initial carrying amount	**4,059**	**948**	**-**	**504**	**1,882**	**7,393**
B. Increases	**-**	**610**	**-**	**274**	**-**	**884**
B.1 Purchases	-	-	-	274	-	274
of which business combinations	-	-	-	*104*	-	*104*
B.2 Increases of internally generated intangible assets	X	605	-	-	-	605
B.3 Write-backs	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	-	5	-	-	-	5
C. Decreases	**-3**	**-390**	**-**	**-143**	**-**	**-536**
C.1 Sales	-3	-	-	-	-	-3
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-390	-	-142	-	-532
- Amortisation	X	-386	-	-142	-	-528
- Write-downs recognised in	-	-4	-	-	-	-4
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-4*	-	-	-	*-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	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-1	-	-1
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	**4,056**	**1,168**	**-**	**635**	**1,882**	**7,741**
D.1 Total net adjustments	16,254	3,148	-	7,899	502	27,803
E. Gross final carrying amount	**20,310**	**4,316**	**-**	**8,534**	**2,384**	**35,544**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

13.2 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	**19,046**	**3,703**	**-**	**7,319**	**2,384**	**32,452**
A.1 Total net adjustments	-15,481	-2,755	-	-7,012	-502	-25,750
A.2 Net initial carrying amount	**3,565**	**948**	**-**	**307**	**1,882**	**6,702**
B. Increases	**-**	**610**	**-**	**267**	**-**	**877**
B.1 Purchases	-	-	-	267	-	267
of which business combinations	-	-	-	*104*	-	*104*
B.2 Increases of internally generated intangible assets	X	605	-	-	-	605
B.3 Write-backs	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	-	5	-	-	-	5
C. Decreases	**-3**	**-390**	**-**	**-117**	**-**	**-510**
C.1 Sales	-3	-	-	-	-	-3
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-390	-	-116	-	-506
- Amortisation	X	-386	-	-116	-	-502
- Write-downs recognised in	-	-4	-	-	-	-4
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-4*	-	-	-	*-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	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-1	-	-1
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	**3,562**	**1,168**	**-**	**457**	**1,882**	**7,069**
D.1 Total net adjustments	15,481	3,141	-	7,128	502	26,252
E. Gross final carrying amount	**19,043**	**4,309**	**-**	**7,585**	**2,384**	**33,321**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

13.2 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**	**7**	**-**	**942**	**-**	**2,179**
A.1 Total net adjustments	-736	-7	-	-745	-	-1,488
A.2 Net initial carrying amount	**494**	**-**	**-**	**197**	**-**	**691**
B. Increases	**-**	**-**	**-**	**7**	**-**	**7**
B.1 Purchases	-	-	-	7	-	7
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	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	**-**	**-**	**-**	**-26**	**-**	**-26**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-26	-	-26
- Amortisation	X	-	-	-26	-	-26
- 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	**494**	**-**	**-**	**178**	**-**	**672**
D.1 Total net adjustments	736	7	-	771	-	1,514
E. Gross final carrying amount	**1,230**	**7**	**-**	**949**	**-**	**2,186**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

13.2 Of which: Other companies

As at 31 December 2017 gross goodwill was 37 million euro, fully written down, attributable to other companies, unchanged compared to the end of 2016.

13.3 Other information

As at 31 December 2017 there were commitments relating to investments in intangible assets, primarily software, of approximately 23 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 (of the asset management portfolio of former Nextra, CR Firenze, Pravex Bank, Intesa Vita, the bank branches and Banca Monte Parma) led to the recognition of significant amounts for intangible assets and goodwill.

During 2017 the contract for the acquisition of certain assets and liabilities belonging to the former Venetian banks was signed. The above transaction, accounted for in accordance with IFRS 3, entailed the recognition of new intangible assets totalling 80 million euro, relating to asset management, allocated to the Banca dei Territori CGU. As part of the acquisition of the former Venetian banks, no goodwill captions were recorded, as specified in greater detail in 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 31.12.2016	Acquisition of the Venetian Banks	Amort.	Other changes (a)	Financial Statements 31.12.2017
BANCA DEI TERRITORI	**2,741**	**80**	**-5**	**-3**	**2,813**
- Asset management intangibles - distribution	-	80	-3	-	77
- Insurance intangibles - distribution	20	-	-2	-	18
- Brand name intangibles	1,507	-	-	-	1,507
- Goodwill	1,214	-	-	-3	1,211
CORPORATE AND INVESTMENT BANKING	**-**	**-**	**-**	**-**	**-**
- Brand name intangibles	-	-	-	-	-
- Goodwill	-	-	-	-	-
ASSET MANAGEMENT	**1,060**	**-**	**-**	**-**	**1,060**
- Asset management intangibles - production	-	-	-	-	-
- Goodwill	1,060	-	-	-	1,060
PRIVATE BANKING	**1,666**	**-**	**-**	**-**	**1,666**
- Asset management intangibles - prod. and distribut.	-	-	-	-	-
- Brand name intangibles	375	-	-	-	375
- Goodwill	1,291	-	-	-	1,291
INSURANCE	**687**	**-**	**-24**	**-**	**663**
- Insurance intangibles - production	193	-	-24	-	169
- Goodwill	494	-	-	-	494
INTERNATIONAL SUBSIDIARY BANKS	**-**	**-**	**-**	**-**	**-**
BANK OF ALEXANDRIA (Egypt)	**-**	**-**	**-**	**-**	**-**
PRAVEX BANK (Ukraine)	**-**	**-**	**-**	**-**	**-**
GROUP TOTAL	**6,154**	**80**	**-29**	**-3**	**6,202**
- Asset management intangible	-	80	-3	-	77
- Insurance intangible	213	-	-26	-	187
- Brand name intangible	1,882	-	-	-	1,882
- Goodwill	4,059	-	-	-3	4,056

(a) The reduction in the goodwill of Banca dei Territori is due to the sale of Infogroup.

The intangible assets recognised include the intangible asset related to customers, represented by the measurement of the insurance portfolio. Such asset, with a finite life, is 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 amortisation period for the intangible asset relating to the portfolio of assets under management (AUM), the residual value of which was allocated to the Private Banking Division, was completed at the end of 2016. Furthermore, as noted above, in 2017, following the business combination regarding the former Venetian banks, a new amount was recognised linked to asset management relationships, fully allocated to Banca dei Territori, which, net of amortisation for the period, amounted to 77 million euro as at 31 December 2017.
Conversely, it is noted that the intangible core deposit had been written down in full in the 2013 financial statements, due to the results of the impairment test performed.
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 “210 Net adjustments to/recoveries on intangible assets”) for a total of 29 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 2017 financial statements.
It is noted that the tests mentioned above did not concern the Corporate and Investment Banking, 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 2017.

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 2017 financial statements, the amortisation of the asset for the year was recognised to the income statement. The amortisation for the year amounted to approximately 12% of the carrying amount of the asset at the end of 2016 (amortisation for a total of 26 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 2017.
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)]	
	31.12.2017	Change compared to 31.12.2016
Traditional	70,412	-4.1%
Pension funds	2,609	+ 15.0%
Unit-linked	68,632	+ 18.7%
Index-linked	1	+ 0.0%
TOTAL	**141,654**	**+ 6.1%**

[(a)] The mathematical reserve and the premium reserve are included. The figure is gross of the "shadow reserve".

Technical reserves increased by approximately 6% in 2017, exceeding 141 billion euro at year-end. Against a slight decrease in reserves for traditional products (around -4% compared to the end of 2016, totalling over 70 billion euro in December 2017) there was a highly significant increase in the reserves for unit-linked products (+18.7% in the year), with overall total reserves of approximately 69 billion euro (in December 2017). Lastly, the decrease in reserves for index-linked products – now essentially nil – was due to the choice, first made in 2008 and also applied in the year under review, not to establish and market new products in this segment.

An analysis of product profitability and operating costs did not yield any indication of possible impairment of the asset. Financial parameters – including as regards the performance of securities in portfolio – did not show any issues of concern, as they were in line with the situation recorded in 2016.

The following table presents a summary of the values of insurance intangibles according to the relevant CGU.

(millions of euro)

CGU	Financial statements 31.12.2016	Amortisation	Other changes	Financial statements 31.12.2017
Banca dei Territori				
Insurance intangibles - distribution	20	-2	-	18
Insurance				
Insurance intangibles - production	193	-24	-	169
GROUP TOTAL	**213**	**-26**	**-**	**187**

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca under compulsory administrative liquidation, 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 under administration and assets 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 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 3 million euro, at the end of 2017 the intangible asset is posted in the consolidated financial statements at a value of 77 million euro.

For the purpose of the impairment test as at 31 December 2017, the intangible asset in question was not subject to specific analyses of indicators of impairment, taking account of the recent valuation and the fact 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 customer assets of the specific CGU.

The following table presents an overview of the value of the AUM intangible asset, attributable solely to the Banca dei Territori Division.

(millions of euro)

CGU	Financial statements 31.12.2016	Amortisation	Other changes (a)	Financial statements 31.12.2017
Banca dei Territori				
Intangibile asset management - distribution	-	80	-3	77
GROUP TOTAL	**-**	**80**	**-3**	**77**

(a) Acquisition of former Venetian Banks

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 network banks were related, and the brand of the subsidiary Banca Fideuram since it is an autonomous entity strongly 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 fundamental, flow-based methods have been used in the initial 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 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 business units 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 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. Currently Pravex Bank functionally reports to Capital Light Bank.
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 2017 impairment testing, 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, which will continue until conditions in the respective countries have been stabilised, does not affect the Group's intention to support the development of the subsidiaries.
As previously mentioned, the Corporate and Investment Banking, 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 / CGU	Value as at 31.12.2017			
	Book value	*of which goodwill Group share*	*of which brand name*	*of which minority interests*
Banca dei Territori	21,508	*1,211*	*1,507*	*121*
Corporate and Investment Banking	15,805	-	-	*101*
Insurance	5,272	*494*	-	*1*
Asset Management	3,168	*1,060*	-	*12*
Private Banking	4,131	*1,291*	*375*	-
International Subsidiary Banks	6,227	-	-	*88*
Bank of Alexandria (Egypt)	446	-	-	*89*
Pravex Bank (Ukraine)	62	-	-	-
GROUP TOTAL	**56,619**	**4,056**	**1,882**	**412**

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 rate "g" 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, 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.

Also, 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".

Cash flow estimates

Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the 2017 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 and is the basis for the income forecasts set out in the 2018-2021 Business Plan.

In particular, in 2017 the growth of the Eurozone significantly exceeded forecasts (an increase of 2.3% is estimated, compared to the forecast of 1.5%). A growth rate slightly lower is forecast in 2018 and, thus, a further slowdown in the following years, towards average growth rates of 1.3-1.4% (in line with the consensus on the long term). As regards inflation, the reference scenario assumes average oil prices of over 54 dollars in 2018-19 and over 60 dollars from 2020, associated with inflation rising above 1.5% again even from 2019. The estimates of inflation are now lower than the consensus estimates on the long term.

As regards the national scenario, in 2017 the Italian economy grew by around 1.5% (preliminary estimates), also in this case higher than the forecasts formulated one year ago (1.0%) and the consensus estimates. At present, economic indicators suggest that the phase of recovery of economic activity will continue in 2018, without any particular slowdowns in the pace that characterised the previous year. In 2018 the fiscal impulse will be practically nil. Over the next few years, meeting the medium-term targets consistent with the European tax rules and the need to start the debt/GDP ratio on a decreasing trajectory would impose a restriction of budget policy, to bring the primary surplus back to larger levels than those of 2017 and higher than the 2.0% planned by the government for 2018. The reference scenario forecasts growth of 1.3% in 2018, lower than the consensus average. The favourable evolution of the average cost of debt, more robust nominal growth and a modest increase in the primary surplus could lead to a reduction in the debt/GDP ratio in 2018. The reference scenario assumes that the phase of expansion will continue in the following years.

The scenario of growth at or below potential and inflation far from the 2% target represent the main justifications for a scenario of official rates stable at levels near zero through the fourth quarter of 2019. For the subsequent years, highly conservative assumptions have been adopted on the evolution of official interest rates: following an initial rise at the start of 2020 that would bring interest rates back to positive ground, the refinancing rate would rise once again only at the end of 2021. The reference projections for interest rates are lower than the rates embedded in the futures over the entire time horizon of the forecast. Subsequently, the reference scenario assumes a quicker rise than that deducted from the futures, meaning the gap will be gradually closed in 2022. Those assumptions on the evolution of interest rates are deliberately conservative as compared to the interest rates embedded in the futures, and the risk of surprises relating to the projections shows upwards asymmetry.

The markets have begun to incorporate the ECB's exit from Quantitative Easing (QE). The only other experience of this type in a currency zone of importance similar to the Euro was launched this year by the FED. The latter has been preparing the markets for the change in regime for a few years, not through concrete actions but through a targeted change in communications. Nonetheless, over the following years the markets practically constantly overestimated the speed of adjustment of the rise in interest rates, an overestimate that, at certain times, amounted to many dozens of basis points. It should also be noted that, in the last few years, even in Europe, actual interest rates have often been lower than the ex-ante embedded interest rates in the market. The ECB is now making a concerted effort to convince the market that the change in regime will be gradual, and has also begun to show concerns regarding the restrictive effect deriving from the appreciation of the Euro on the foreign exchange market, a variable that is difficult to decipher as it is also extensively dependent on other currency areas. The ECB should start a process of partial normalisation of monetary policy from 2018 to 2019, only after gradually discontinuing the financial asset purchasing programme at the end of 2018, though maintaining relatively accommodating monetary conditions. In that regard, a reduction of the APP (Asset Purchase Programme) has already been announced, decreasing the monthly rate of purchases from 60 to 30 billion euro per month, starting in January 2018, up to September 2018. The markets price a return to positive 3-month interest rates from between June and September 2019. Therefore, faced with a forecast scenario which, by definition, is not deterministic but attributable to a range of probabilities, from a managerial point of view, it was decided to remain below market expectations over the entire time horizon of the plan. Given the positive correlation between interest rates and net interest income, the assumption is prudential in relation to the results of the Group. However, over the next few years we predict a rise in the absolute level of interest rates, with a gap with forward rates that we assume will not decrease for a few years.

At the end of 2016 longer-term rates had already shown a reversal of the trend, driven by the performance of the U.S. market, the global recovery of inflation expectations and a series of better-than-expected economic data. That trend continued, though extremely moderate, also in 2017. The ECB's purchase programmes and commitment to keep rates unchanged for a long

time in 2018 should continue to blunt the upwards pressure exerted by the movements of the U.S. dollar curve. Nonetheless, the probable end of the ECB's purchase programme by the end of 2018, and thus the growing expectations of increases in official interest rates, will lead to an acceleration in medium and long-term interest rates. Finally, the scenario assumes a further increase in risk premiums on Italian debt in 2018, following that already seen from 2016 to 2017. The causes are linked to the mounting political instability, the retraction of the protective net extended by monetary authorities in recent years and the slow pace of the process of reducing debt. The reference scenario predicts an increase in the ten-year BTP-Bund spread to 190-210 bps, without significant declines in 2019. Only in 2020-22, when it is predicted that a virtuous scenario of accelerating growth and falling debt will occur, in an environment of continuing low interest rates, will the spread fall towards 150 and then 100 bps.
With reference to the banking industry, in 2017 loans to the private sector confirmed moderate growth, once again sustained by loans to households, both for mortgage loans and consumer credit. However, mortgage lending, despite remaining at high volumes, was down year-on-year, mainly due to the decrease in renegotiations, although new agreements also declined. In conditions of liquidity considered sufficient or more than sufficient by most companies, demand for credit remained subdued by low external funding requirements, which were also met by bond issues. Business debt as a percentage of GDP continued to fall, with loans to businesses only starting to pick up towards the end of the year.
Also in 2018 and over the entire time horizon, monetary conditions will remain favourable to credit recovery. Lagging significantly behind the economic recovery, a clear resumption of growth of loans to businesses should be seen in 2018. However, the increase in loans to businesses will continue to be restrained due to demand factors, such as the presumable continuation of corporate deleveraging and ongoing diversification in favour of market sources of funding, in a scenario of moderate GDP growth.
For households, the lending scenario remains positive. Loan levels will continue to rise in 2018-22, driven by the positive outlook for the real-estate market and interest rates that will remain near all-time lows in the next few years.
As regards bank funding, the trends seen in 2017 confirmed the previous values, and specifically the growth in deposits and the decline for bonds. With interest rates starting to rise in 2020, households and businesses will focus on instruments with higher yields, to the partial disadvantage of more liquid instruments. This trend will be accompanied by offering policies, with banks that must handle increased needs for funding given the consolidation of the growth in loans and the gradual elimination of non-conventional operations of the ECB. 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 assumed. On the other hand, especially near the end of the forecast period, the drop-in stock could be counterbalanced by issues on the wholesale market, fuelled by the placement of eligible instruments that meet the requirements of loss absorption, in a scenario of gradual elimination of non-conventional monetary stimulus and moderate acceleration of medium/long-term loans. Customer deposits will recover, gradually showing very moderate growth, also due to the funding requirements linked to the redemption of the TLTRO in 2020-21.
In 2017, bank interest rates were still dropping, despite the attempts to increase mortgage lending rates in the first part of the year and rates applied to businesses on large loans having settled. At the same time, interest rates offered to businesses on smaller loans reached new lows. The spread between lending and funding rates fell slightly. For the sixth consecutive year, in 2017 the mark-down on demand deposits was in negative territory, where it is expected to remain until 2021, given the very low Euribor rates. In particular, in 2018 and for the average of 2019, the mark-down is expected to remain essentially unchanged. A trend towards a gradual improvement is expected to begin at the end of 2019, followed by stabilisation, and continue in 2021-22 in line with the presumed profile of the Euribor. The mark-up on short-term interest rates in 2017 decreased further. In 2018 it is expected to slightly decline further in the comparison of annual averages, but to remain essentially stable compared to the end of 2017 and higher than pre-crisis levels, given the low levels of monetary rates. The reduction will resume at the end of 2019 and the end of 2021 as market rates begin to rise once more.
Lastly, in relation to the asset management sector (mutual funds, portfolio management schemes and insurance reserves) in 2017 mutual funds showed recovery, fuelled by the accumulation of liquidity that occurred in recent years in financial assets of households, and supported by the improved performance of the markets compared to 2016. In 2018-19, the scenario of continued very low interest rates will favour the steadiness of this segment, though with lower flows than in 2017, due to the gradual exhaustion of the margins for shifting portfolios of households, which will continue over the entire time horizon of the scenario. Finally, in 2018 market performance expectations remain cautious, especially due to the uncertainty of the political scenario, a factor that restrains volume growth.
In the subsequent years, mutual funds inflows are expected to continue to record positive, but gradually decreasing values, as a result of the consolidation of the recovery in deposits from banking business and the forecast increase in interest rates. For life insurance, premiums will see moderate growth, given the high volumes already achieved by the segment, supported in the last few years of the scenario by the increase in interest rates, which will breathe new life into traditional insurance. Starting in 2020, this will also favour flows routed to portfolio management schemes, supported by the institutional component. Finally, due to the combined effect of positive inflows and revaluations linked to the stock market, the total assets of the asset management system are expected to continue growing at a good pace.

(values as a percentage)

Italy	2017	2018	2019	2020	2021	2022
REAL ECONOMY						
Real GDP Italy	1.5	1.3	1.2	1.2	1.3	1.3
Consumer prices Italy	1.2	0.9	1.6	1.8	1.7	1.8
Period-end ECB rate	0.00	0.00	0.00	0.25	0.50	1.00
3-month Euribor rate	-0.33	-0.33	-0.30	0.05	0.06	0.73
10-year IRS	0.8	0.9	1.1	1.4	1.5	1.8
10-year BTP	2.1	2.8	3.0	3.1	3.1	3.0
Spread vs. Bund (basis points)	173	195	186	176	163	101
BANKING SECTOR						
Loans	-0.8	0.9	1.9	2.1	2.5	2.8
Direct customer deposits	0.2	0.3	0.7	1.9	2.5	2.5
Loan rate	2.79	2.75	2.75	2.98	2.99	3.34
Funding rate	0.81	0.73	0.70	0.78	0.79	1.01
Average customer spread	1.98	2.02	2.05	2.20	2.20	2.33
Mutual funds	10.5	6.0	5.7	4.9	4.3	4.2
Portfolio management	2.9	2.2	2.3	3.3	3.2	3.1
Life technical reserves	5.3	5.4	5.6	5.7	5.7	5.8

The various CGUs' expected cash flows were subject to impairment testing, taking account of the macroeconomic scenario described above, and were estimated by following a two-stage assessment process. Specifically, with regard to the first forecast period, in line with the choices made for the 2016 Financial Statements, a timeframe of 5 years was considered, i.e. the five-year period 2018-2022. For the first 4 years of that period, the analytical estimates set out in the 2018-2021 Business Plan, approved by the Board of Directors on 5 February 2018, were used. The flows for 2022 were estimated through inertial tracking of the flows for 2021, based on the forecasts relating to the macroeconomic scenario, thus, without considering the effect of managerial leverage.
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. 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 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”. 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 2017, 2022 - 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 2008-2022 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. Each component has been calculated as the average for the period 2008-2022.
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 2008-2022 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 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 2022.
In particular for the CGUs that show intangibles with an indefinite life on the balance sheet date, and therefore to be subject to an impairment test, the "g" rate was determined with reference to Italy, since the country of operation of these CGUs (Banca dei Territori, Insurance, Asset Management, Private Banking) is mainly Italy.

Expected real GDP and inflation figures used to calculate "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above.
Furthermore, with a prudential approach, it was checked that the "g" rate was not higher than Italy's GDP growth rate in 2022 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 significantly (at least in the short/medium-term), 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 2017 Financial Statements it was deemed appropriate to adopt an approach consistent with the 2015 and 2016 Financial Statements, involving the use of differentiated discount rates for the discounting of the cash flows of the CGUs:
  - concerning the risk-free component included in the discounting rate of the cash flows of the explicit forecasting horizon, a decision was made to use the average monthly return (December 2017) of the 10-year German Government bonds (Bund);
  - concerning the risk-free component included in the discounting rate of the cash flow of the terminal value (cash flow projectable beyond the period of explicit forecasting), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast in 2022, which is the last year of flow forecast period, internally estimated based on the medium-term forecast scenario mentioned previously. The macro-economic forecasts considered, with reference to interest rates, estimate in 2022 a return to conditions, though not yet "normalised" can in any event be projected 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; the considerations for this choice, as a consequence, are the same as those already shown above and are essentially based on the "exceptional nature" of the interest rate level observed at present. 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". The CRP, therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2017 Financial Statements, was calculated as follows:
  - concerning the CRP included in the discount rate of the financial flows of the "explicit" forecast time period, the average BTP-Bund spread of December 2017 was considered;
  - concerning the CRP included in the discount rate of the financial flows of the terminal value, the average annual BTP-Bund spread estimated in 2022 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 120 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 1928-2017, 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 2018-2022 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 (PERIOD 2018 - 2022)	NOMINAL DISCOUNTING RATES				LONG-TERM "G" GROWTH RATES		INFLATION RATES
		2017 flows	2017 Terminal Value	2016 flows	2016 Terminal Value	2017	2016	2017
CGU subject to impairment test								
Banca dei Territori	60.48%	9.40%	10.62%	9.07%	10.39%	1.50%	1.45%	1.46%
Insurance	8.94%	7.01%	8.23%	7.36%	8.68%	1.50%	1.45%	1.46%
Asset Management	7.77%	7.76%	8.98%	7.95%	9.27%	1.50%	1.45%	1.46%
Private Banking	10.65%	7.38%	8.59%	7.03%	8.34%	1.50%	1.45%	1.46%

Impairment testing results

The outcomes of the impairment test showed how, as at 31 December 2017, the values in use of each of the four 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 Intesa Sanpaolo ordinary share as at 29 December 2017 (2.77 euro), was up compared to the values measured at the end of the previous year (about +14%). The performance of the price of Intesa Sanpaolo stock in 2017 moved in line with that of the FTSE MIB index during the same period (around +14%) and the index of Italian banking securities (around +15%). In 2017, prices were influenced, especially in the first half of the year, by fears regarding the potential negative effects on the national economy that could have arisen due to the possible resolution of several banks which had difficulty in obtaining the funds necessary for recapitalisation. The solutions adopted in the first half of the year in relation to those parties reassured the markets which, at that time, began a rising trend, also confirmed by the positive data deriving from the macroeconomic scenario. Nonetheless, concerns remain regarding the non-performing loans posted in the financial statements of Italian banks. In that regard, note that during 2017 several sales of non-performing loans were structured and announced, both by banks under resolution and other banks. The reassurances received by the markets from the resolution of banks in difficulty, eliminating the risks that could have led to their possible bankruptcy and the launch of a national market for non-performing loans contributed to the rise in prices recorded in the second half of the year. In January 2018, the Intesa Sanpaolo share price grew relatively, reaching 3.16 euro on 31 January. Despite the rise recorded, 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 overcome within a reasonably short period of time and that the market will then resume valuation of individual financial institutions according to their individual performances and not as part of a system that needs to procure internal resources to face situations of difficulty.
The target price estimates, published in December 2017 and early January 2018 by investment firms and financial analysts assigned to the Intesa Sanpaolo Group, are currently concentrated around 3.25 euro on average, with maximum values of up to 3.5 euro. This latter figure is essentially consistent with the Group's equity per share. Compared to the end of 2016, the target prices are up by approximately 20%.
In any event, it bears observing that market valuations 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 2020 and, compared to the estimates generated within the Group, are lower for 2018, in line for 2019 and higher for 2020;
- 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;

- the growth rates used for the purposes of terminal value, where explicitly stated, were slightly lower than those used in impairment testing;
- similarly to the observations made for the impairment test of the 2016 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. In consideration of such factors, value in use is considered to be a better expression of the recoverable value 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 take into account the full attribution to 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 120 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period. As a consequence, the average weighted value obtained is essentially in line with the Intesa Sanpaolo's cost of capital expressed by the market and within the range of the average rates used by the investment firms in the latest reports on Intesa Sanpaolo's stock. In addition, the total cost of capital for the purposes of terminal value is far above the yield of 6.25% of the Additional Tier 1 (AT1) securities issued in May 2017 by Intesa Sanpaolo, which, while similar to capital instruments, present lower risk than shares. The yield of the recently issued AT1 securities is also lower than that of the similar securities issued in January 2017 (7.75%), different to the Group's cost of capital implicit in the terminal value, which grew slightly compared to the 2016 impairment test.

As additional support for the stability of the values of intangible assets with an indefinite life, it is noted that the price of the Intesa Sanpaolo stock recorded at the end of 2017 (2.77 euro per share) stood at levels not far from the net book value of equity (3.37 euro per share) and incorporates a P/BV multiple of 0.82x. In January 2018, the Intesa Sanpaolo stock price grew further, reaching 3.16 euro per share (on 31 January 2018), incorporating a P/BV multiple of 0.94x. The target prices of analysts showed increasing values, both at the end of 2017 and in January 2018. The latest updates show, on average, a value per share of 3.25 euro, with maximum values up to 3.50 euro, substantially in line with the Group's shareholders' equity per share (the corresponding P/BV multiples come to 0.94x and 1.04x, respectively). As a result, in that context, based on market references, the fair value would substantially support the company's equity and, thus, the goodwill included therein.

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 and 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	-0.89%	-1.18%	-7.51%
Insurance	-1.14%	-1.42%	-7.28%
Asset Management	-0.99%	-1.27%	-6.99%
Private Banking	-1.08%	-1.37%	-7.30%

Based on the table above, changes in the Ke (increasing) or the “g” (decreasing) values within 10 bps would lead to a general decrease in the values in use ranging between 0.89% and 1.42%. 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 6.99% and 7.51%.

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	0.45%	-105 bps	11.44%	82 bps
Insurance	-7.76%	-926 bps	14.92%	669 bps
Asset Management	-22.65%	-2,415 bps	24.39%	1,541 bps
Private Banking	n.a	n.a [1]	n.a	n.a (1)

[1] For the Private Banking CGU, the flows discounted over the explicit forecasting period are already above the carrying amount. Accordingly, the sensitivity analysis on the parameters that affect the discounted terminal value, provided that flows are equal, is not applicable, since it would never result in a reduction in terminal value that would bring the CGU's value in use to values near its carrying amount.

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 14 – TAX ASSETS AND LIABILITIES – CAPTION 140 OF ASSETS AND CAPTION 80 OF LIABILITIES

14.1 Deferred tax assets: breakdown

Deferred tax assets, recognised with regard to deductible temporary differences, totalled 13,199 million euro, of which 12,261 million euro refers to taxes recorded through profit or loss and 938 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 deductible in future years, to provisions for risks and charges, 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 available for sale, to the cash flow hedges and to recognition of actuarial losses on personnel funds.

14.2 Deferred tax liabilities: breakdown

Deferred tax liabilities amounted to 2,145 million euro and the balancing entry is mostly in the income statement (1,143 million euro) as well as in shareholders' equity (1,002 million euro).

14.3 Changes in deferred tax assets (through profit and loss)

(millions of euro)

	31.12.2017	Of which:			31.12.2016
		Banking group	*Insurance companies*	*Other companies*	
1. Initial amount	**10,037**	***9,713***	***309***	***15***	**10,257**
2. Increases	**3,818**	***3,753***	***65***	**-**	**617**
2.1 Deferred tax assets recognised in the period	1,513	*1,465*	*48*	-	407
a) related to previous years	*23*	*23*	-	-	*19*
b) due to changes in accounting criteria	*5*	*5*	-	-	-
c) value recoveries	-	-	-	-	-
d) other	*1,485*	*1,437*	*48*	-	*388*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	309	*292*	*17*	-	210
2.4 Business combinations	1,996	*1,996*	-	-	-
3. Decreases	**-1,594**	***-1,550***	***-44***	**-**	**-837**
3.1 Deferred tax assets eliminated in the period	-1,154	*-1,111*	*-43*	-	-650
a) reversals	*-966*	*-965*	*-1*	-	*-535*
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-188*	*-146*	*-42*	-	*-115*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-440	*-439*	*-1*	-	-187
a) changes into tax credits pursuant to Law no. 214/2011	*-19*	*-19*	-	-	*-13*
b) other	*-421*	*-420*	*-1*	-	*-174*
3.4 Business combinations	-	-	-	-	-
4. Final amount	**12,261**	***11,916***	***330***	***15***	**10,037**

Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous 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.

14.3.1 Changes in deferred tax assets eligible for transformation into tax credits (through profit or loss) (Law 214/2011)

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Initial amount	**8,491**	***8,475***	***16***	**-**	**8,749**
2. Increases	**931**	***929***	***2***	**-**	**275**
3. Decreases	**-676**	***-676***	**-**	**-**	**-533**
3.1 Reversals	-505	*-505*	-	-	-316
3.2 Changes into tax credits	-19	*-19*	-	-	-13
a) from losses for the year	*-19*	*-19*	-	-	*-13*
b) from fiscal losses	-	-	-	-	-
3.3 Other decreases	-152	*-152*	-	-	-204
4. Final amount	**8,746**	***8,728***	***18***	**-**	**8,491**

14.4 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Initial amount	**1,107**	***804***	***277***	***26***	**1,161**
2. Increases	**743**	***630***	***113***	**-**	**409**
2.1 Deferred tax liabilities recognised in the period	243	*188*	*55*	-	120
a) related to previous years	*36*	*36*	-	-	-
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*207*	*152*	*55*	-	*120*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	232	*174*	*58*	-	289
2.4 Business combinations	268	*268*	-	-	-
3. Decreases	**-707**	***-612***	***-93***	***-2***	**-463**
3.1 Deferred tax liabilities eliminated in the period	-171	*-120*	*-49*	*-2*	-191
a) reversals	*-94*	*-87*	*-5*	*-2*	*-76*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*-77*	*-33*	*-44*	-	*-115*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-536	*-492*	*-44*	-	-272
3.4 Business combinations	-	-	-	-	-
4. Final amount	**1,143**	***822***	***297***	***24***	**1,107**

Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous year.
Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

14.5 Changes in deferred tax assets (recorded in equity)

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Initial amount	**1,094**	***982***	***112***	**-**	**1,138**
2. Increases	**163**	***163***	**-**	**-**	**291**
2.1 Deferred tax assets recognised in the period	148	*148*	-	-	237
a) related to previous years	-	-	-	-	*1*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*148*	*148*	-	-	*236*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	15	*15*	-	-	54
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-319**	***-298***	***-21***	**-**	**-335**
3.1 Deferred tax assets eliminated in the period	-318	*-297*	*-21*	-	-148
a) reversals	*-312*	*-291*	*-21*	-	*-117*
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-6*	*-6*	-	-	*-31*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-1	*-1*	-	-	-187
3.4 Business combinations	-	-	-	-	-
4. Final amount	**938**	***847***	***91***	**-**	**1,094**

14.6 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Initial amount	**434**	***100***	***334***	**-**	**698**
2. Increases	**672**	***663***	***9***	**-**	**96**
2.1 Deferred tax liabilities recognised in the period	100	*100*	-	-	74
a) related to previous years	-	-	-	-	-
b) due to changes in accounting criteria	*30*	*30*	-	-	-
c) other	*70*	*70*	-	-	*74*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	572	*563*	*9*	-	22
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-104**	***-36***	***-68***	**-**	**-360**
3.1 Deferred tax liabilities eliminated in the period	-97	*-31*	*-66*	-	-223
a) reversals	*-32*	*-7*	*-25*	-	*-59*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*-65*	*-24*	*-41*	-	*-164*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	*-7*	*-5*	*-2*	-	-137
3.4 Business combinations	-	-	-	-	-
4. Final amount	1,002	*727*	*275*	-	434

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 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 reasonably certain that taxable income will be earned in the future that will ensure their recovery.

Given the amount of deferred tax assets carried among the Group's assets, including in the 2017 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"). The test conducted on the 2017 financial statements also considered the deferred tax assets and liabilities deriving from the Aggregate Set acquired from Banca Popolare di Vicenza and Veneto Banca (hereinafter jointly, also the "Venetian Banks"), finalised during the year.

In that context, a separate test concerned the deferred tax assets carried in the consolidated financial statements (1,268 million euro as at 31 December 2017) against the previous tax losses of the Venetian Banks and their subsidiaries Banca Nuova and Banca Apulia.
The probability test on the deferred tax assets relating to the tax losses of the Venetian Banks and their subsidiaries was conducted considering the individual position of Intesa Sanpaolo (with regard to the losses of Veneto Banca, Banca Popolare di Vicenza and Banca Nuova) and of Banca Apulia (for its own losses). 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 and Art. 15 of Law Decree no. 18/2016). 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 termination of the fiscal consolidation schemes that those banks participated in, effective from 1 January 2017. As Banca Nuova was incorporated into Intesa Sanpaolo effective from 1 January 2018, its previous tax losses will be useable in any event and, therefore, were subject to probability testing along with the other losses attributable to the Parent Company.

As regards the deferred tax assets on the tax losses of the Venetian Banks and Banca Nuova, totalling 1,256 million euro, based on the forecast income of the Parent Company, which can be taken from the Business Plan for the years 2018-2021, deriving from the inertial tracking of the flows for 2021 for 2022 (in line with the time horizon considered for the impairment test on goodwill) and triggered by an extrapolation based on the profits growth rate "g" used in said impairment test for the subsequent years, total absorption could be achieved over a time horizon deemed compatible with the "probability" requirement set out in IAS 12, also considering the Bank's proven forecasting ability.With regard to Banca Apulia, the probability test showed future taxable income that would allow for only partial use of the previous tax losses.Therefore, only a portion of the deferred tax assets on those losses, amounting to around 12 million euro, was posted to the consolidated financial statements and the Parent Company financial statements.

In conducting the probability test for the deferred tax assets different from those relating to the losses of the Venetian Banks, carried in the Group's financial statements as at 31 December 2017, as in the case of the 2011-2016 financial statements, assets arising from temporary deductible differences associated with impairment losses on loans, as well as goodwill and other intangible assets with indefinite useful lives[9] ("eligible deferred tax assets" and "eligible temporary differences"), carried in the financial statements within 2014, were considered separately. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of eligible temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011. Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net production value also in relation to IRAP deferred tax assets that pertain to eligible temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above convertibility forms – which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) – provide an additional, supplementary recovery method suited to ensuring the recovery of eligible deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus eligible temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but rather the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to article 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 the eligible 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 Aggregate Set resulted from "type 1 DTA", the Group was not actually required to pay this fee for 2017[10].

Based on the above, the probability test was carried out as follows:
a) identifying the deferred tax assets not relating to the tax losses of the Venetian Banks and their subsidiaries, which were subject to a specific test to determine whether they could be recognised in the financial statements ("other deferred tax assets");
b) identifying, among other deferred tax assets, those that are "ineligible", as they cannot be converted into tax credits (in substance, deferred tax assets other than those associated with impairment losses on loans, as well as goodwill and other intangible assets with indefinite useful lives, if carried in the consolidated financial statements for the year ended as at 31 December 2014);

[9] 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.
[10] However, the Parent Company was required to pay, on behalf of the Venetian Banks acquired, the fee pertaining to these banks for the portion of the year comprising the start of 2017 to the date of placement in liquidation (25 June 2017).

c) analysing such ineligible deferred tax assets and deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and by foreseeable recovery timing;
d) forecasting the quantification of future taxable income of the Group - which can be taken from the Business Plan, for the years 2018-2021, deriving from the inertial tracking of the flows of 2021 for 2022, in line with the time horizon considered for the impairment test on goodwill, and triggered by an extrapolation based on the profits growth rate “g” used in said impairment test, for the subsequent years - for the purpose of verifying the ability to recover the deferred tax assets set forth in point b) above.

The analysis conducted indicated a taxable base that was more than sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2017.

In addition to the deferred tax assets relating to the tax losses of the Venetian Banks, illustrated above, in the 2017 financial statements, deferred tax assets of 103 million euro are also entered, which derive from tax losses brought forward by the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI), which can be used in the local fiscal consolidation.
The analyses carried out in relation to the income forecasts of the Luxembourg subsidiaries confirm the ability of the fiscal consolidation they are a part of to use the losses against which deferred tax assets are recognised. The tax losses still to be absorbed at the end of 2017 amount to 395 million euro, compared to 566 at the end of 2016.

SECTION 15 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 150 OF ASSETS AND CAPTION 90 OF LIABILITIES

15.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

	31.12.2017	*Of which:*			31.12.2016
	Total Book value	*Banking group*	*Insurance companies*	*Other companies*	Total Book value
A. Non-current assets held for sale					
A.1 Financial assets	283	*279*	-	*4*	3
A.2 Investments in associates and companies subject to joint control	-	-	-	-	-
A.3 Property and equipment	341	*70*	-	*271*	305
A.4 Intangible assets	-	-	-	-	-
A.5 Other	3	-	-	*3*	4
Total A	**627**	***349***	**-**	***278***	**312**
of which cost	***348***	***70***	**-**	***278***	***312***
of which Fair value Level 1	**-**	**-**	**-**	**-**	**-**
of which Fair value Level 2	***279***	***279***	**-**	**-**	**-**
of which Fair value Level 3	**-**	**-**	**-**	**-**	**-**
B. Discontinued operations					
B.1 Financial assets held for trading	-	-	-	-	-
B.2 Financial assets designated at fair value through profit and loss	-	-	-	-	-
B.3 Financial assets available for sale	-	-	-	-	-
B.4 Investments held to maturity	-	-	-	-	-
B.5 Due from banks	-	-	-	-	-
B.6 Loans to customers	-	-	-	-	-
B.7 Investments in associates and companies subject to joint control	-	-	-	-	-
B.8 Property and equipment	-	-	-	-	-
B.9 Intangible assets	-	-	-	-	-
B.10 Other	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**
of which cost	**-**	**-**	**-**	**-**	**-**
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	247	-	-	*247*	255
C.2 Securities	-	-	-	-	-
C.3 Other	17	-	-	*17*	17
Total C	**264**	**-**	**-**	***264***	**272**
of which cost	***264***	**-**	**-**	***264***	***272***
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 Due to banks	-	-	-	-	-
D.2 Due to customers	-	-	-	-	-
D.3 Securities issued	-	-	-	-	-
D.4 Financial liabilities held for trading	-	-	-	-	-
D.5 Financial liabilities designated at fair value through profit and loss	-	-	-	-	-
D.6 Allowances	-	-	-	-	-
D.7 Other	-	-	-	-	-
Total D	**-**	**-**	**-**	**-**	**-**
of which cost	**-**	**-**	**-**	**-**	**-**
of which Fair value Level 1	**-**	**-**	**-**	**-**	**-**
of which Fair value Level 2	**-**	**-**	**-**	**-**	**-**
of which Fair value Level 3	**-**	**-**	**-**	**-**	**-**

Discontinued financial assets of the Banking Group are entirely attributable to the business combinations described in Part G of the Notes to the consolidated financial statements. These comprise 14 million euro relating to loans of the international subsidiaries Veneto Banka DD (Croatia) and Veneto Banka Sh.A. (Albania) identified during due diligence by the Board of Experts as non-performing loans to be transferred back to Veneto Banca in compulsory administrative liquidation (transfer back that took place in January 2018) and 265 million euro in high risk loans already reclassified in the financial statements as bad loans or unlikely to pay, which shall be transferred to the Banks in compulsory administrative liquidation (with customised guarantee from the State) during the next retrocession windows envisaged by contract, and whose book value was determined based on the contractual indications, which set out a consideration equal to their gross value net of provisions at the execution date and of 50% of the adjustments which, based on the IAS/IFRSs, Intesa Sanpaolo should have carried out if the obligation to purchase the related loan from the Banks in compulsory administrative liquidation had not existed.

15.2 Other information

There is no other significant information to note as at 31 December 2017.

15.3 Information on companies subject to significant influence not carried at equity

As at 31 December 2017, there were no investments in companies subject to significant influence not carried at equity and classified as held for sale.

SECTION 16 – OTHER ASSETS – CAPTION 160

16.1 Other assets: breakdown

(millions of euro)

	Total	Of which:		
		Banking group	*Insurance companies*	*Other companies*
Amounts to be credited and items under processing	1,549	*1,549*	-	-
Amounts due from tax authorities relating to insurance business	2,122	-	*2,122*	-
Amounts to be debited - deriving from securities transactions	447	*427*	*20*	-
Assets originating from financial leases and loan recovery	195	*113*	-	*82*
Real-estate portfolio under construction and portfolio held for sale	659	-	-	*659*
Leasehold improvements	102	*102*	-	-
Cheques and other instruments held	314	*314*	-	-
Transit items	50	*50*	-	-
Other	3,920	*2,983*	*918*	*19*
TOTAL 31.12.2017	**9,358**	***5,538***	***3,060***	***760***
TOTAL 31.12.2016	**8,237**	***4,730***	***2,642***	***865***

The real-estate portfolio under construction and the portfolio earmarked for disposal is mainly attributable to Risanamento.

LIABILITIES

SECTION 1 – DUE TO BANKS – CAPTION 10

1.1 Due to banks: breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
1. Due to Central Banks	**66,785**	***66,785***	-	-	**48,037**
2. Due to banks	**33,205**	***33,021***	***1***	***183***	**24,604**
2.1 Current accounts and deposits	6,142	*6,138*	-	*4*	3,968
2.2 Time deposits	2,812	*2,812*	-	-	3,348
2.3 Loans	21,391	*21,212*	-	*179*	16,076
2.3.1 Repurchase agreements	*14,156*	*14,156*	-	-	*8,449*
2.3.2 Other	*7,235*	*7,056*	-	*179*	*7,627*
2.4 Debts for commitments to repurchase own equity instruments	164	*164*	-	-	187
2.5 Other debts	2,696	*2,695*	*1*	-	1,025
TOTAL (Book value)	**99,990**	***99,806***	***1***	***183***	**72,641**
Fair value - Level 1	-	-	-	-	-
Fair value - Level 2	88,476	***88,292***	***1***	***183***	58,890
Fair value - Level 3	11,556	***11,556***	-	-	13,319
TOTAL (fair value)	**100,032**	***99,848***	***1***	***183***	**72,209**

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 approximately 164 million euro.

The repurchase agreements presented in the table include long-term repurchase transactions with a total carrying amount of 859 million euro, of which 196 million euro is attributable to the Parent Company, relating to the various cases described below.
The first case involves de-risking transactions finalised in previous years with the twofold aim of both funding the Group's operations (through repurchase transactions) and reducing the credit risks associated with the portfolio of securities issued (through the acquisition of financial guarantees).
The repurchase transactions, with a carrying amount of 603 million euro (of which 148 million euro attributable to the Parent Company) have a non-replaceable underlying portfolio of Italian government securities (with maturities from 2019 to 2033) and, with reference to the Parent Company, securities issued by local and public corporate entities of Eurozone countries (with maturities in 2018), hedged against interest rate risk through IRS (asset swap) contracts. These contracts were already recorded in the financial statements at the time of execution of the repurchase transactions and recognised under financial assets available for sale and, in the case of the Parent Company, as loans to customers. Their maturity and nominal value coincide with those of the securities; the financial guarantees have a duration shorter than the maturity of the underlying securities.
The second case regards transactions with a book value of 256 million euro (of which 48 million euro attributable to the Parent Company), with total duration of approximately 4 years and, in some cases, amortisation of the notional amount over time. These transactions were finalised in previous years in the context of public finance activity and consist of medium-/long-term repurchase agreements aimed at funding the purchase of securities issued by Italy and by Italian regions. These transactions have been carried out with various counterparties and, only in some cases, have maturities that correspond to those of the securities purchased. In addition, an IRS has also been entered into between the parties to hedge interest rate risk. Lastly, the Group has provided additional collateral for the counterparty.
Being collateralised, this form of medium-/long-term funding has allowed the Bank to obtain a better net return on its investments in securities than it would have obtained by raising funds through other forms of financing with the same time horizon but not collateralised by the same guarantee structure.
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 illustrated in IAS 39, the Guidance on Implementing, paragraph B.6, according to which the transaction may be considered substantially similar to a credit derivative contract, and, in particular, a credit default swap, were present.
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.
With respect to the second case, although the repurchase agreements were concurrent with the purchases of the securities and execution of the interest rate swaps, those agreements were entered into with different counterparties and, in some cases, for nominal values and maturities lower than those of the securities.
Consequently, in all cases the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document and grounds supporting the inapplicability of the guidelines envisaged in IAS 39, Guidance on Implementing, paragraph B.6. All the transactions pertaining to the cases described above have therefore been recognised, considering the individual contractual components separately.

1.2 Breakdown of caption 10 Due to banks: subordinated debts

There are no subordinated debts as at 31 December 2017.

1.3 Breakdown of caption 10 Due to banks: structured debts

There are no structured debts as at 31 December 2017.

1.4 Due to banks with specific hedges

As at 31 December 2017, debts with fair value hedges against interest rate risk amounted to 43 million euro.

1.5 Financial lease payables

There are no financial lease payables due to banks as at 31 December 2017.

SECTION 2 – DUE TO CUSTOMERS – CAPTION 20

2.1 Due to customers: breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	31.12.2016
1. Current accounts and deposits	258,137	*258,137*	-	-	224,687
2. Time deposits	30,498	*30,498*	-	-	33,047
3. Loans	25,208	*25,208*	-	-	28,453
3.1 Repurchase agreements	*21,303*	*21,303*	-	-	*24,561*
3.2 Other	*3,905*	*3,905*	-	-	*3,892*
4. Debts for commitments to repurchase own equity instruments	49	*49*	-	-	131
5. Other debts	9,551	*9,494*	*57*	-	5,558
TOTAL (Book value)	**323,443**	***323,386***	***57***	**-**	**291,876**
Fair value - Level 1	58	-	*58*	-	114
Fair value - Level 2	295,471	*295,471*	-	-	257,681
Fair value - Level 3	28,202	*28,202*	-	-	34,613
TOTAL (fair value)	**323,731**	***323,673***	***58***	**-**	**292,408**

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, mainly attributable to the Put & Call Agreement to purchase 19.84% of Banca Prossima for a total of approximately 43 million euro.
Loans - Other include 236 million euro regarding the exposure on the sale of loans related to the Sec 3 securitisation, 9 million euro regarding the K-Equity securitisation and 3,517 million euro regarding the securitisations deriving from the acquisition of the Aggregate Set of the former Veneto Banca and the former Banca Popolare di Vicenza. For additional details, see Part E - Section C of the Notes.

2.2 Breakdown of caption 20 Due to customers: subordinated debts

There are no subordinated debts as at 31 December 2017.

2.3 Breakdown of caption 20 Due to customers: structured debts

There are no structured debts under Due to customers as at 31 December 2017.

2.4 Due to customers with specific hedges

As at 31 December 2017, debts with specific hedges included under Due to customers came to 132 million euro.

2.5 Financial lease payables

There are no financial lease payables included under Due to customers as at 31 December 2017.

SECTION 3 – SECURITIES ISSUED - CAPTION 30

3.1 Securities issued: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Securities								
1. bonds	83,438	52,550	30,859	2,318	88,280	42,702	44,106	2,434
1.1 structured	*3,554*	*1,798*	*1,600*	*150*	*5,326*	*575*	*4,575*	*146*
1.2 other	*79,884*	*50,752*	*29,259*	*2,168*	*82,954*	*42,127*	*39,531*	*2,288*
2. other	10,801	-	9,519	1,282	6,503	-	5,615	888
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*10,801*	-	*9,519*	*1,282*	*6,503*	-	*5,615*	*888*
TOTAL	**94,239**	**52,550**	**40,378**	**3,600**	**94,783**	**42,702**	**49,721**	**3,322**

Embedded derivatives that have satisfied the conditions set forth by IAS 39 as at their issue date for separation from the host contract as at 31 December 2017 have a negative fair value of 285 million euro.
The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

3.1 Of which: Banking group

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Securities								
1. bonds	82,184	52,550	29,605	2,318	87,028	42,702	42,854	2,434
1.1 structured	*3,554*	*1,798*	*1,600*	*150*	*5,326*	*575*	*4,575*	*146*
1.2 other	*78,630*	*50,752*	*28,005*	*2,168*	*81,702*	*42,127*	*38,279*	*2,288*
2. other	10,668	-	9,386	1,282	6,476	-	5,588	888
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*10,668*	-	*9,386*	*1,282*	*6,476*	-	*5,588*	*888*
TOTAL	**92,852**	**52,550**	**38,991**	**3,600**	**93,504**	**42,702**	**48,442**	**3,322**

3.1 Of which: Insurance companies

As at 31 December 2017, a total of 1,254 million euro related to insurance companies, fully attributable to level-2 other bonds (fair value 1,254 million euro), which at the end of 2016 amounted to 1,252 million euro.

3.1 Of which: Other companies

As at 31 December 2017, a total of 133 million euro related to other companies, attributable to level-2 other securities (fair value 133 million euro), which at the end of 2016 amounted to 27 million euro.

3.2 Breakdown of caption 30 Securities issued: subordinated securities

The complete list of subordinated securities eligible for regulatory purposes is presented in Part F – Information on capital. The amount of subordinated securities included under Securities issued totalled 14,664 million euro.

3.3 Breakdown of caption 30 Securities issued: securities with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Securities with specific fair value hedges	**51,763**	**68,482**
a) Interest rate risk	51,130	67,624
b) Foreign exchange risk	-	-
c) Various risks	633	858
2. Securities with specific cash flow hedges	**335**	**335**
a) Interest rate risk	335	335
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**52,098**	**68,817**

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 40

4.1 Financial liabilities held for trading: breakdown

(millions of euro)

	31.12.2017					31.12.2016				
	Nominal or notional value	Fair value			Fair value (*)	Nominal or notional value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. CASH LIABILITIES										
1. Due to banks	**7,781**	**8,439**	**13**	**-**	**8,453**	**3,811**	**4,132**	**25**	**-**	**4,157**
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3. Debt securities	**4,570**	**4,394**	**75**	**-**	**X**	**5,304**	**5,098**	**27**	**-**	**X**
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 structured	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*X*
3.1.2 other bonds	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*X*
3.2 Other	4,570	4,394	75	-	X	5,304	5,098	27	-	X
3.2.1 structured	*4,570*	*4,394*	*75*	*-*	*X*	*5,304*	*5,098*	*27*	*-*	*X*
3.2.2 other	*-*	*-*	*-*	*-*	*X*	*-*	*-*	*-*	*-*	*X*
Total A	**12,351**	**12,833**	**88**	**-**	**8,453**	**9,115**	**9,230**	**52**	**-**	**4,157**
B. DERIVATIVES										
1. Financial derivatives	**X**	**2,676**	**24,281**	**130**	**X**	**X**	**3,743**	**30,237**	**247**	**X**
1.1 Trading	X	2,676	24,139	88	X	X	3,741	29,995	133	X
1.2 Fair value option	X	-	-	-	X	X	2	-	-	X
1.3 Other	X	-	142	42	X	X	-	242	114	X
2. Credit derivatives	**X**	**8**	**1,267**	**2**	**X**	**X**	**10**	**1,252**	**19**	**X**
2.1 Trading	X	8	1,267	2	X	X	10	1,252	19	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**2,684**	**25,548**	**132**	**X**	**X**	**3,753**	**31,489**	**266**	**X**
TOTAL (A+B)	**X**	**15,517**	**25,636**	**132**	**X**	**X**	**12,983**	**31,541**	**266**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

4.1 Of which: Banking group

(millions of euro)

	31.12.2017					31.12.2016				
	Nominal or notional value	**Fair value**			**Fair value (*)**	**Nominal or notional value**	**Fair value**			**Fair value (*)**
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. CASH LIABILITIES										
1. Due to banks	**7,781**	**8,439**	**13**	**-**	**8,453**	**3,811**	**4,132**	**25**	**-**	**4,157**
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3. Debt securities	**4,570**	**4,394**	**75**	**-**	**X**	**5,304**	**5,098**	**27**	**-**	**X**
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	4,570	4,394	75	-	X	5,304	5,098	27	-	X
3.2.1 structured	*4,570*	*4,394*	*75*	-	*X*	*5,304*	*5,098*	*27*	-	*X*
3.2.2 other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	**12,351**	**12,833**	**88**	**-**	**8,453**	**9,115**	**9,230**	**52**	**-**	**4,157**
B. DERIVATIVES										
1. Financial derivatives	**X**	**2,676**	**24,216**	**130**	**X**	**X**	**3,741**	**30,160**	**245**	**X**
1.1 Trading	X	2,676	24,074	88	X	X	3,741	29,918	131	X
1.2 Fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	142	42	X	X	-	242	114	X
2. Credit derivatives	**X**	**8**	**1,265**	**2**	**X**	**X**	**10**	**1,246**	**19**	**X**
2.1 Trading	X	8	1,265	2	X	X	10	1,246	19	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**2,684**	**25,481**	**132**	**X**	**X**	**3,751**	**31,406**	**264**	**X**
TOTAL (A+B)	**X**	**15,517**	**25,569**	**132**	**X**	**X**	**12,981**	**31,458**	**264**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

A.1 Due to banks and A.2 Due to customers include short selling.
A.3.2.1 Other structured debt securities includes capital protected certificates for 4,468 million euro, which amounted to 5,125 million euro at the end of 2016.

4.1 Of which: Insurance companies

(millions of euro)

	31.12.2017					31.12.2016				
	Nominal or notional value	**Fair value**			**Fair value (*)**	**Nominal or notional value**	**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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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**	**-**	**65**	**-**	**X**	**X**	**2**	**77**	**2**	**X**
1.1 Trading	X	-	65	-	X	X	-	77	2	X
1.2 Fair value option	X	-	-	-	X	X	2	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	**X**	**-**	**2**	**-**	**X**	**X**	**-**	**6**	**-**	**X**
2.1 Trading	X	-	2	-	X	X	-	6	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**67**	**-**	**X**	**X**	**2**	**83**	**2**	**X**
TOTAL (A+B)	**X**	**-**	**67**	**-**	**X**	**X**	**2**	**83**	**2**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

4.2 Breakdown of caption 40 Financial liabilities held for trading: subordinated liabilities

As at 31 December 2017 there are no subordinated liabilities classified under Financial liabilities held for trading.

4.3 Breakdown of caption 40 Financial liabilities held for trading: structured debts

The Group has structured debts of 4,633 million euro classified under Financial liabilities held for trading as at 31 December 2017.

SECTION 5 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – CAPTION 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown

(millions of euro)

	31.12.2017					31.12.2016				
	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	68,170	-	68,169	-	68,122	57,188	-	57,187	-	57,188
2.1 structured	*4*	-	*3*	-	X	*4*	-	*3*	-	X
2.2 other	*68,166*	-	*68,166*	-	X	*57,184*	-	*57,184*	-	X
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 structured	-	-	-	-	X	-	-	-	-	X
3.2 other	-	-	-	-	X	-	-	-	-	X
TOTAL	**68,170**	**-**	**68,169**	**-**	**68,122**	**57,188**	**-**	**57,187**	**-**	**57,188**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

5.1 Of which: Banking group

As at 31 December 2017 there were Level 2 structured debts to customers amounting to 3 million euro(nominal value 4 million euro), while at the end of 2016 there were financial liabilities designated at fair value through profit and loss of 3 million euro relating to Level 2 structured debts to customers (nominal value 4 million euro).

5.1 Of which: Insurance companies

(millions of euro)

	31.12.2017					31.12.2016				
	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	68,166	-	68,166	-	68,118	57,184	-	57,184	-	57,184
2.1 structured	-	-	-	-	X	-	-	-	-	X
2.2 other	*68,166*	-	*68,166*	-	X	*57,184*	-	*57,184*	-	X
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 structured	-	-	-	-	X	-	-	-	-	X
3.2 other	-	-	-	-	X	-	-	-	-	X
TOTAL	**68,166**	**-**	**68,166**	**-**	**68,118**	**57,184**	**-**	**57,184**	**-**	**57,184**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

Liabilities designated at fair value through profit and loss as at 31 December 2017 essentially included amounts owed to policyholders who have taken out mainly financial policies for which insurance risk is not deemed significant.

5.2 Breakdown of caption 50 Financial liabilities designated at fair value through profit and loss: subordinated liabilities

There are no subordinated liabilities classified under Financial liabilities designated at fair value through profit and loss as at 31 December 2017.

SECTION 6 – HEDGING DERIVATIVES – CAPTION 60

6.1. Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2017			Notional value	Fair value 31.12.2016			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**7,484**	**5**	**111,043**	**-**	**9,024**	**4**	**118,437**
1. Fair value	-	5,802	5	101,826	-	6,988	4	110,113
2. Cash flows	-	1,682	-	9,217	-	2,036	-	8,324
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**7,484**	**5**	**111,043**	**-**	**9,024**	**4**	**118,437**

6.1 Of which: Banking group

(millions of euro)

	Fair value 31.12.2017			Notional value	Fair value 31.12.2016			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**7,484**	**5**	**110,938**	**-**	**9,024**	**4**	**118,413**
1. Fair value	-	5,802	5	101,826	-	6,988	4	110,113
2. Cash flows	-	1,682	-	9,112	-	2,036	-	8,300
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
TOTAL	**-**	**7,484**	**5**	**110,938**	**-**	**9,024**	**4**	**118,413**

6.1 Of which: Other companies

As at 31 December 2017, the amount attributable to other companies, referring to cash flow hedge through financial derivatives (notional value 105 million), is immaterial, just as was the case at the end of 2016 (notional value 24 million).

6.2. 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	price risk	various risks		Specific	Generic	
1. Financial assets available for sale	857	-	-	-	27	X	-	X	X
2. Loans	3,200	-	-	X	249	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	865	X	7	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**4,057**	**-**	**-**	**-**	**276**	**865**	**-**	**7**	**-**
1. Financial liabilities	461	-	-	X	148	X	7	X	X
2. Portfolio	X	X	X	X	X	-	X	1,668	X
Total liabilities	**461**	**-**	**-**	**-**	**148**	**-**	**7**	**1,668**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

6.2 Of which: Banking group

(millions of euro)

Operations/Type of hedge	FAIR VALUE						CASH FLOWS		FOREIGN INVESTM.
	Specific					Generic	Specific	Generic	
	interest rate risk	foreign exchange risk	credit risk	price risk	various risks				
1. Financial assets available for sale	857	-	-	-	27	X	-	X	X
2. Loans	3,200	-	-	X	249	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	865	X	7	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**4,057**	**-**	**-**	**-**	**276**	**865**	**-**	**7**	**-**
1. Financial liabilities	461	-	-	X	148	X	7	X	X
2. Portfolio	X	X	X	X	X	-	X	1,668	X
Total liabilities	**461**	**-**	**-**	**-**	**148**	**-**	**7**	**1,668**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	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 specific fair value hedges of loans disbursed and generic cash flow hedge derivatives of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.
There are also specific fair value hedges of financial liabilities and financial assets available for sale and generic fair value hedges of loans.

6.2 Of which: Other companies

As at 31 December 2017, the amount pertaining to other companies and referring entirely to generic hedges of financial assets was immaterial.

SECTION 7 - FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS - CAPTION 70

7.1 Fair value change of financial liabilities in hedged portfolios

(millions of euro)

	31.12.2017	*Of which:*			31.12.2016
		Banking group	*Insurance companies*	*Other companies*	
1. Positive fair value change of financial liabilities	478	*478*	-	-	773
2. Negative fair value change of financial liabilities	-	-	-	-	-
TOTAL	**478**	***478***	**-**	**-**	**773**

The balance of the changes in value of liabilities subject to macrohedging (MCH) against interest rate risk is recorded in this caption. For the above macrohedging, the Group took advantage of the option emerged after the definition of the IAS 39 carve out.

7.2 Financial liabilities subject to macrohedging of interest rate risk: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Debts	503	-
2. Portfolio	7,771	12,684
TOTAL	**8,274**	**12,684**

The table shows liabilities subject to macrohedging of interest risk. The group adopts the macrohedging, limited to coverage of core deposits.

SECTION 8 – TAX LIABILITIES – CAPTION 80

For information on this section, see Section 14 of Assets.

SECTION 9 - LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 90

For information on this section, see Section 15 of Assets.

SECTION 10 – OTHER LIABILITIES – CAPTION 100

10.1 Other liabilities: breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies
Due to suppliers	1,737	*1,613*	*111*	*13*
Amounts due to third parties	392	*392*	*-*	*-*
Transit items	28	*28*	*-*	*-*
Adjustments for portfolio items to be settled	51	*51*	*-*	*-*
Amounts to be credited and items under processing	1,360	*1,360*	*-*	*-*
Personnel charges	285	*278*	*6*	*1*
Due to social security entities	228	*226*	*2*	*-*
Guarantees given and commitments	328	*328*	*-*	*-*
Due to tax authorities	1,616	*876*	*737*	*3*
Other	6,549	*5,564*	*961*	*24*
TOTAL 31.12.2017	**12,574**	***10,716***	***1,817***	***41***
TOTAL 31.12.2016	**11,944**	***10,273***	***1,627***	***44***

SECTION 11 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 110

11.1 Employee termination indemnities: annual changes

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
A. Initial amount	**1,403**	***1,396***	***5***	***2***	**1,353**
B. Increases	**308**	***308***	***-***	***-***	**279**
B.1 Provisions in the year	13	*13*	*-*	*-*	28
B.2 Other	295	*295*	*-*	*-*	251
of which business combinations	*107*	*107*	*-*	*-*	*2*
C. Decreases	**-301**	***-301***	***-***	***-***	**-229**
C.1 Benefits paid	-83	*-83*	*-*	*-*	-45
C.2 Other	-218	*-218*	*-*	*-*	-184
of which business combinations	*-*	*-*	*-*	*-*	*-*
D. Final amount	**1,410**	***1,403***	***5***	***2***	**1,403**

C.1 refers to benefits paid as at 31 December 2017.
For greater detail on actuarial calculations, see Section 12.3 – Post employment defined benefit plans.

11.2 Other information

The value of employee termination indemnities qualifying as unfunded defined benefit plans totalled 1,410 million euro as at December 2017, while at the end of 2016 it amounted to 1,403 million euro.

SECTION 12 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 120

12.1 Allowances for risks and charges: breakdown

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
1. Post employment benefits	**1,104**	***1,103***	***1***	***-***	**1,025**
2. Other allowances for risks and charges	**4,377**	***4,262***	***20***	***95***	**2,402**
2.1 Legal disputes	651	*644*	*5*	*2*	744
2.2 Personnel charges	1,715	*1,701*	*14*	*-*	612
2.3 Other	2,011	*1,917*	*1*	*93*	1,046
TOTAL	**5,481**	***5,365***	***21***	***95***	**3,427**

1 – Post employment benefits include allowances for defined benefit plans, illustrated in point 12.3 below.
The contents of 2 – Other allowances for risks and charges are illustrated in point 12.4 below.

12.2 Allowances for risks and charges: annual changes

(millions of euro)

	TOTAL		Of which:					
			Banking group		*Insurance companies*		*Other companies*	
	Post employment benefits	Other allowances	*Post employment benefits*	*Other allowances*	*Post employment benefits*	*Other allowances*	*Post employment benefits*	*Other allowances*
A. Initial amount	**1,025**	**2,402**	***1,024***	***2,297***	***1***	***16***	***-***	***89***
B. Increases	**184**	**2,907**	***184***	***2,890***	***-***	***10***	***-***	***7***
B.1 Provisions in the year	27	2,376	*27*	*2,359*	*-*	*10*	*-*	*7*
B.2 Time value changes	21	8	*21*	*8*	*-*	*-*	*-*	*-*
B.3 Changes due to discount rate variations	-	-	*-*	*-*	*-*	*-*	*-*	*-*
B.4 Other	136	523	*136*	*523*	*-*	*-*	*-*	*-*
of which business combinations	*5*	*54*	*5*	*54*	*-*	*-*	*-*	*-*
C. Decreases	**-105**	**-932**	***-105***	***-925***	***-***	***-6***	***-***	***-1***
C.1 Uses in the year	-16	-703	*-16*	*-698*	*-*	*-4*	*-*	*-1*
C.2 Changes due to discount rate variations	-	-	*-*	*-*	*-*	*-*	*-*	*-*
C.3 Other	-89	-229	*-89*	*-227*	*-*	*-2*	*-*	*-*
of which business combinations	-	-	*-*	*-*	*-*	*-*	*-*	*-*
D. Final amount	**1,104**	**4,377**	***1,103***	***4,262***	***1***	***20***	***-***	***95***

As at 31 December 2017 there were no variations due to changes in the discounting rate.

12.3 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;
- Pension Fund for the employees of the former Cassa di Risparmio di Prato, which includes the personnel of the former Cariprato who had retired at 1 May 1981 and who, on 1 July 1998, opted to remain in the supplementary section. The Fund guarantees its members a supplement to mandatory general insurance (*assicurazione generale obbligatoria*) of up to 75% of the last salary received;
- Defined benefit plan of the former Cassa di Risparmio di Fabriano e Cupramontana operating pursuant to Art. 2117 of the Italian Civil Code for the retired personnel of this former bank.

External funds include:
- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino”, a fund with legal status, full economic independence and independent asset management;
- Complementary pension fund for the Employees of Banco di Napoli “Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A”, an entity with legal status and independent asset management. The fund 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 Cassa, 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.
  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 for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section. This fund has legal status, full economic independence pursuant to article 12 of the Italian Civil Code and is independently managed;
- 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.

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	31.12.2017			31.12.2016		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**1,403**	**201**	**3,499**	**1,354**	**241**	**3,407**
Current service costs	8	3	27	8	3	32
Recognised past service costs	-	-	-	-	-	-
Interest expense	14	11	59	20	10	74
Actuarial losses due to changes in financial assumptions	9	1	55	94	31	302
Actuarial losses due to changes in demographic assumptions	1	-	6	-	-	50
Actuarial losses based on past experience	2	17	135	-	12	-
Positive exchange differences	-	-	-	-	-	1
Increases - business combinations	-	5	-	2	-	-
Participants' contributions	X	-	-	X	-	-
Actuarial profits due to changes in financial assumptions	-1	-6	-	-4	-12	-
Actuarial profits due to changes in demographic assumptions	-	-3	-11	-	-	-20
Actuarial profits based on past experience	-4	-	-40	-20	-	-155
Negative exchange differences	-	-10	-3	-	-75	-
Benefits paid	-91	-6	-188	-48	-5	-194
Decreases - business combinations	-	-	-	-	-1	-
Curtailments of the fund	X	-	-	X	-	-
Settlements of the fund	X	-	-	X	-2	-33
Other increases	282	-	-	154	-	35
Other decreases	-213	-1	-	-157	-1	-
Final amount	**1,410**	**212**	**3,539**	**1,403**	**201**	**3,499**

Liabilities of the defined benefit obligations pension plan	31.12.2017			31.12.2016		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	1,410	2	-	1,403	1	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	210	3,539	-	200	3,499

The actuarial losses recorded for variations in financial assumptions are due to the rate performance. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed, compared to the previous year, an average decline of 0.10% for the various deadlines, resulting in an increase in liabilities.

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	31.12.2017		31.12.2016	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**110**	**2,630**	**112**	**2,718**
Return on assets net of interest	6	58	10	42
Interest income	3	41	4	56
Positive exchange differences	-	-	-	1
Increases - business combinations	4	-	-	-
Employer contributions	2	-	2	-
Participants' contributions	-	-	-	-
Negative exchange differences	-4	-3	-16	-
Decreases - business combinations	-	-	-	-
Benefits paid	-3	-188	-2	-194
Curtailments of the fund	-	-	-	-
Settlements of the fund	-	-	-	-33
Other changes	-	20	-	40
Final amount	**118**	**2,558**	**110**	**2,630**

(millions of euro)

	31.12.2017				31.12.2016			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**60**	**51.0**	**446**	**17.0**	**55**	**50.0**	**388**	**14.8**
- of which level-1 fair value	60		422		55		388	
Mutual funds	**-**	**-**	**252**	**10.0**	**-**	**-**	**225**	**8.6**
- of which level-1 fair value	-		244		-		225	
Debt securities	**46**	**39.0**	**1,160**	**46.0**	**46**	**41.8**	**1,264**	**48.1**
- of which level-1 fair value	46		1,160		46		969	
Real estate assets and investments in real estat	**7**	**6.0**	**511**	**20.0**	**7**	**6.4**	**548**	**20.8**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**12**	**-**	**2**	**1.8**	**15**	**0.6**
- of which level-1 fair value	-		12		2		15	
Other assets	**5**	**4.0**	**177**	**7.0**	**-**	**-**	**190**	**7.1**
- of which level-1 fair value	-		-		-		-	
TOTAL ASSETS	**118**	**100.0**	**2,558**	**100.0**	**110**	**100.0**	**2,630**	**100.0**

(millions of euro)

	31.12.2017				31.12.2016			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**60**	**51.0**	**446**	**17.0**	**55**	**50.0**	**388**	**14.8**
- of which financial companies	60		107		55		55	
- of which non financial companies	-		339		-		333	
Mutual funds	**-**	**-**	**252**	**10.0**	**-**	**-**	**225**	**8.6**
Debt securities	**46**	**39.0**	**1,160**	**46.0**	**46**	**41.8**	**1,264**	**48.1**
Government bonds	46		848		46		920	
- of which investment grade	*46*		*845*		*46*		*912*	
- of which speculative grade	*-*		*3*		*-*		*8*	
Financial companies	-		144		-		147	
- of which investment grade	*-*		*111*		*-*		*132*	
- of which speculative grade	*-*		*33*		*-*		*15*	
Non Financial companies	-		168		-		197	
- of which investment grade	*-*		*119*		*-*		*148*	
- of which speculative grade	*-*		*49*		*-*		*49*	
Real estate assets and investments in real estate companies	**7**	**6.0**	**511**	**20.0**	**7**	**6.4**	**548**	**20.8**
Insurance business	**-**	**-**	**12**	**-**	**2**	**1.8**	**15**	**0.6**
Other assets	**5**	**4.0**	**177**	**7.0**	**-**	**-**	**190**	**7.1**
TOTAL ASSETS	**118**	**100.0**	**2,558**	**100.0**	**110**	**100.0**	**2,630**	**100.0**

The difference between net defined benefit liabilities (Table 12.3.2) and the plan assets (Table 12.3.3) is recognised in the post-employment plans and, in some cases, in 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	31.12.2017				31.12.2016			
	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	0.85-2.95%	X	2.62-2.82%	1.5%	0.0%	X	2.6-2.8%	1.5%
INTERNAL PLANS								
- of which Italy	0.7-0.8%	-	1.9%	1.5%	-	-	-	-
- of which Egypt	15.0%	-	9.0%	9.0%	0.0%	-	10.0%	10.0%
- of which England	2.6%	-	2.2%	2.2%	3.0%	-	2.4%	2.4%
- of which Serbia	4.5%	-	3.6%	0.0%	5.6%	-	5.4%	-
EXTERNAL PLANS								
- of which Italy	0.9-1.91%	1.9-5%	2.4-2.6%	0.9-1.5%	1.0-2.2%	3.0%	2.7-2.8%	1.0-1.5%
- of which USA	3.5%	-	-	-	4.0%	-	-	-

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	31.12.2017					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	1,320	1,452	205	218	3,308	3,797
Rate of wage rises	1,385	1,385	214	210	3,593	3,405
Inflation rate	1,426	1,344	216	208	3,761	3,334

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 12.3.2. 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 15.09 years for pension funds and 9.59 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 former Banco di Napoli Fund) 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 Complementary Pension Fund for the employees of Banco di Napoli.

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 to Section A of the Complementary Pension Fund for the employees of Banco di Napoli 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 Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A 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.

12.4 Allowances for risks and charges – Other allowances

Allowances for legal disputes mainly refer to provisions for anatocism, labour litigation 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 include provisions for tax litigation, fraud, risks related to operations, indemnities for private bankers and other litigation.

(millions of euro)

	31.12.2017	31.12.2016
2. Other allowances		
2.1 legal disputes	651	744
2.2 personnel charges	1,715	612
incentive-driven exit plans	*1,185*	*171*
employee seniority bonuses	*200*	*151*
other personnel expenses	*330*	*290*
2.3 other risks and charges	2,011	1,046
other indemnities due to agents of the distribution network	*265*	*284*
other	*1,746*	*762*
TOTAL	**4,377**	**2,402**

Other allowances refers to:
Legal disputes: the allowance was set up mainly to cover expected outlay for litigation and other revocatory action.
Personnel charges: the allowance includes charges for incentive-driven exit plans, charges for employee seniority bonuses, calculated on the basis of actuarial assumptions, provisions for annual bonuses and other charges.
Other risks and charges: these refer to provisions to cover charges for integration of the Venetian Banks, tax litigations, frauds and other litigation charges.

SECTION 13 – TECHNICAL RESERVES – CAPTION 130

13.1 Technical reserves: breakdown

(millions of euro)

	Direct work	Indirect work	31.12.2017	31.12.2016
A. Non-life business	**678**	**-**	**678**	**592**
A.1 premiums reserves	497	-	497	419
A.2 claims reserves	180	-	180	172
A.3 other reserves	1	-	1	1
B. Life business	**76,405**	**-**	**76,405**	**79,571**
B.1 mathematical reserves	70,978	-	70,978	73,155
B.2 reserves for amounts to be disbursed	342	-	342	353
B.3 other reserves	5,085	-	5,085	6,063
C. Technical reserves for investment risks to be borne by the insured	**5,843**	**-**	**5,843**	**5,456**
C.1 reserves for contracts with disbursements connected with investment funds and market indices	911	-	911	1,082
C.2 reserves from pension fund management	4,932	-	4,932	4,374
D. Total insurance reserves carried by reinsurers	**82,926**	**-**	**82,926**	**85,619**

13.2 Technical reserves: annual changes

(millions of euro)

	31.12.2017	31.12.2016
A. Non-life business	**678**	**592**
Initial amount	592	504
Business combinations	-	-
Changes in the reserve (+/-)	86	88
B. Life business and other technical reserves	**82,248**	**85,027**
Initial amount	85,027	84,112
Business combinations	-	-
Change in premiums	5,858	7,554
Change in payments	-10,028	-7,759
Changes due to income and other bonuses recognised to insured parties (+/-)	1,392	1,428
Changes due to exchange differences (+/-)	-	-
Changes in other technical reserves (+/-)	-1	-308
C. Total technical reserves	**82,926**	**85,619**

SECTION 14 – REDEEMABLE SHARES – CAPTION 150

Not applicable to the Group.

SECTION 15 – GROUP SHAREHOLDERS' EQUITY – CAPTIONS 140, 160, 170, 180, 190, 200 AND 220

15.1 Share capital and Treasury shares: breakdown

For information on this section, see point 15.3 below.

15.2 Share capital – Parent Company's number of shares: annual changes

	Ordinary	Other
A. Initial number of shares	**15,859,786,585**	**932,490,561**
- fully paid-in	15,859,786,585	932,490,561
- not fully paid-in	-	-
A.1 Treasury shares (-)	**-8,587,277**	**-**
A.2 Shares outstanding: initial number	**15,851,199,308**	**932,490,561**
B. Increases	**2,723,252**	**-**
B.1 New issues	-	-
- for consideration	-	-
business combinations	-	-
conversion of bonds	-	-
exercise of warrants	-	-
other	-	-
- for free	-	-
in favour of employees	-	-
in favour of directors	-	-
other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other	2,723,252	-
C. Decreases	**-4,263,325**	**-**
C.1 Annulment	-	-
C.2 Purchase of treasury shares	-4,263,325	-
C.3 Disposal of companies	-	-
C.4 Other	-	-
D. Shares outstanding: final number	**15,849,659,235**	**932,490,561**
D.1 Treasury shares (+)	10,127,350	-
D.2 Final number of shares	**15,859,786,585**	**932,490,561**
- fully paid-in	15,859,786,585	932,490,561
- not paid-in	-	-

15.3 Share capital: other information

The share capital of the Bank as at 31 December 2017 amounted to 8,732 million euro, divided into 15,859,786,585 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting.

Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders.

Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible savings share will be 2% of nominal value higher than for ordinary shares.

In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

At the date of this document, the share capital was fully paid-in.

15.4 Reserves: other information

Reserves amounted to 10,921 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 for a total of 3,844 million euro, as well as the consolidation reserve equal to 7,077 million euro.

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 branches abroad 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 negative 789 million euro and included valuation reserves of financial assets available for sale for 280 million euro, reserves of cash flow hedge derivatives for -914 million euro, exchange rate valuation reserves (relating to fully consolidated investments) for -990 million euro as well as legally-required revaluation reserves deriving from the revaluation of property and equipment for 346 million euro and valuation reserves deriving from the measurement of property and equipment at fair value for 1,238 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans for -687 million euro, in addition to approximately -62 million euro in valuation reserves connected to minority equity investments.

SECTION 16 - MINORITY INTERESTS – CAPTION 210

For details regarding the breakdown of minority interests, see section F, "Part B.1. Consolidated shareholders' equity: breakdown by type of company".

16.1 Breakdown of caption 210 Minority interests

(millions of euro)

		31.12.2017
Investments in consolidated companies with significant minority interests		**237**
1	Risanamento S.p.A.	101
2	Bank Of Alexandria S.A.E	89
3	Vseobecna Uverova Banka A.S.	47
Other investments		**162**
TOTAL 2017		**399**
TOTAL 2016		**408**

16.2 Equity instruments: breakdown and annual changes

No equity instruments are recorded.

Other information

1. Guarantees and commitments

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
1) Financial guarantees given	**9,174**	***9,133***	**-**	***41***	**4,425**
a) Banks	48	*48*	-	-	33
b) Customers	9,126	*9,085*	-	*41*	4,392
2) Commercial guarantees given	**31,496**	***31,229***	**-**	***267***	**33,080**
a) Banks	3,122	*3,027*	-	*95*	6,102
b) Customers	28,374	*28,202*	-	*172*	26,978
3) Irrevocable commitments to lend funds	**59,063**	***59,063***	**-**	**-**	**64,869**
a) Banks	3,098	*3,098*	-	-	7,345
- of certain use	*2,095*	*2,095*	-	-	*6,424*
- of uncertain use	*1,003*	*1,003*	-	-	*921*
b) Customers	55,965	*55,965*	-	-	57,524
- of certain use	*10,330*	*10,330*	-	-	*14,960*
- of uncertain use	*45,635*	*45,635*	-	-	*42,564*
4) Underlying commitments on credit derivatives: protection sales	**41,872**	***41,872***	**-**	**-**	**55,006**
5) Assets pledged as collateral of third party commitments	**81**	***81***	**-**	**-**	**82**
6) Other commitments	**2,851**	***2,842***	***9***	**-**	**2,473**
TOTAL	**144,537**	***144,220***	***9***	***308***	**159,935**

2. Assets pledged as collateral of liabilities and commitments

(millions of euro)

	31.12.2017	Of which: Banking group	Insurance companies	Other companies	31.12.2016
1. Financial assets held for trading	5,163	*5,163*	-	-	4,870
2. Financial assets designated at fair value through profit and loss	-	-	-	-	-
3. Financial assets available for sale	40,921	*40,921*	-	-	35,677
4. Investments held to maturity	703	*703*	-	-	299
5. Due from banks	8,835	*8,835*	-	-	14,360
6. Loans to customers	121,198	*121,198*	-	-	95,111
7. Property and equipment	-	-	-	-	-
TOTAL	**176,820**	***176,820***	**-**	**-**	**150,317**

Intragroup deposits of 1,791 million euro, established to serve securities lending with subjects outside the Group, were netted.

3. Information on operating leases

The costs recorded in the year referred to motor vehicles, office equipment and central and peripheral software, and are allocated to the various captions according to the nature of the asset. The amounts included as potential lease payments are immaterial.

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	31.12.2017
Assets in the balance sheet	68,953	4,925	73,878
Intra-group assets	475	7	482
Total Assets	**69,428**	**4,932**	**74,360**
Financial liabilities in the balance sheet	68,398	-	68,398
Technical reserves in the balance sheet	911	4,932	5,843
Intra-group liabilities	-	-	-
Total Liabilities	**69,309**	**4,932**	**74,241**

5. Management and dealing on behalf of third parties

(millions of euro)

	31.12.2017	31.12.2016
1. Trading on behalf of customers		
a) Purchases	718,245	678,700
1. settled	*703,140*	*663,430*
2. to be settled	*15,105*	*15,270*
b) Sales	715,104	782,820
1. settled	*714,541*	*782,659*
2. to be settled	*563*	*161*
2. Portfolio management		
a) individual	57,928	56,064
b) collective	127,608	113,276
3. Custody and administration of securities		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	54,586	57,579
1. securities issued by companies included in the consolidation area	*21*	*28*
2. other securities	*54,565*	*57,551*
b) third party securities held in deposit (excluding portfolio management): other	326,222	312,642
1. securities issued by companies included in the consolidation area	*19,757*	*25,268*
2. other securities	*306,465*	*287,374*
c) third party securities deposited with third parties	315,136	287,215
d) portfolio securities deposited with third parties	171,267	156,246
4. Other	**399,743**	**373,183**

Note regarding 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 companies of the Intesa Sanpaolo Group 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 statement of financial position (b)	Net amount of financial assets presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2017 (f = c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	58,769	33,631	25,138	18,317	2,751	4,070	5,005
2. Repurchase agreements	37,272	-	37,272	37,017	52	203	491
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2017	**96,041**	**33,631**	**62,410**	**55,334**	**2,803**	**4,273**	**X**
TOTAL 31.12.2016	**104,709**	**40,751**	**63,958**	**55,712**	**2,750**	**X**	**5,496**

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 statement of financial position (b)	Net amount of financial liabilities presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2017 (f = c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	64,691	33,631	31,060	18,232	12,150	678	2,006
2. Repurchase agreements	33,210	-	33,210	32,997	32	181	318
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2017	**97,901**	**33,631**	**64,270**	**51,229**	**12,182**	**859**	**X**
TOTAL 31.12.2016	**108,784**	**40,751**	**68,033**	**53,399**	**12,310**	**X**	**2,324**

IFRS 7 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” that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, the Intesa Sanpaolo Group has netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements. In particular, these are arrangements that regulate the clearing of OTC derivatives through subscription to the SwapClear service (LCH Group). This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred, so that the mutual credit and debt positions are automatically offset. In Table 6, therefore, the column regarding the amount of financial assets/liabilities offset in the balance sheet represents the negative fair values on interest rate derivatives offset with the positive fair values for representation in the financial statements. The information is presented in Table 7.
In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 6 and 7, it is noted that the Group 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).

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”.

8. Securities lending transactions

The securities lending accessory banking service, offered mainly by Intesa Sanpaolo private Banking (ISPB) to 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 2017, the collateral of transactions mainly referring to ISPB amounted to 1.79 billion 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)

	Debt securities	Loans	Other transactions	2017	2016
1. Financial assets held for trading	93	-	-	93	160
2. Financial assets designated at fair value through profit and loss	32	-	-	32	46
3. Financial assets available for sale	2,532	2	-	2,534	2,577
4. Investments held to maturity	42	-	-	42	52
5. Due from banks	18	527	4	549	410
6. Loans to customers	276	8,369	1	8,646	8,962
7. Hedging derivatives	X	X	28	28	477
8. Other assets	X	X	474	474	181
TOTAL	**2,993**	**8,898**	**507**	**12,398**	**12,865**

Interest and similar income also includes interest income on securities relating to repurchase agreements.
Loans to customers include interest of 243 million euro on bad loans, 455 million euro on exposures included in the unlikely to pay category and 21 million euro on past due non-performing loans. Added to these are 691 million euro for the reversal in time value on loans, recorded under net losses/recoveries on loan impairment.

1.1 Of which: Banking group

(millions of euro)

	Debt securities	Loans	Other transactions	2017	2016
1. Financial assets held for trading	83	-	-	83	146
2. Financial assets designated at fair value through profit and loss	9	-	-	9	15
3. Financial assets available for sale	674	2	-	676	716
4. Investments held to maturity	42	-	-	42	52
5. Due from banks	17	527	4	548	410
6. Loans to customers	244	8,367	1	8,612	8,935
7. Hedging derivatives	X	X	28	28	477
8. Other assets	X	X	467	467	173
TOTAL	**1,069**	**8,896**	**500**	**10,465**	**10,924**

1.1 Of which: Insurance companies

(millions of euro)

	Debt securities	Loans	Other transactions	2017	2016
1. Financial assets held for trading	10	-	-	10	14
2. Financial assets designated at fair value through profit and loss	23	-	-	23	31
3. Financial assets available for sale	1,858	-	-	1,858	1,861
4. Investments held to maturity	-	-	-	-	-
5. Due from banks	1	-	-	1	-
6. Loans to customers	-	-	-	-	1
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
TOTAL	**1,892**	**-**	**-**	**1,892**	**1,907**

1.1 Of which: Other companies

As at 31 December 2017, 41 million euro was attributable to other companies, of which 32 million euro to debt securities under loans to customers, 7 million euro to other transactions involving other assets and 2 million euro included in loans to customers. At the end of 2016, they amounted to 34 million euro, 24 million euro of which was attributed to debt securities under loans to customers and 8 million euro to other transactions involving other assets.

1.2 Interest and similar income: differentials on hedging transactions

(millions of euro)

	2017	Of which:			2016
		Banking group	*Insurance companies*	*Other companies*	
A. Positive differentials on hedging transactions	2,814	*2,814*	-	-	3,557
B. Negative differentials on hedging transactions	-2,786	*-2,786*	-	-	-3,080
BALANCE (A - B)	**28**	***28***	**-**	**-**	**477**

1.3 Interest and similar income: other information

1.3.1 Interest income on foreign currency financial assets

The balance as at 31 December 2017 includes 2,828 million euro relating to financial assets in foreign currency.

1.3.2 Interest income on financial lease receivables

As at 31 December 2017, interest income on financial leases amounted to 371 million euro.

1.4 Interest and similar expense: breakdown

(millions of euro)

	Debts	Securities	Other transactions	2017	2016
1. Due to Central Banks	30	X	-	30	32
2. Due to banks	278	X	1	279	272
3. Due to customers	532	X	1	533	650
4. Securities issued	X	2,654	-	2,654	3,176
5. Financial liabilities held for trading	-	-	10	10	9
6. Financial liabilities designated at fair value through profit and loss	-	-	-	-	-
7. Other liabilities and allowances	X	X	365	365	111
8. Hedging derivatives	X	X	-	-	-
TOTAL	**840**	**2,654**	**377**	**3,871**	**4,250**

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.

1.4 Of which: Banking group

(millions of euro)

	Debts	Securities	Other transactions	2017	2016
1. Due to Central Banks	30	X	-	30	32
2. Due to banks	260	X	1	261	255
3. Due to customers	532	X	1	533	650
4. Securities issued	X	2,587	-	2,587	3,111
5. Financial liabilities held for trading	-	-	10	10	9
6. Financial liabilities designated at fair value through profit and loss	-	-	-	-	-
7. Other liabilities and allowances	X	X	364	364	111
8. Hedging derivatives	X	X	-	-	-
TOTAL	**822**	**2,587**	**376**	**3,785**	**4,168**

1.4 Of which: Insurance companies

In 2017, the amount attributable to insurance companies was 69 million euro, consisting of securities issued for 64 million euro and amounts due to banks for 5 million euro. In 2016, interest expense amounted to a total of 67 million euro, related to securities issued for 64 million euro and the remaining to amounts due to banks.

1.4 Of which: Other companies

In 2017, the amount attributable to other companies was 17 million euro, consisting of securities issued for 3 million euro and amounts due to banks for 13 million euro and to other transactions for 1 million euro. In 2016, interest expense amounted to a total of 15 million euro, consisting of securities issued for 1 million euro and amounts due to banks for 14 million euro.

1.5 Interest and similar expense: differentials on hedging transactions

Information on differentials on hedging transactions is illustrated in table 1.2, since the balance for 2017 is included under interest income.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency financial liabilities

Interest and similar expense in 2017 included 1,417 million euro relative to financial liabilities in foreign currency.

1.6.2 Interest expense on financial lease payables

In 2017, interest expense on financial leases was immaterial.

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

	2017	Of which:			2016
		Banking group	*Insurance companies*	*Other companies*	
A) Guarantees given	**378**	***378***	**-**	**-**	**379**
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**
C) Management, dealing and consultancy services	**4,152**	***4,150***	**-**	***2***	**3,620**
1. trading in financial instruments	95	*95*	-	-	92
2. currency dealing	45	*45*	-	-	43
3. portfolio management	2,571	*2,571*	-	-	2,271
3.1. individual	*714*	*714*	-	-	*670*
3.2. collective	*1,857*	*1,857*	-	-	*1,601*
4. custody and administration of securities	65	*65*	-	-	61
5. depositary bank	18	*18*	-	-	17
6. placement of securities	663	*663*	-	-	465
7. reception and transmission of orders	120	*120*	-	-	120
8. consultancy services	147	*147*	-	-	187
8.1. on investments	128	*128*	-	-	124
8.2. on financial structure	19	*19*	-	-	63
9. distribution of third party services	428	*426*	-	*2*	364
9.1. portfolio management	*374*	*374*	-	-	*312*
9.1.1. individual	*10*	*10*	-	-	*9*
9.1.2. collective	*364*	*364*	-	-	*303*
9.2. insurance products	*48*	*46*	-	*2*	*45*
9.3. other products	*6*	*6*	-	-	*7*
D) Collection and payment services	**608**	***608***	**-**	**-**	**451**
E) Servicing related to securitisations	**1**	***1***	**-**	**-**	**-**
F) Services related to factoring	**114**	***114***	**-**	**-**	**113**
G) Tax collection services	**-**	**-**	**-**	**-**	**-**
H) Management of multilateral trading facilities	**-**	**-**	**-**	**-**	**-**
I) Management of current accounts	**1,138**	***1,138***	**-**	**-**	**1,003**
J) Other services	**3,153**	***1,860***	***1,291***	***2***	**2,899**
TOTAL	**9,544**	***8,249***	***1,291***	***4***	**8,465**

Other services mostly recorded fees on credit and debit cards of 898 million euro as well as commissions on loans of 729 million euro.

2.2 Fee and commission income: distribution channels of products and services – Banking group

(millions of euro)

	2017	2016
A) Group branches	**2,348**	**2,013**
1. portfolio management	1,618	1,457
2. placement of securities	574	438
3. third party services and products	156	118
B) "Door-to-door" sales	**283**	**246**
1. portfolio management	1	2
2. placement of securities	29	17
3. third party services and products	253	227
C) Other distribution channels	**1,029**	**839**
1. portfolio management	952	812
2. placement of securities	60	10
3. third party services and products	17	17

2.3 Fee and commission expense: breakdown

(millions of euro)

	2017	*Of which:*			2016
		Banking group	*Insurance companies*	*Other companies*	
A) Guarantees received	**89**	**87**	**-**	**2**	**37**
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**
C) Management, dealing and consultancy services	**942**	**931**	**11**	**-**	**849**
1. trading in financial instruments	46	46	-	-	46
2. currency dealing	2	2	-	-	2
3. portfolio management:	44	44	-	-	19
3.1 own portfolio	*44*	*44*	-	-	*19*
3.2 third party portfolio	-	-	-	-	-
4. custody and administration of securities	53	42	11	-	51
5. placement of financial instruments	149	149	-	-	150
6. "door-to-door" sale of financial instruments, products and services	648	648	-	-	581
D) Collection and payment services	**197**	**197**	**-**	**-**	**89**
E) Other services	**888**	**707**	**180**	**1**	**755**
TOTAL	**2,116**	***1,922***	***191***	***3***	**1,730**

E - Other services includes 514 million euro fees on credit and debit cards, 152 million euro on the placement of investment insurance products, 114 million euro on banking services to Italian branches, 94 million euro on banking services to foreign branches and 14 million euro on other minor services.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

	2017		Of which:						2016	
			Banking group		*Insurance companies*		*Other companies*			
	Dividends	**Income from quotas of UCI**	*Dividends*	*Income from quotas of UCI*	*Dividends*	*Income from quotas of UCI*	*Dividends*	*Income from quotas of UCI*	**Dividends**	**Income from quotas of UCI**
A. Financial assets held for trading	27	1	27	1	-	-	-	-	34	-
B. Financial assets available for sale	91	150	*36*	*14*	*55*	*136*	-	-	245	149
C. Financial assets designated at fair value through profit and loss	32	4	-	-	*32*	*4*	-	-	30	3
D. Investments in associates and companies subject to joint control	39	X	*39*	*X*	-	*X*	-	*X*	-	X
TOTAL	**189**	**155**	***102***	***15***	***87***	***140***	**-**	**-**	**309**	**152**

SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

4.1 Profits (Losses) on trading: breakdown

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**98**	**1,499**	**-117**	**-1,433**	**47**
1.1 Debt securities	40	396	-91	-357	-12
1.2 Equities	16	134	-17	-101	32
1.3 Quotas of UCI	42	5	-9	-6	32
1.4 Loans	-	2	-	-	2
1.5 Other	-	962	-	-969	-7
2. Financial liabilities held for trading	**87**	**656**	**-74**	**-880**	**-211**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	87	656	-74	-880	-211
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-797**
4. Derivatives	**9,107**	**29,256**	**-7,857**	**-29,517**	**1,472**
4.1 Financial derivatives	8,245	27,143	-6,900	-27,446	1,525
- on debt securities and interest rates	*6,239*	*21,291*	*-5,330*	*-21,321*	*879*
- on equities and stock indexes	*1,825*	*4,946*	*-1,232*	*-5,412*	*127*
- on currencies and gold	*X*	*X*	*X*	*X*	*483*
- other	*181*	*906*	*-338*	*-713*	*36*
4.2 Credit derivatives	862	2,113	-957	-2,071	-53
TOTAL	**9,292**	**31,411**	**-8,048**	**-31,830**	**511**

“Net result” includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.
4.1 “Financial derivatives” includes 118 million euro for the positive effects connected to the extension of the scope of application of the Funding Value Adjustment (FVA) metrics for the valuation of OTC derivatives. In 2017, these metrics were extended to the entire scope of the proprietary transactions, completing the path started in the first quarter of 2016 both in terms of measuring the fair value and in terms of operating management of this risk factor.
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.

4.1 Of which: Banking group

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**87**	**1,498**	**-110**	**-1,433**	**42**
1.1 Debt securities	39	396	-84	-357	-6
1.2 Equities	16	134	-17	-101	32
1.3 Quotas of UCI	32	4	-9	-6	21
1.4 Loans	-	2	-	-	2
1.5 Other	-	962	-	-969	-7
2. Financial liabilities held for trading	**87**	**656**	**-74**	**-880**	**-211**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	87	656	-74	-880	-211
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-648**
4. Derivatives	**9,048**	**29,249**	**-7,853**	**-29,459**	**1,468**
4.1 Financial derivatives	8,188	27,139	-6,899	-27,394	1,517
- on debt securities and interest rates	*6,183*	*21,288*	*-5,330*	*-21,315*	*826*
- on equities and stock indexes	*1,824*	*4,945*	*-1,231*	*-5,366*	*172*
- on currencies and gold	*X*	*X*	*X*	*X*	*483*
- other	*181*	*906*	*-338*	*-713*	*36*
4.2 Credit derivatives	860	2,110	-954	-2,065	-49
TOTAL	**9,222**	**31,403**	**-8,037**	**-31,772**	**651**

4.1 Of which: Insurance companies

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**11**	**1**	**-7**	**-**	**5**
1.1 Debt securities	1	-	-7	-	-6
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	10	1	-	-	11
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**	**-149**
4. Derivatives	**59**	**7**	**-4**	**-58**	**4**
4.1 Financial derivatives	57	4	-1	-52	8
- on debt securities and interest rates	*56*	*3*	*-*	*-6*	*53*
- on equities and stock indexes	*1*	*1*	*-1*	*-46*	*-45*
- on currencies and gold	*X*	*X*	*X*	*X*	*-*
- other	*-*	*-*	*-*	*-*	*-*
4.2 Credit derivatives	2	3	-3	-6	-4
TOTAL	**70**	**8**	**-11**	**-58**	**-140**

4.1 Of which: Other companies

In 2017 this was not present. In 2016, there was an amount of 1 million euro relating to revaluations on financial derivatives connected to debt securities and interest rates.

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

5.1 Fair value adjustments in hedge accounting: breakdown

(millions of euro)

	2017	*Of which:*			2016
		Banking group	*Insurance companies*	*Other companies*	
A. Income from					
A.1 fair value hedge derivatives	2,285	*2,283*	-	*2*	611
A.2 financial assets hedged (fair value)	216	*216*	-	-	2,371
A.3 financial liabilities hedged (fair value)	1,770	*1,770*	-	-	758
A.4 cash flow hedge: derivatives	-	-	-	-	-
A.5 currency assets and liabilities	-	-	-	-	-
Total income from hedging (A)	**4,271**	***4,269***	**-**	***2***	**3,740**
B. Expenses for					
B.1 fair value hedge derivatives	-2,665	*-2,665*	-	-	-2,633
B.2 financial assets hedged (fair value)	-1,474	*-1,474*	-	-	-1,066
B.3 financial liabilities hedged (fair value)	-147	*-147*	-	-	-75
B.4 cash flow hedge: derivatives	-	-	-	-	-
B.5 currency assets and liabilities	-	-	-	-	-
Total expense from hedging (B)	**-4,286**	***-4,286***	**-**	**-**	**-3,774**
C. Fair value adjustments in hedge accounting (A - B)	**-15**	***-17***	**-**	***2***	**-34**

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

	2017			2016		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	18	-	18	21	-17	4
2. Loans to customers	147	-173	-26	158	-196	-38
3. Financial assets available for sale	1,184	-324	860	1,151	-161	990
3.1 Debt securities	*809*	*-162*	*647*	*913*	*-105*	*808*
3.2 Equities	*148*	*-142*	*6*	*190*	*-23*	*167*
3.3 Quotas of UCI	*227*	*-20*	*207*	*48*	*-33*	*15*
3.4 Loans	-	-	-	-	-	-
4. Investments held to maturity	1	-	1	-	-	-
Total assets	**1,350**	**-497**	**853**	**1,330**	**-374**	**956**
Financial liabilities						
1. Due to banks	2	-	2	18	-18	-
2. Due to customers	1	-	1	-	-	-
3. Securities issued	4	-42	-38	90	-56	34
Total liabilities	**7**	**-42**	**-35**	**108**	**-74**	**34**

6.1 Of which: Banking group

(millions of euro)

	2017			2016		
	Profits	**Losses**	**Net result**	**Profits**	**Losses**	**Net result**
Financial assets						
1. Due from banks	18	-	18	21	-17	4
2. Loans to customers	147	-173	-26	158	-196	-38
3. Financial assets available for sale	753	-209	544	598	-53	545
3.1 Debt securities	*533*	*-81*	*452*	*426*	*-52*	*374*
3.2 Equities	*111*	*-127*	*-16*	*159*	*-1*	*158*
3.3 Quotas of UCI	*109*	*-1*	*108*	*13*	*-*	*13*
3.4 Loans	*-*	*-*	*-*	*-*	*-*	*-*
4. Investments held to maturity	1	-	1	-	-	-
Total assets	**919**	**-382**	**537**	**777**	**-266**	**511**
Financial liabilities						
1. Due to banks	2	-	2	18	-18	-
2. Due to customers	1	-	1	-	-	-
3. Securities issued	4	-42	-38	90	-56	34
Total liabilities	**7**	**-42**	**-35**	**108**	**-74**	**34**

6.1 Of which: Insurance companies

(millions of euro)

	2017			2016		
	Profits	**Losses**	**Net result**	**Profits**	**Losses**	**Net result**
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	431	-115	316	553	-108	445
3.1 Debt securities	*276*	*-81*	*195*	*487*	*-53*	*434*
3.2 Equities	*37*	*-15*	*22*	*31*	*-22*	*9*
3.3 Quotas of UCI	*118*	*-19*	*99*	*35*	*-33*	*2*
3.4 Loans	*-*	*-*	*-*	*-*	*-*	*-*
4. Investments held to maturity	-	-	-	-	-	-
Total assets	**431**	**-115**	**316**	**553**	**-108**	**445**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

6.1 Of which: Other companies

In 2017, there were no profits or losses on disposal or repurchase attributable to other companies. Likewise in 2016, there were no profits on disposal or repurchase.

SECTION 7 – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE - CAPTION 110

7.1 Profits (losses) on financial assets/liabilities designated at fair value: breakdown

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets	**2,233**	**1,734**	**-1,265**	**-307**	**2,395**
1.1 Debt securities	17	83	-72	-39	-11
1.2 Equities	158	102	-91	-75	94
1.3 Quotas of UCI	2,027	1,544	-1,089	-185	2,297
1.4 Loans	31	5	-13	-8	15
2. Financial liabilities	**-**	**-**	**-1,146**	**-**	**-1,146**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-4	-	-4
2.3 Due to customers	-	-	-1,142	-	-1,142
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**11**	**23**	**-**	**-25**	**9**
TOTAL	**2,244**	**1,757**	**-2,411**	**-332**	**1,258**

For information on the methods used to determine credit spread, reference should be made to Part A.4 of the Notes to the consolidated financial statements - Information on fair value.

7.1 Of which: Banking group

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets	**7**	**-**	**-4**	**-3**	**-**
1.1 Debt securities	6	-	-2	-2	2
1.2 Equities	-	-	-	-1	-1
1.3 Quotas of UCI	-	-	-2	-	-2
1.4 Loans	1	-	-	-	1
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**-**	**-**	**-**	**-1**	**-1**
TOTAL	**7**	**-**	**-4**	**-4**	**-1**

7.1 Of which: Insurance companies

(millions of euro)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets	**2,226**	**1,734**	**-1,261**	**-304**	**2,395**
1.1 Debt securities	11	83	-70	-37	-13
1.2 Equities	158	102	-91	-74	95
1.3 Quotas of UCI	2,027	1,544	-1,087	-185	2,299
1.4 Loans	30	5	-13	-8	14
2. Financial liabilities	**-**	**-**	**-1,146**	**-**	**-1,146**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-4	-	-4
2.3 Due to customers	-	-	-1,142	-	-1,142
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**11**	**23**	**-**	**-24**	**10**
TOTAL	**2,237**	**1,757**	**-2,407**	**-328**	**1,259**

SECTION 8 – NET LOSSES/RECOVERIES ON IMPAIRMENT – CAPTION 130

8.1 Net impairment losses on loans: breakdown

(millions of euro)

	IMPAIRMENT LOSSES			RECOVERIES				2017	2016
	Individual		Collective	Individual		Collective			
	write-offs	other		of interest	other	of interest	other		
A. Due from banks	**-**	**-**	**-71**	**-**	**1**	**-**	**14**	**-56**	**-11**
- Loans	*-*	*-*	*-21*	*-*	*1*	*-*	*11*	*-9*	*-2*
- Debt securities	*-*	*-*	*-50*	*-*	*-*	*-*	*3*	*-47*	*-9*
B. Loans to customers	**-332**	**-4,895**	**-432**	**663**	**1,470**	**1**	**864**	**-2,661**	**-3,015**
Non-performing loans purchased	-	-84	-	11	11	-	-	-62	-
- Loans	*-*	*-84*	*X*	*11*	*11*	*X*	*X*	*-62*	*-*
- Debt securities	*-*	*-*	*X*	*-*	*-*	*X*	*X*	*-*	*-*
Other	-332	-4,811	-432	652	1,459	1	864	-2,599	-3,015
- Loans	*-332*	*-4,811*	*-421*	*652*	*1,458*	*1*	*853*	*-2,600*	*-3,009*
- Debt securities	*-*	*-*	*-11*	*-*	*1*	*-*	*11*	*1*	*-6*
C. Total	**-332**	**-4,895**	**-503**	**663**	**1,471**	**1**	**878**	**-2,717**	**-3,026**

The financial effects due to release of time value on discounted non-performing loans, recognised under "Recoveries - Individual – of interest", amount to a total of 691 million euro. Of this amount, 207 million euro relates to loans included in the unlikely to pay category and 484 million euro to bad loans.

8.1 Of which: Banking group

(millions of euro)

	IMPAIRMENT LOSSES			RECOVERIES				2017	2016
	Individual		Collective	Individual		Collective			
	write-offs	other		of interest	other	of interest	other		
A. Due from banks	**-**	**-**	**-71**	**-**	**1**	**-**	**14**	**-56**	**-11**
- Loans	*-*	*-*	*-21*	*-*	*1*	*-*	*11*	*-9*	*-2*
- Debt securities	*-*	*-*	*-50*	*-*	*-*	*-*	*3*	*-47*	*-9*
B. Loans to customers	**-332**	**-4,895**	**-432**	**663**	**1,470**	**1**	**864**	**-2,661**	**-3,015**
Non-performing loans purchased	-	-84	-	11	11	-	-	-62	-
- Loans	*-*	*-84*	*X*	*11*	*11*	*X*	*X*	*-62*	*-*
- Debt securities	*-*	*-*	*X*	*-*	*-*	*X*	*X*	*-*	*-*
Other	-332	-4,811	-432	652	1,459	1	864	-2,599	-3,015
- Loans	*-332*	*-4,811*	*-421*	*652*	*1,458*	*1*	*853*	*-2,600*	*-3,009*
- Debt securities	*-*	*-*	*-11*	*-*	*1*	*-*	*11*	*1*	*-6*
C. Total	**-332**	**-4,895**	**-503**	**663**	**1,471**	**1**	**878**	**-2,717**	**-3,026**

8.2 Net impairment losses on financial assets available for sale: breakdown

(millions of euro)

	IMPAIRMENT LOSSES		RECOVERIES		2017	2016
	Individual		Individual			
	write-offs	other	of interest	other		
A. Debt securities	-	-41	-	1	-40	2
B. Equities	-	-15	X	X	-15	-126
C. Quotas of UCI	-	-454	X	-	-454	-189
D. Due from banks	-	-	-	-	-	-1
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-510**	**-**	**1**	**-509**	**-314**

8.2 Of which: Banking group

(millions of euro)

	IMPAIRMENT LOSSES Individual write-offs	IMPAIRMENT LOSSES Individual other	RECOVERIES Individual of interest	RECOVERIES Individual other	2017	2016
A. Debt securities	-	-39	-	1	-38	3
B. Equities	-	-9	X	X	-9	-68
C. Quotas of UCI	-	-454	X	-	-454	-189
D. Due from banks	-	-	-	-	-	-1
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-502**	**-**	**1**	**-501**	**-255**

8.2 Of which: Insurance companies

(millions of euro)

	IMPAIRMENT LOSSES Individual write-offs	IMPAIRMENT LOSSES Individual other	RECOVERIES Individual of interest	RECOVERIES Individual other	2017	2016
A. Debt securities	-	-2	-	-	-2	-1
B. Equities	-	-6	X	X	-6	-58
C. Quotas of UCI	-	-	X	-	-	-
D. Due from banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-8**	**-**	**-**	**-8**	**-59**

8.3 Net impairment losses on investments held to maturity: breakdown

No net impairment losses or net recoveries on impairment of investments held to maturity were recorded in 2017. Likewise, in 2016 there were no net impairment losses on investments held to maturity.

8.4 Net impairment losses on other financial activities: breakdown

(millions of euro)

	IMPAIRMENT LOSSES Individual write-offs	IMPAIRMENT LOSSES Individual other	IMPAIRMENT LOSSES Collective	RECOVERIES Individual of interest	RECOVERIES Individual other	RECOVERIES Collective of interest	RECOVERIES Collective other	2017	2016
A. Guarantees given	-	-100	-11	-	38	-	122	49	47
B. Credit derivatives	-	-	-	-	-	-	2	2	2
C. Commitments to lend funds	-	-44	-14	-	34	-	38	14	6
D. Other operations	-3	-	-2	-	-	-	4	-1	-3
E. Total	**-3**	**-144**	**-27**	**-**	**72**	**-**	**166**	**64**	**52**

8.4 Of which: Banking group

(millions of euro)

	IMPAIRMENT LOSSES Individual write-offs	IMPAIRMENT LOSSES Individual other	IMPAIRMENT LOSSES Collective	RECOVERIES Individual of interest	RECOVERIES Individual other	RECOVERIES Collective of interest	RECOVERIES Collective other	2017	2016
A. Guarantees given	-	-100	-11	-	38	-	122	49	47
B. Credit derivatives	-	-	-	-	-	-	2	2	2
C. Commitments to lend funds	-	-44	-14	-	34	-	38	14	6
D. Other operations	-3	-	-2	-	-	-	4	-1	-2
E. Total	**-3**	**-144**	**-27**	**-**	**72**	**-**	**166**	**64**	**53**

8.4 Of which: Other companies

In 2017, no net impairment losses were recorded on other financial activities referring to other companies; in 2016, they had a balance of -1 million euro, due to individual impairment losses on other operations.

SECTION 9 - NET INSURANCE PREMIUMS - CAPTION 150

9.1 Net insurance premiums: breakdown

(millions of euro)

Premiums deriving from insurance business	Direct work	Indirect work	2017	2016
A. Life business				
A.1 Gross accounted premiums (+)	6,473	-	6,473	8,136
A.2 Premiums ceded for reinsurance (-)	-2	X	-2	-1
A.3 Total	**6,471**	**-**	**6,471**	**8,135**
B. Non-life business				
B.1 Gross accounted premiums (+)	432	-	432	391
B.2 Premiums ceded for reinsurance (-)	-7	X	-7	-6
B.3 Changes in the gross amount of premium reserve (+/-)	-77	-	-77	-84
B.4 Changes in premium reserves reassured with third parties (-/+)	-2	-	-2	-3
B.5 Total	**346**	**-**	**346**	**298**
C. Total net premiums	**6,817**	**-**	**6,817**	**8,433**

SECTION 10 - OTHER NET INSURANCE INCOME (EXPENSE) - CAPTION 160

10.1 Other net insurance income (expense): breakdown

(millions of euro)

	2017	2016
1. Net change in technical reserves	2,535	-1,500
2. Claims accrued and paid during the year	-10,284	-7,999
3. Other income/expenses arising from insurance business	-1,263	-1,009
TOTAL	**-9,012**	**-10,508**

10.2 Breakdown of Net change in technical reserves

(millions of euro)

Net change in technical reserves	2017	2016
1. Life business		
A. Mathematical reserves	2,806	-1,271
A.1 Gross annual amount	*2,806*	*-1,271*
A.2 Amount reinsured with third parties (-)	-	-
B. Other technical reserves	80	-104
B.1 Gross annual amount	*80*	*-104*
B.2 Amount reinsured with third parties (-)	-	-
C. Technical reserves for investment risks to be borne by the insured	-351	-124
C.1 Gross annual amount	*-351*	*-124*
C.2 Amount reinsured with third parties (-)	-	-
Total "life business reserves"	**2,535**	**-1,499**
2. Non-life business	**-**	**-1**
Changes in other technical reserves of non-life business other than claims fund, net of ceded reinsurance	-	-1

10.3 Breakdown of Claims accrued and paid during the year

(millions of euro)

Charges associated to claims	2017	2016
Life business: charges associated to claims, net of reinsurance ceded	**-10,191**	**-7,910**
A. Amounts paid	-10,203	-8,035
A.1 Gross annual amount	*-10,203*	*-8,035*
A.2 Amount reinsured with third parties (-)	-	-
B. Change in funds for amounts to be disbursed	12	125
B.1 Gross annual amount	*12*	*126*
B.2 Amount reinsured with third parties (-)	-	*-1*
Non-life business: charges associated to claims, net of recoveries and reinsurance ceded	**-93**	**-89**
C. Amounts paid	-87	-85
C.1 Gross annual amount	*-91*	*-89*
C.2 Amount reinsured with third parties (-)	*4*	*4*
D. Change in recoveries net of quotas borne by reinsurers	1	1
E. Change in damage fund	-7	-5
E.1 Gross annual amount	*-8*	*-4*
E.2 Amount reinsured with third parties (-)	*1*	*-1*

10.4 Breakdown of Other income/expenses arising from insurance business

(millions of euro)

	2017	2016
Other income	**113**	**337**
Life business	92	322
Non-life business	21	15
Other expenses	**-1,376**	**-1,346**
Life business	-1,291	-1,283
Non-life business	-85	-63

SECTION 11 - ADMINISTRATIVE EXPENSES - CAPTION 180

11.1 Personnel expenses: breakdown

(millions of euro)

	2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companie	2016
1) Personnel employed	**7,142**	***7,071***	***67***	***4***	**5,456**
a) wages and salaries	3,908	*3,859*	*46*	*3*	3,647
b) social security charges	1,009	*999*	*9*	*1*	930
c) termination indemnities	55	*55*	-	-	52
d) supplementary benefits	5	*4*	*1*	-	4
e) provisions for termination indemnities	13	*13*	-	-	28
f) provisions for post employment benefits	48	*48*	-	-	52
- defined contribution plans	-	-	-	-	-
- defined benefit plans	*48*	*48*	-	-	*52*
g) payments to external pension funds	302	*298*	*4*	-	276
- defined contribution plans	*301*	*297*	*4*	-	*275*
- defined benefit plans	*1*	*1*	-	-	*1*
h) costs from share based payments	*149*	*147*	*2*	-	155
i) other benefits in favour of employees	1,653	*1,648*	*5*	-	312
2) Other non-retired personnel	**9**	***9***	**-**	**-**	**13**
3) Directors and statutory auditors	**26**	***23***	***2***	***1***	**25**
4) Early retirement costs	**-**	**-**	**-**	**-**	**-**
TOTAL	**7,177**	***7,103***	***69***	***5***	**5,494**

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.

11.2 Average number of employees by categories

	2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	2016
Personnel employed	**87,155**	***86,420***	***707***	***28***	**84,239**
a) managers	1,512	*1,467*	*37*	*8*	1,420
b) total officers	33,458	*33,142*	*307*	*9*	32,153
c) other employees	52,185	*51,811*	*363*	*11*	50,666
Other personnel	**197**	***191***	***6***	**-**	**194**
TOTAL	**87,352**	***86,611***	***713***	***28***	**84,433**

11.3 Post employment defined benefit plans: costs and revenues

(millions of euro)

	2017			2016		
	Employee Termination Indemnities	**Internal plans**	**External plans**	**Employee Termination Indemnities**	**Internal plans**	**External plans**
Current service cost	-8	-3	-27	-8	-3	-32
Interest expense	-14	-11	-59	-20	-10	-74
Interest income	-	3	41	-	4	56
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 “Allowances for risks and charges - post employment benefits” recorded under liabilities line 120-a in the Consolidated balance sheet.

11.4 Other benefits in favour of employees

The balance for 2017 amounted to 1,653 million euro, of which 1,385 million euro regard the charges referring to the exit incentives relating to the integration of the Venetian Banks, the remainder refers to the contributions for health assistance, lunch vouchers, premiums of insurance policies stipulated in favour of employees as well as provisions for seniority bonuses, charges for incentive-driven exit plans and other charges for integration.

11.5 Other administrative expenses: breakdown

(millions of euro)

	2017	2016
Expenses for maintenance of information technology and electronic equipment	561	570
Telephonic, teletransmission and transmission expenses	86	78
Information technology expenses	**647**	**648**
Rentals and service charges - real estate	296	251
Security services	43	44
Cleaning of premises	43	42
Expenses for maintenance of real estate assets	92	73
Energy costs	102	112
Property costs	4	12
Management of real estate assets	**580**	**534**
Printing, stationery and consumables expenses	42	48
Transport and related services expenses (including counting of valuables)	99	100
Information expenses	179	172
Postal and telegraphic expenses	73	79
General structure costs	**393**	**399**
Expenses for consultancy fees	243	231
Legal and judiciary expenses	185	183
Insurance premiums - banks and customers	57	59
Professional and legal expenses	**485**	**473**
Advertising and promotional expenses	**134**	**134**
Services rendered by third parties	**277**	**243**
Indirect personnel costs	**93**	**92**
Other costs	**444**	**710**
Indirect taxes and duties	**917**	**877**
Recovery of taxes and duties	**-8**	**-6**
Recovery of other expenses	**-87**	**-93**
TOTAL	**3,875**	**4,011**

Other expenses include 290 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund. In 2016 the same expenses amounted to 578 million euro.

SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 190

12.1 Net provisions for risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	2017
Net provisions for legal disputes	-118	99	-19
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-893	19	-874
TOTAL	**-1,011**	**118**	**-893**

"Net provisions for risks and charges", which amounted to 893 million euro, recorded the provisions attributable to the year relating to:

- litigation, including revocatory actions and other disputes;
- guarantees issued for the sale of equity investments and other loan transactions.

In the amounts indicated above, the net provisions for other risks and charges include 739 million euro relating to the acquisition of the Venetian Banks.

SECTION 13 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – CAPTION 200

13.1 Net adjustments to property and equipment: breakdown

(millions of euro)

	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Owned	-345	-4	3	-346
- used in operations	*-341*	*-3*	*3*	*-341*
- investment	*-4*	*-1*	*-*	*-5*
A.2 Acquired under finance lease	-1	-	-	-1
- used in operations	*-1*	*-*	*-*	*-1*
- investment	*-*	*-*	*-*	*-*
TOTAL	**-346**	**-4**	**3**	**-347**

For the determination of impairment losses, see the illustration provided in Part A – Accounting policies.

SECTION 14 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – CAPTION 210

14.1 Net adjustments to intangible assets: breakdown

(millions of euro)

	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-528	-4	-	-532
- internally generated	*-386*	*-4*	*-*	*-390*
- other	*-142*	*-*	*-*	*-142*
A.2 Acquired under finance lease	-	-	-	-
TOTAL	**-528**	**-4**	**-**	**-532**

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 13 – Intangible Assets in these Notes to the consolidated financial statements.

14.1 Of which: Banking group

(millions of euro)

	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-502	-4	-	-506
- internally generated	*-386*	*-4*	*-*	*-390*
- other	*-116*	*-*	*-*	*-116*
A.2 Acquired under finance lease	-	-	-	-
TOTAL	**-502**	**-4**	**-**	**-506**

14.1 Of which: Insurance companies

In 2017 impairment losses pertaining to insurance companies reached 26 million euro, entirely attributable to amortisation of other owned intangible assets.

SECTION 15 – OTHER OPERATING EXPENSE (INCOME) - CAPTION 220

15.1 Other operating expenses: breakdown

(millions of euro)

	2017	***Of which:***		
		Banking group	***Insurance companies***	***Other companies***
Other expenses for consumer credit and leasing transactions	10	*10*	*-*	*-*
Settlements for legal disputes	7	*7*	*-*	*-*
Amortisation of leasehold improvements	44	*44*	*-*	*-*
Other non-recurring expenses	111	*88*	*5*	*18*
Other	140	*125*	*7*	*8*
TOTAL 2017	**312**	***274***	***12***	***26***
TOTAL 2016	**531**	***484***	***9***	***38***

15.2 Other operating income: breakdown

(millions of euro)

	2017	Of which: Banking group	Insurance companies	Other companies
Recovery of expenses	781	*781*	*-*	*-*
Income IT companies	15	*15*	*-*	*-*
Insurance reimbursements	4	*4*	*-*	*-*
Reimbursements for services rendered to third parties	3	*3*	*-*	*-*
Income related to consumer credit and leasing	26	*26*	*-*	*-*
Rentals and recovery of expenses on real estate	33	*13*	*-*	*20*
Other non-recurring income	452	*425*	*1*	*26*
Public contribution received for acquisition of the Aggregate Set	4,785	*4,785*	*-*	*-*
Other	115	*114*	*1*	*-*
TOTAL 2017	**6,214**	***6,166***	***2***	***46***
TOTAL 2016	**961**	***922***	***3***	***36***

Other income includes 3,500 million euro concerning the government contribution received to offset the impacts on the capital ratios resulting from the acquisition of certain assets, liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, as well as the additional public contribution of 1,285 million euro to cover integration and rationalisation charges in relation to the mentioned acquisition, granted to Intesa Sanpaolo on 26 June 2017 and included in the “specific” caption. Other operating income also includes 363 million euro of badwill generated within the same transaction and included in Other non-recurring income

SECTION 16 – PROFITS (LOSSES) ON EQUITY INVESTMENTS – CAPTION 240

16.1 Profits (Losses) on equity investments: breakdown

(millions of euro)

	2017	Of which: Banking group	Insurance companies	Other companies	2016
1) Companies subject to joint control					
A. Revenues	816	*816*	*-*	*-*	43
1. Revaluations	*5*	*5*	*-*	*-*	*43*
2. Profits on disposal	*811*	*811*	*-*	*-*	*-*
3. Write-backs	*-*	*-*	*-*	*-*	*-*
4. Other	*-*	*-*	*-*	*-*	*-*
B. Charges	-5	*-5*	*-*	*-*	-75
1. Write-downs	*-1*	*-1*	*-*	*-*	*-3*
2. Impairment losses	*-4*	*-4*	*-*	*-*	*-72*
3. Losses on disposal	*-*	*-*	*-*	*-*	*-*
4. Other	*-*	*-*	*-*	*-*	*-*
Net result	**811**	***811***	***-***	***-***	**-32**
2) Investments in associates					
A. Revenues	359	*358*	*-*	*1*	226
1. Revaluations	*337*	*337*	*-*	*-*	*180*
2. Profits on disposal	*22*	*21*	*-*	*1*	*41*
3. Write-backs	*-*	*-*	*-*	*-*	*-*
4. Other	*-*	*-*	*-*	*-*	*5*
B. Charges	-20	*-20*	*-*	*-*	-69
1. Write-downs	*-10*	*-10*	*-*	*-*	*-35*
2. Impairment losses	*-10*	*-10*	*-*	*-*	*-25*
3. Losses on disposal	*-*	*-*	*-*	*-*	*-9*
4. Other	*-*	*-*	*-*	*-*	*-*
Net result	**339**	***338***	***-***	***1***	**157**
TOTAL	**1,150**	***1,149***	***-***	***1***	**125**

For companies subject to joint control and significant influence, revenues from recognition at equity of the equity stakes is recorded under Revaluations, while the losses from the recognition at equity of the equity stakes is recorded under Write-downs. The amount of the profits on disposal of 811 million euro refers to the sale of Allfunds.

SECTION 17 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 250

17.1 Valuation differences on property, equipment and intangible assets measured at fair value: breakdown

(millions of euro)

	Revaluations (a)	Write-downs (b)	Foreign exchange differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property and equipment	27	-57	-	-	-30
A.1 Owned:	27	-56	-	-	-29
- *used in operations*	27	-55	-	-	-1
- *investment*	-	-1	-	-	-1
A.2 Acquired under financial lease:	-	-1	-	-	-1
- *used in operations*	-	-1	-	-	1
- *investment*	-	-	-	-	-
B. Intangible assets	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Acquired under finance lease	-	-	-	-	-
TOTAL	**27**	**-57**	**-**	**-**	**-30**

The figures mainly refer to the Banking Group.

SECTION 18 – GOODWILL IMPAIRMENT - CAPTION 260

18.1 Goodwill impairment: breakdown

The results of impairment testing on goodwill recorded in the financial statements did not lead to impairment losses in 2017.

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 13 – Intangible Assets in these Notes to the consolidated financial statements.

SECTION 19 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 270

19.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

	2017	*Of which:*			2016
		Banking group	*Insurance companies*	*Other companies*	
A. Real estate assets	63	*63*	-	-	357
- profits on disposal	*105*	*105*	-	-	*358*
- losses on disposal	*-42*	*-42*	-	-	*-1*
B. Other assets [(a)]	43	*41*	-	*2*	-1
- profits on disposal	*44*	*42*	-	*2*	-
- losses on disposal	*-1*	*-1*	-	-	*-1*
Net result	**106**	***104***	**-**	***2***	**356**

[(a)] Included profits and losses on disposal of subsidiaries.

SECTION 20 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 290

20.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2017	Of which: Banking group	Of which: Insurance companies	Of which: Other companies	2016
1. Current taxes (-)	-830	*-622*	*-207*	*-1*	-867
2. Changes in current taxes of previous years (+/-)	58	*52*	-	*6*	-9
3. Reduction in current taxes of the year (+)	26	*26*	-	-	22
3bis. Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	19	*19*	-	-	36
4. Changes in deferred tax assets (+/-)	335	*330*	*5*	-	-256
5. Changes in deferred tax liabilities (+/-)	-72	*-68*	*-6*	*2*	71
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**-464**	***-263***	***-208***	***7***	**-1,003**

20.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2017
Income before tax from continuing operations	7,818
Income before tax from discontinued operations	-
Theoretical taxable income	**7,818**

	Taxes	%
Income taxes - theoretical tax charge	**2,585**	**33.1**
Increase of taxes	**329**	**4.2**
Non-deductible interest expense	113	1.4
Other	216	2.8
Decrease of taxes	**-2,450**	**-31.4**
Public contributions for the acquisition of the Aggregate Set of the Venetian banks	-1,582	-20.3
Effects of the participation exemption	-374	-4.8
Effects of international companies lower rates	-287	-3.7
Badwill recognised in PPA for acquisition of certain assets and liabilities of Veneto Banca and Banca Popolare di Vicenza	-125	-1.6
Other	-82	-1.0
Total changes in taxes	**-2,121**	**-27.2**
Total income tax expense for the period	**464**	**5.9**
of which: - total income tax expense from continuing operations	**464**	**5.9**
- total income tax expense from discontinued operations	**-**	**0.0**

SECTION 21 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 310

21.1 Income (Loss) after tax from discontinued operations: breakdown

(millions of euro)

	2017	*Of which:*			2016
		Banking group	*Insurance companies*	*Other companies*	
1. Income	-	-	-	-	232
2. Charges	-	-	-	-	-79
3. Valuation differences on discontinued operations and related liabilities	-	-	-	-	-
4. Profits (Losses) on disposal	-	-	-	-	882
5. Taxes and duties	-	-	-	-	-48
Income (Loss)	**-**	**-**	**-**	**-**	**987**

21.2 Breakdown of taxes on discontinued operations

(millions of euro)

	2017	2016
1. Current taxes (-)	-	-48
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes (-1 +/-2 +/-3)	**-**	**-48**

SECTION 22 – MINORITY INTERESTS - CAPTION 330

22.1 Breakdown of caption 330 Minority interests

(millions of euro)

		31.12.2017
Investments in consolidated companies with significant minority interests		
1	Banca Prossima S.p.A	-2
2	Bank of Alexandria S.A.E	-24
3	Cassa dei Risparmi di Forlì e della Romagna S.p.A.	3
4	Manzoni S.r.l.	-20
5	Privredna Banka Zagreb d.d.	-4
6	Risanamento S.p.A.	13
7	Vseobecna Uverova Banka a.s.	-5
8	Other minor interest	1
TOTAL 2017		**-38**
TOTAL 2016		**-89**

SECTION 23 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 24 – EARNINGS PER SHARE

Earnings per share

	31.12.2017		31.12.2016	
	Ordinary shares	Savings shares	Ordinary shares	Savings shares
Weighted average number of shares	15,837,253,005	932,490,561	15,841,479,283	932,490,561
shares (millions of euro)	6,900	416	2,929	182
Basic EPS (euro)	0.44	0.45	0.18	0.20
Diluted EPS (euro)	0.44	0.45	0.18	0.20

24.1 Weighted average number of ordinary shares (fully diluted)

For further information on this section, see the chapter "Shareholder base, stock price performance and other information" in the Report on operations.

Part D – Consolidated comprehensive income

DETAILED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

(millions of euro)

		Gross amount	Income tax	Net amount
10.	**NET INCOME (LOSS)**	**X**	**X**	**7,354**
	Other comprehensive income that may not be reclassified to the income statement:	**1,713**	**-505**	**1,208**
20.	Property and equipment and legally-required revaluations	1,765	-515	1,250
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-52	10	-42
50.	Non current assets held for sale	-	-	-
60.	Share of valuation reserves connected with investments carried at equity	-	-	-
	Other comprehensive income that may be reclassified to the income statement:	**-77**	**-65**	**-142**
70.	Hedges of foreign investments:	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
80.	Foreign exchange differences:	-26	-	-26
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-26	-	-26
90.	Cash flow hedges:	342	-113	229
	a) fair value changes	342	-113	229
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
100.	Property and equipment	-196	21	-175
	a) fair value changes	-444	120	*-324*
	b) reclassification to the income statement	231	-88	143
	- impairment losses	*536*	*-177*	*359*
	- gains/losses from disposals	*-305*	*89*	*-216*
	c) other changes	17	-11	6
110.	Non current assets held for sale	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves connected with investments carried at equity:	-197	27	-170
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	- impairment losses	-	-	-
	- gains/losses from disposals	-	-	-
	c) other changes	-197	27	-170
130.	**Total other comprehensive income**	**1,636**	**-570**	**1,066**
140.	**TOTAL COMPREHENSIVE INCOME (Caption 10+130)**	**X**	**X**	**8,420**
150.	**Total consolidated comprehensive income pertaining to minority interests**	**X**	**X**	**39**
160.	**Total consolidated comprehensive income pertaining to the Parent Company**	**X**	**X**	**8,381**

Part E – Information on risks and relative hedging policies

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 ICT and Cyber Risk);
  - with regard to legal risk, the Group endeavours to fulfil all its legal and statutory responsibilities in order to minimise claims and litigation it is exposed to;
  - 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. In addition, it aims to ensure the desired operational, reputational and compliance risk profiles.
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 and Asset Encumbrance;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- management of operational, compliance and reputational risk, 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 new asset quality, market-based and macroeconomic indicators as early warning indicators in the RAF, to ensure consistency with its Recovery Plan.
The main specific risks considered concern the particularly significant risk concentrations for the Group (e.g. concentration on individual counterparties, on sovereign risk and on the public sector. Said management is implemented by establishing specific limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. These Risks are assessed also considering stress scenarios and are periodically monitored within the Risk Management systems.

A specific Credit Risk Appetite Framework (CRA) was already established in 2015. The CRA identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other useful predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss. In 2017, the CRA was extended to the structured finance portfolios, to large corporate and to real estate. The limits set are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.
During the 2017 update, the Group RAF was further strengthened through the following main activities:

- refinement of the methods for setting limits, focusing on the limits in the market risk area;
- identification of new specific risks and definition of appropriate limits/mitigation actions for their control;
- further rationalisation of the cascading of limits on the Divisions and Group companies.

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.
The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, 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 total Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives:

- Regulatory perspective, in which the baseline scenario and the stress scenario are presented over the short term (one year) and the medium and long term (three years). From 2017, the stress scope has been extended to the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate);
- Financial and operating perspective, in which the baseline scenario is presented, over the short term (one year). The report provides details of the sensitivity of economic capital to changes in the confidence interval (CI).

The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document in 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. In addition, as per the Road Map agreed with the Joint Supervisory Team, the inclusion in the Group Recovery Plan of the subsidiaries within the SSM scope was completed (VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxemburg, CIB, Privredna Banka Zagreb Group and Intesa Sanpaolo Romania). The other foreign subsidiaries will continue to be managed according to the regulations in their countries.

The table below shows the mapping of risk disclosure regarding the financial statements and Pillar 3.

	FINANCIAL STATEMENTS		PILLAR 3
	Section/Chapter	Paragraph	Section
RISKS OF THE BANKING GROUP	PART E - SECTION 1		
- Credit risk	Chapter 1.1	*Paragraph A and B*	Sections 6-7-8-9-10
- Securitisations		*Paragraph C*	*Section 12*
- Counterparty risk	Chapter 1.1 - Chapter 1.2		Section 11
- Market risk	Chapter 1.2		Section 13
- Regulatory trading book		*Paragraph 1.2.1*	
- Banking book		*Paragraph 1.2.2*	
- Sovereign risk	Chapter 1.3		
- Liquidity risk	Chapter 1.3		Section 5
- Operational risk	Chapter 1.4		Section 14
- Legal risk	Chapter 1.4		
RISKS OF INSURANCE COMPANIES	PART E - SECTION 2		
- Insurance risks	Chapter 2.1		
- Financial risks	Chapter 2.2		
RISKS OF OTHER COMPANIES	PART E - SECTION 3		

Risk culture

The Group continues its strategic orientation towards a moderate risk profile, maintaining high levels of capital and liquidity, supported by ongoing attention to the internal control system and strengthened by operating limits and rules that favour compliance with the regulations. A culture based on widespread responsibility, balanced judgment aptitude and long-lasting sustainability of development initiatives is promoted, through extensive staff training aimed both at acquiring in-depth knowledge of the overall risk management framework (approaches, methods, internal models, rules and limits, controls) and at internalizing the Group's values (Code of Ethics, behaviour, rules of conduct and relations).
Particular attention is paid to full awareness of the principles and guidelines, by systematically updating the reference documents (Tableau de Bord, ICAAP, Risk Appetite Framework) and the information set for the exercise of activities, whose contents are clarified through structured training approaches (Risk Academy). Ongoing relations are maintained with the Chief Risk Officers of the Group companies, in order to share information on development plans and the progress of strategic projects, with the examination of the specific operational and regulatory aspects of the local markets. To obtain an extensive and in-depth picture of the Group's risk culture, a survey was conducted, involving approximately 7,700 managers (Heads of Departments, Sub-Departments and Offices) and all the governance, steering and control functions of the Parent Company and the Divisions, as well many representatives from the business units and the commercial network. The survey collected and processed information, gathered through questionnaires and interviews, on perceptions and opinions regarding a range of dimensions of the risk culture, including: 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. The results were compared with the data obtained from the same survey on a sample of international peers. The broad-based participation (80% survey participation rate) is clear evidence of the sensitivity to the values and conduct about risks. The perceptions on the risk culture dimensions, that are widely converging, provide an idea of the Group's close-knit management team and reflect the internalization of the system of values, principles, rules, models and relationships. The outcomes concerning the risk awareness and tolerance, the appropriate self-control behaviours, the compliance to rules, the openness to comparison, made the Group stand out from its peers and confirmed the perception of an effective internal control system. Supporting actions to strenghthen orientation to cooperation and internal communication have been launched in order to promote a wider dissemination of working approaches strongly geared towards innovation and proactive problem-solving of the issues.

Risk governance organisation

The policies relating to risk taking and the governance processes for management of the risk that the Group is or could be exposed to are defined by Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Committees appointed by the Board, including primarily the Risks 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 defined by the Board of Directors.

The Corporate Bodies also benefit from the action of selected 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. Among these:

- 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. Its various tasks include examining the RAF, for the presentation of the related proposal to the Board of Directors, and the allocation, on authority from the Board of Directors, of the Group RAF limits to the Divisions and/or the Group companies.

- The Group Financial Risks 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 insurance business (result exposure to the trend in market variables). The functions of said Committee are set out in two sessions:
  - the Risk Analysis and Assessment Session, chaired by the Chief Risk Officer, is responsible, inter alia, for evaluating, in advance of approval by the Corporate Bodies, the methodological and measurement guidelines for financial risks and proposals for operational limits, in addition to defining the distribution thereof amongst the Group's major units; in addition, the session verifies the financial risk profile of the Group and its main operational units;
  - 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 Corporate Bodies 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 appropriate measures aimed at mitigating it.

- the Control Coordination and Operational Risk Committee is a technical body whose goal is to strengthen the coordination and the interdepartmental cooperation mechanisms as part of the Group internal control system, thus promoting the integration of the risk management process. The Functions of the Group Control Coordination and Operational Risk Committee are organised into specific, separate sessions:
  - Integrated Internal Control System Session, for reporting and consulting purposes;
  - Operational Risk session, with decision-making, reporting and consulting purposes (in this context, the Committee's duties include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies).

The Manager responsible for preparing the Company's financial reports participates in the Committee meetings 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 Chief Risk Officer, to whom the Governance Area in charge of the risk management functions as well as the controls on the risk management and internal validation process reports, represents a "second line of defence" in the management of corporate risks that is separate and independent from the business supporting functions.
The Chief Risk Officer is responsible for proposing the Risk Appetite Framework and 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. The Chief Risk Officer also carries out II level controls on 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 Department;
- Financial and Market Risks Department;
- Enterprise Risk Management Department;
- Internal Validation and Controls Department;
- 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 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 the Area.

The Chief Compliance Officer, who 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 risk of non-compliance with Group regulations. Within the Risk Appetite Framework, the Chief Compliance Officer proposes the statements and limits set for compliance risk and monitors their implementation. He/she also collaborates with (i) the Chief Risk Officer Governance Area in the monitoring and control of operational risks for compliance purposes, in the proposal of operating loss limits and, if these limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures; (ii) together with the other Corporate control functions, in accordance with the procedures set out in the "Integrated internal control system Regulation", in order to achieve effective integration of the risk management process.

The Parent Company performs a guidance and coordination role with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, 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.

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:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank’s risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the 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 of terrorism);
- the compliance of transactions 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 structure of internal controls is also outlined by the entire set of company documentation (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls in force, incorporating all the Company policies, the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.

The regulatory framework consists of “Governance Documents” 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 Regulations, 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.

More specifically, the Company 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, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- 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 auditing 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 model:

- 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:
  - o the correct implementation of the risk management process;
  - o compliance with the operating limits assigned to the various functions;
  - o 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:
  - o Chief Compliance Officer, who is assigned the duties and responsibilities of the "compliance" function, as defined in the reference regulations. The Chief Compliance Officer's area also includes the Anti-Money Laundering Department, which is tasked with the duties and responsibilities of the "anti-money laundering function", as defined by the reference regulations;
  - o 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 Internal Auditing Head Office Department 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 II level controls on credit and other risks. The activities conducted on credit consider the quality, composition and evolution of the various loan portfolios, also through controls, sampled by a risk-based or a statistical approach, on proper classification and provisioning of single positions ("single name" controls).
In general, the control activities development includes the credit processes assessment also to verify that suitable I level controls are in place, including proper execution and traceability.
The control of risks other than credit risks is aimed at verifying that I level controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

The internal control system implemented by the Bank includes the validation function, which is in charge of the ongoing evaluation, in accordance with the supervisory regulations for banks[11], 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. The managerial models and IFRS 9 framework are as well as evaluated. 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.
In line with recent regulatory developments, the Validation function has developed a specific framework for the analysis of the Model Risk that will accompany the activities and the validation framework already implemented for the management and control of the Pillar 1 and 2 risks.
On an annual basis a validation plan, submitted to the Board of Directors for approval, is prepared.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function assesses 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 Internal Auditing Head Office Department for its related internal auditing work, as well as to the competent Managerial Committees and Governing 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 conducts 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

[11] EU Regulation 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

Validation function produces a report to be submitted to the competent Managerial Committees and the Governing Bodies[12].
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[13] (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 Provisions 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.
The function generally also provides advice and suggestions to company and Group functions on an ongoing basis, with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

In terms of cross-cutting activities, the Validation function carried out the following in 2017:
- validation of the main methodological and process implementations for compliance with IFRS 9 in the areas of classification & measurement and impairment (loans & bonds); for the impairment project, validation of the Corporate and Retail models and implementation of the requests made by the Regulator in the Thematic Review (preparation of the IFRS 9 manual and validation of thresholds for classification into stages); and the examination of a first set of international subsidiary banks for the implementation of the IFRS 9 framework;
- publication of an updated version of the Rules for the validation of the Group's internal systems, which includes the procedures for analysis and assessment of the validation results and the main elements of the framework for the validation of the risk model; validation manuals were also published at the same time;
- Target Review of Internal Models (TRIM/TRIMIX) relating to market risk (performed in Q2 2017), counterparty risk (completed in November 2017) and credit risk (from April 2017), with particular attention given to compliance with the prior requests set out in the "TRIM Expectation Guide" and those made by the inspection teams;
- completion of the preliminary analysis and priority setting stage, identifying an initial set of models (Pillar 1 and Pillar 2) and priority methodologies according to significance and potential risk model (Cluster I), for which further analysis work has been planned for 2018;
- assurance and analysis activities within the Vivaldi project, relating to the integration of the recently acquired former Venetian banks;
- validation of progressive implementations for the RADAR project.

With regard to Credit Risks, the main areas of investigation in which the function had a significant involvement in 2017 are listed below:
- validation for the submission of the Retail (PD, LDG and EAD) and EAD Corporate application;
- assurance activities required by the regulator on the Corporate and Institutions remediation plans;
- calculation of default rates for CT update;
- preparation of a methodological document containing flows and choices underlying the calculation of default rates;
- validation for management/regulatory adoption of internal models by the International Subsidiary Banks.

With regard to operational risk, the validation activities in 2017 concerned, as usual, the assessment of the due maintenance of the ORM framework and monitoring of the performance of the model calculation (AMA scope). In addition, the function participated in the pilot exercise, requested by the ECB, concerning the implementation of common metrics for the validation of the AMA models: the template with the summary of the information and simulations required was prepared as instructed and sent to the ECB.

With regard to market and counterparty risks, the observations made by the inspection teams acknowledged the quality of the analyses carried out, providing suggestions for further analysis. Particular importance was given to the request to extend the scope of the analysis to the regular and continuous validation of the pricing functions of the financial instruments adopted in the risk calculation architecture. In acknowledgement of the observation made by the inspectors during the market risk TRIM, during the subsequent TRIM on counterparty risks, the first validation analyses of the pricing functions were submitted and the new operational process was duly described in the internal regulations produced. In 2017, work began on analysing the hypothetical portfolios and designing the operating process. Additional investigations were conducted on the model changes for the counterparty risk internal model (ex-ante notification for interest rate simulation, request for equity and exchange rate simulation). Monitoring continued of the progress of the main projects with impacts on market and counterparty risks (e.g. Fundamental Review of Trading Book, Independent Pricing Verification). The analyses conducted on an ongoing basis included the backtesting (issued quarterly for both risks), the review of the stress period for the calculation of the Stressed VaR (market risk area) and the monitoring of the model's calibration parameters (counterparty risks model).

For the Pillar 2 Risks, the main areas of analysis in 2017 were:
- assessment of the new treatment of the AFS portfolio;
- analysis of the changes made to the methodology for determining the risk parameters through the Country Risk and CCF model solely for the Sovereign segment;
- assessment of the changes made to the model for the calculation of the economic capital with respect to interest rate risk in the banking book (particularly for the management of negative rates);
- revision of behavioural models for core deposits and prepayment;
- updating of the historical series used for credit risk (portfolio model and non-performing loans model);
- assessment of changes made to the methodology for calculating the economic capital with respect to insurance risk;

[12] 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 unit, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.

[13] Note that the functional reporting of local validation units to the Internal Validation and Controls Head Office Department has been formalised.

- assessment of minor changes made to other risks such as pension risk, equity risk in the banking book, strategic risk, etc.;

In addition, structural changes to the general prudential assessment framework were evaluated, including for example:
- change in the percentile for the calculation of the economic capital (from 99.90% to 99.85%);
- removal of the stressed AFR/Economic Capital RAF indicator;
- addition of the “economic outlook” and “regulatory outlook” to the stress tests.

The analyses conducted by the Validation function are reported in specific detail memos, summarised in the 2017 ICAAP&ILAAP Book and in the annual report on the models used for operational purposes, prepared in July 2017.

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 operational 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, including through the use of information provided by the other control functions, of ongoing compliance;
- 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 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 direction, 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, as envisaged by regulations, are assigned to the Anti-Money Laundering Department, which reports directly to the Chief Compliance Officer.
Specifically, the Anti-Money Laundering Head Office Department ensures monitoring of compliance risk in the area of money laundering, terrorist financing and embargoes, corruption (financial crime) and weapons, in addition to administrative liability of entities, by:
- laying down the general principles to be adopted within the Group for the management of 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 Reporting Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

Internal Auditing

The internal auditing activities are assigned to the Internal Auditing Head Office Department, which reports directly to the Board of Directors (and on its behalf to its Chairman), which also reports functionally to the Management Control Committee, subject to appropriate liaison with the Managing Director and CEO. The Internal Auditing Head Office Department does not have any direct responsibilities for the operational areas.

The Department has a structure and a control model which is organised consistently with the evolution of the organisational model of Intesa Sanpaolo and of the Group.
The Internal Auditing structures of the Group's Italian and international companies report to the Internal Auditing Department 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 plans 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 international best practices and standards for 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 last review was carried out in 2016 and assigned the department the highest assessment envisaged ("Generally Compliant").
In performing its duties, the Department 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 Internal Auditing Head Office Department ensures the proper conduct of the internal process for managing whistleblowing reports.

Auditing was performed directly for the Parent Company, the Network Banks and 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 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 company 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 Internal Auditing Department 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 professional audit practice. In this regard, the enhancement of the audit model in line with the new European supervisory standards laid down by the EBA (SREP framework) was completed in 2017.

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 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).

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 "Organisation, Management and Control Model pursuant to Legislative Decree No. 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 Italian 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 overseeing the adequacy of the administrative, accounting and financial reporting procedures and the related internal control system is governed by the company regulations "Administrative and Financial Governance Guidelines" updated in 2017 to reflect the adoption of the one-tier governance system, changes in the internal and external regulatory framework, and the evolution of financial reporting in terms of scope and content.

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 Auditing 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 steering 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 Auditing Department and the other Corporate control functions. For this purpose, the Corporate control functions and the Manager responsible for preparing the Company's financial reports share the annual audit plans and related findings within the Control Coordination and Operational Risk Committee established by the Integrated Internal Control System. 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 Consob Market Regulation 20249/2017 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).

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 control 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 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).
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 of 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.

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 *ex-ante* risk management processes (e.g. defining prevention and mitigation tools and measures in advance) and implementing specific, dedicated communication and reporting flows.
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 Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.

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, as required by the instructions from the Bank of Italy.
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.

Other risks

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 and changes in the operating context. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) 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:

- systematically and independently by the corporate structures with specific tasks aimed at preserving corporate reputation, through a structured system of organisational monitoring measures;
- across the various corporate functions, through the Reputational Risk Management processes coordinated by the Enterprise Risk Management Head Office Department.

The "systematic" monitoring of reputational risk envisages:
- specific organisational structures which, each for its purview, monitor the Bank's reputation and manage the relationships with the various stakeholders;
- an integrated monitoring system for primary risks, to limit exposure to them;
- compliance with standards of ethics and conduct;
- establishing and managing customers' risk appetite, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.

A fundamental tool for reputational risk monitoring is the Code of Ethics adopted by the Group. This contains the basic values to which the Group intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. 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.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk appetite profiles according to 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 assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More specifically, the marketing of financial products is also governed by specific advance 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 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 is founded on trust.

The "cross-function" monitoring of reputational risk is entrusted to the Reputational Risk Management (RRM) processes, which are coordinated by the Enterprise Risk Management Head Office Department and involve control, specialist and business functions, for various purposes.
This process includes the Reputational Risk Assessment, conducted yearly and aimed at integrating and consolidating the main findings provided by the organisational structures more directly involved in monitoring the company's reputation. The objective of that process is to identify and mitigate the most significant reputational risk scenarios to which the Intesa Sanpaolo Group is exposed through:
- the identification of the main risk scenarios to which the Group is exposed;
- the assessment of said scenarios by the Top Management;
- the definition and monitoring of adequate communication strategies and specific mitigation measures.

The overall framework of reputational risk governance also includes:
- the Reputational Risk Clearing processes, i.e. the set of activities, tools and methods aimed at assessing reputational risk within business operations;
- the Reputational Risk Monitoring processes, i.e. the set of activities aimed at collecting and analysing information to define the reputational risk profile – and the related risk – of the Intesa Sanpaolo Group.

In establishing the framework and its elements, particular attention was dedicated to the involvement of the corporate functions responsible for managing reputational aspects, to systematising their respective duties and responsibilities and to building a shared corporate framework.

The Intesa Sanpaolo Group carefully considers all the risks associated with climate change that may result in additional costs for the Bank or its customers. Specifically, with regard to changes in national and international regulations which could have significant financial effects on its customers, through the subsidiary Mediocredito Italiano, Intesa Sanpaolo has set up an Energy Desk specialising in supporting customer companies in energy efficiency projects and advanced advisory services on legal developments and how to suitably prepare for compliance with such regulations.
Furthermore, with regard to the risk of extreme weather events or emergencies due to climate changes, to meet the needs of customers that have incurred damages, following such events Intesa Sanpaolo shall suspend payment of mortgage loans and instalments of loans for retail customers and businesses in areas seriously impacted by weather events.

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 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 the maximum potential loss based on changes observed in the past in indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

For the 2017 Financial Statements, Intesa Sanpaolo decided to initiate the revaluation for accounting purposes of its valuable art assets and properties (both operating and held for investment purposes), with the purpose of aligning their carrying amount to the current market values thus providing more meaningful information for the users of the financial statements.
In relation to the changes in the accounting policies in this area (described in detail in the Financial Statements – Notes to the consolidated financial statements – Part A – Accounting policies), the appropriate updates of the risk measurement and management techniques will be assessed, where necessary.

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 change 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 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 a VAR model for the main macroeconomic variables, and to stress scenarios.

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 & Investment Banking" Business Unit (25.5% 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 (21.4% 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 (14.8% 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 Capital Light Bank, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's AFS portfolio, and the residual portion of insurance risk (25.1% of the total Economic Capital).

Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.3% and 0.2%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

Basel 3 regulations and the Internal Project

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the scope of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.
With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report at 31 December 2008 on the Corporate portfolio for a scope including the Parent Company, the banks in the Banca dei Territori Division and the main Italian product companies.
Progressively, the scope of application has been gradually extended to include the SME Retail and Mortgage Retail portfolios, as well as other Italian and foreign Group companies.
Among the main changes during the year, please note the authorisations received from the ECB to use internal ratings-based approaches for the Institutions portfolios – including the changes requested by the regulator on the respective remediation plans – to use the new Corporate model and the internal estimates of the Credit Conversion Factor (CCF) to calculate the EAD for the Corporate segment for a scope including the Parent Company, the banks in the Banca dei Territori Division and the main Italian and international Group companies, as represented in the table below.

<table>
<tr><th>Company</th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>Corporate
EAD</th><th>Retail Mortgage
IRB LGD</th><th>SME Retail
IRB LGD</th><th>Banks and Public Entities
IRB</th><th>Banking Book Equity*
IRB</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="6">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Sep - 2017</td><td rowspan="7">Jun - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="7">Jun - 2017</td><td rowspan="7">Jun - 2017</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Mediocredito Italiano</td><td>Dec - 2009</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2008</td><td>Dec - 2010</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2012</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2013</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>Jun - 2017</td><td>Jun - 2017</td></tr>
<tr><td>IMI Investimenti</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>Jun - 2017</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>n.a.</td><td>Jun - 2012</td><td>Jun - 2014</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Banka Intesa Sanpaolo d.d.</td><td>Mar - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Intesa Sanpaolo Bank Luxembourg</td><td>n.a.</td><td>Jun - 2017</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
</table>

(*) Based on authorisation ECB/SSM/2017 - 2W8N8UU78PMDQKZENC08/95 "Decision on the Supervised Entity's application for approval of an internal model for credit risk", the internal PD/LGD system for Equity exposures is applied to the entire scope of Companies authorised to use the Corporate model, irrespective of the current materiality of the portfolio

In 2017, the Supervisory Authority made an on-site validation inspection for the authorisation to the use of internal models for determining the PD (Probability of Default), LGD (Loss Given Default), and EAD (Exposure at Default) for the Retail segment. During this inspection, the parameters for the residential mortgage portfolio, for which authorisation to the use of internal models had been obtained starting from June 2010, were also reviewed.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

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.
The banks of the Banca dei Territori Division received the same authorisation for derivatives from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company and Banca IMI since 2010 and were subsequently extended in 2015 to the Banca dei Territori Division and to Securities Financing Transactions.

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

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2017.

In 2018 Intesa Sanpaolo will participate, as a Significant Institution, in the EBA EU-Wide Stress Test 2018.
The test will cover 70% of the banking sector of the European Union and, as in the test conducted in 2016, will aim to assess the capital adequacy and impacts on profitability on the occurrence of an adverse scenario in the three-year period 2018-2020.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".
The document is published on the website (www.group.intesasanpaolo.com) each quarter.

SECTION 1 – RISKS OF THE BANKING GROUP

As required by the instructions provided by the Bank of Italy, the information in this section - Risks of the Banking Group - is provided solely with respect to the Banking Group, as defined in the Supervisory Instructions, except when it is expressly indicated to the contrary that all companies within the scope of consolidation are considered.
The tables that refer to the Banking Group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes. Amounts are stated gross of transactions with other companies within the scope of consolidation.
Where the contribution of transactions between the Banking Group and the other companies in the scope of consolidation is material, the details of such transactions are provided.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

(millions of euro)

Assets	31.12.2017 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2017 Regulatory-scope balance sheet
10. Cash and cash equivalents	9,353	10	9,363
20. Financial assets held for trading	39,518	-476	39,042
30. Financial assets designated at fair value through profit and loss	75,269	-74,406	863
40. Financial assets available for sale	142,341	-77,374	64,967
50. Investments held to maturity	1,174	-	1,174
60. Due from banks	72,462	-579	71,883
70. Loans to customers	410,746	4,283	415,029
80. Hedging derivatives	4,217	-4	4,213
90. Fair value change of financial assets in hedged portfolios (+/-)	-204	-	-204
100. Investments in associates and companies subject to joint control	678	5,320	5,998
110. Technical insurance reserves reassured with third parties	16	-16	-
120. Property and equipment	6,678	-81	6,597
130. Intangible assets	7,741	-673	7,068
of which: goodwill	*4,056*	*-494*	*3,562*
140. Tax assets	16,887	-528	16,359
150. Non-current assets held for sale and discontinued operations	627	-278	349
160. Other assets	9,358	-3,706	5,652
Total Assets	**796,861**	**-148,508**	**648,353**

Liabilities and Shareholders' Equity	31.12.2017 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2017 Regulatory-scope balance sheet
10. Due to banks	99,990	-185	99,805
20. Due to customers	323,443	4,039	327,482
30. Securities issued	94,239	1,898	96,137
40. Financial liabilities held for trading	41,285	-70	41,215
50. Financial liabilities designated at fair value through profit and loss	68,169	-68,165	4
60. Hedging derivatives	7,489	-	7,489
70. Fair value change of financial liabilities in hedged portfolios (+/-)	478	-	478
80. Tax liabilities	2,509	-646	1,863
a) current	*364*	*-49*	*315*
b) deferred	*2,145*	*-597*	*1,548*
90. Liabilities associated with non-current assets held for sale and discontinued operations	264	-264	-
100. Other liabilities	12,574	-1,945	10,629
110. Employee termination indemnities	1,410	-7	1,403
120. Allowances for risks and charges	5,481	-116	5,365
a) post employment benefits	*1,104*	*-1*	*1,103*
b) other allowances	*4,377*	*-115*	*4,262*
130. Technical reserves	82,926	-82,926	-
140. Valuation reserves	-789	-	-789
150. Redeemable shares	-	-	-
160. Equity instruments	4,103	-	4,103
170. Reserves	10,921	-	10,921
180. Share premium reserve	26,006	-	26,006
190. Share capital	8,732	-	8,732
200. Treasury shares (-)	-84	-	-84
210. Minority interests (+/-)	399	-121	278
220. Net income (loss)	7,316	-	7,316
Total Liabilities and Shareholders' Equity	**796,861**	**-148,508**	**648,353**

(*) 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

The Group's strategies, credit risk appetite, 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;
- given the current economic climate, 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.

Credit risk management policies

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 the BdT Credit Head Office Department, CIB Credit Head Office Department, International Subsidiary Banks Credit, Credit Decision Coordination Head Office Department, assesses the creditworthiness of the loan applications received and, where applicable, approves them or issues a compliance opinion; ensures the proactive management of credit, under his/her responsibility, and the management and monitoring of non-performing loans not in bad loan status; establishes the rules on credit granting and on non-performing loans; ensures that positions classified as non-performing, under his/her responsibility, are properly measured for financial reporting purposes; allocates the ratings to the positions that require specialist assessments and assesses the improvement override proposals made by the competent departments; and defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, also on proposal from the Group's various functions/structures.
The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, and carries out II level credit controls. With specific regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis, he or she supervises credit risk measurement models.
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.
The Chief Financial Officer Governance Area assists the Corporate Bodies in establishing the guidelines and policies – in accordance with corporate strategies and objectives – in terms of research, planning, capital and liquidity management, treasury management, financial and credit strategies, management control, financial reporting, tax compliance, and relations with investors and rating agencies. It also promotes value creation within the Group, ensuring the related controls, through integrated monitoring of study and research work, planning, management control, treasury management, and capital and liquidity management, and the optimisation of the financial and credit portfolios. Coordinates and verifies the implementation of guidelines and policies on planning, capital and liquidity management, treasury management, financial and credit strategies, management control, financial reporting and tax compliance, by the relevant Group business units, and in other corporate departments as appropriate.
Establishes the model and oversees the Group's Data Governance and Data Quality system, ensuring its diffusion and implementation and coordinating the activities of the parties involved.
In addition, within the framework of the loan assessment process, the Administration and Tax Head Office Department, under the Chief Financial Officer Governance Area, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.
Lastly, as is the case for all the risk areas and above all for credit risk, the Internal Auditing Head Office Department 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.

Credit granting autonomy limits, which incorporate the amount of loans granted (EAD), the risk level of the customer (PD), the loss rate in the event of a default by the borrower, possibly mitigated by the presence of guarantees (LGD), and maturity, are defined in terms of risk-weighted assets and reflect the risks assumed/to be assumed by the Intesa Sanpaolo Group towards

the Economic Group.
Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.
In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:
- the system of Credit Granting Powers and Rules governing the ways in which credit risk to customers is assumed;
- the "Credit ceiling", intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the "Advisory opinion" on credit-granting to large customers (single name or Economic Group) by Group subsidiaries which exceeds certain thresholds;
- the "Rules on Credit Risk Appetite" that regulate the application of the CRA, whose purpose is to achieve a sustainable growth in loans;
- the "Rules on Credit Strategies" whose objective is to guide the growth of the loan portfolio towards an optimal risk/return profile in the medium/long-term.

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.

Management, measurement and control systems
Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.
Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and 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:
- 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.

In general terms, the structure of these models requires the integration of multiple modules:
- a quantitative module that processes financial and behavioural data;
- a qualitative module that requires the manager to fill in a questionnaire;
- an independent assessment by the manager, organised as a structured process, which triggers the override procedure if there is a discrepancy with respect to the integrated rating.

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. The validation of any improvement override proposals is performed by the Specialist Rating Sub-Department within the Credit Coordination Head Office Department. This sub-department is responsible for, among other duties, the task of assigning what are known as "centralised ratings" provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.

The LGD model is 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 Doubtful 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 a correction factor, known as "Danger Rate": Danger Rate is a multiplying correction factor, used to recalibrate Doubtful 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;
- 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 Doubtful Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Factoring, Leasing and Public Entities).

In 2017, an authorisation was received for the Corporate portfolio for the PD, the LGD and the EAD. With the re-estimation of the rating models for the Corporate portfolio, information set used for counterparty assessment was broadened and efforts were also made to simplify their composition and number. Finally, various measures have been adopted that are aimed at favouring a through-the-cycle profile of the probabilities of default produced by the models, consistently with the relational-type commercial approach adopted by the Group.
The Group also received an authorisation from the ECB to use the Credit Conversion Factor (CCF) internal estimates for the calculation of the EAD for the Corporate segment**.** The credit conversion factor (CCF) is the percentage of the margin on a given credit line that will become an exposure over a given time horizon. When multiplied by the credit line's available undrawn margin, it generates exposure at default (EAD).

In 2017, the PD/LGD approach was also validated for the equity instruments of the banking book for the calculation of the capital requirements.

The models applied to the Retail portfolio are as follows:
- for the Retail SME segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and time series used for the development of the model. In 2017, the development continued of new internal models for the calculation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for the SME Retail segment. The model change is scheduled for 2018;
- for Retail Mortgage, a specific model is currently being used that processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data. During the year the new Retail rating model was estimated, which is being validated and is currently awaiting authorisation by the Regulator. Once it has been validated, this new model will replace the model for retail mortgages to individuals, and during the year it replaced the Other Retail acceptance management model that covered all the other products aimed at individual customers. The new Retail rating model aims to cover the entire retail customer portfolio (including the former Venetian banks) and adds significant new elements including a counterparty-based approach instead of a product approach. Another significant change is the differentiation of the models based on customer type.

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries. The structure of the model involves:
- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market quotations of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of individual sovereign countries.

The framework is completed by the class of regulatory exposures consisting, on the one hand, of banks (and other financial companies attributable to banking groups) and near banking companies (companies that engage in leasing, factoring and consumer credit), and, on the other, public entities:
- in the Bank model the key decision to determine the probability of default was to differentiate the models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component representing systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "relationship manager's judgement") that allows the rating to be modified in certain conditions. The Loss Given Default (LGD) calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models;
- for Public Sector Entities the models have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching). As regards the LGD estimate of the Public Sector Entities segment, the methodological framework is substantially similar to that used for the development of the LGD models of the already validated segments.

Experience-based models are used for counterparties belonging to the Non-Banking Financial Institutions portfolio.

The rating models (PD and LGD) for the Retail Mortgage segment received authorisation for transition to the IRB approach effective from June 2010 report, while rating models for the Retail SME segment received authorisation for transition to the IRB approach effective from December 2012 report. The rating models for the Corporate segment received authorisation for the use of the AIRB approach to calculate capital requirements effective from 31 December 2010 reporting date (the FIRB approach had been used since December 2008), while the LGD Corporate models for Leasing and Factoring products received authorisation for transition to the AIRB approach effective from the June 2012 report.
For information on the plan to extend the IRB approach to other portfolios, refer to the paragraph concerning the Basel 3 Project.

PD and LGD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and partly adapted to the local situation which was entirely developed by the subsidiaries concerned. In particular, in 2017:
- the Slovak subsidiary Vseobecna Uverova Banka (VUB) was authorised to use the corporate model described above solely for counterparties with a turnover of more than 500 million euro and the new internal rating model for the Retail Mortgage regulatory segment.
- the Slovenian subsidiary, Banka Intesa Sanpaolo (formerly Banka Koper) was authorised to use the internal rating systems (PD-FIRB) for the Corporate portfolio.

The rating system also includes a risk monitoring process, run on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high-risk valuation, which is confirmed over time, are intercepted by the Proactive Management process.
Starting from July 2014 the new Proactive Credit Management process was activated, setting up a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures.

The objective is to promptly identify performing positions with early signs of difficulty and immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The introduction of Proactive Management has also significantly simplified the processes, with the removal of the old non-performing loan statuses.
During the year, the new Corporate proactive process was put into operation that involves the use of the Early Warning System model for singling out and classifying defaults, for the Corporate portfolio, which was also developed to meet the requirements resulting from the 2014 Comprehensive Assessment (AQR impairment trigger). In 2017, the Early Warning System engines were also certified and put into production, with related risk traffic light output, for the SME Retail and Retail segments. The use of these systems and their risk output as an selection system in the operational processes of default prevention and credit management will take place during 2018, replacing the previous IRIS indicator and the other objective impediment criteria (repayment arrears, past due overdrafts etc.).

From 8 December 2017, the risks of the exposures arising from the Aggregate Set have been calculated using the system and rating processes described above, pending the assessment by the regulatory authorities. This does not apply to the risks of the exposures of Banca Nuova and Banca Apulia because as at 31 December 2017 they were not included in the Group's risk management systems. The exposures of these two banks have been treated using the standard calculation method for the RWA.

The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.

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 to the regulatory provisions, company needs and changes in the relative market.

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 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 assessed in the context of 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. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at optimising the risk implicit in the Group's cross-border lending operations.

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. 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, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).

In 2010 a specific project was launched to ensure that the Banking Group has an internal model for measuring counterparty risk, both for operational and regulatory purposes. The organisational functions involved, as described in the Bank's internal regulations, are:
- the Chief Risk Officer Governance Area, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the lines of credit.

The project yielded the following results:
- the Banking Group set up a suitably robust IT, methodological and regulatory infrastructure, in accordance with the use test requirement set out by regulations on internal models;
- the Banking Group integrated the risk measurement system into decision-making processes and the management of company operations;
- cutting-edge methods were adopted for calculating drawdowns on credit lines;
- the Supervisory Authority validated the Parent Company's and Banca IMI's use of the internal model for calculating the counterparty requirement in the first quarter of 2014. The first report using the internal model (with a view to Basel 3) was made on 31 March 2014, relating to the scope of Parent Company and Banca IMI OTC derivatives.
- the banks of the Banca dei Territori Division were authorised to use the internal model for the capital requirement with effect from the report as at 31 December 2016.
- the Group obtained authorisation to use the internal model for the capital requirement for SFT – Securities Financing Transactions instruments with effect from the report as at 31 December 2016.

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 credit lines. The counterparty Risk Department produces daily risk estimates for the measurement of the usages of credit lines for OTC and SFT for the Parent Company and Banca IMI. It also does this for the OTC derivatives for the banks of the Banca dei Territori division. 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 transactions with collateral agreements (CSA);
- 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.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.
The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.
The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated 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.
The expected loss, transformed into "incurred loss", as indicated by IAS 39, is used in the collective provisioning, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.
The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving 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.

The Group's lending activity is focused on Italian customers (84% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

Credit risk mitigation techniques

Mitigation techniques are adopted in order to reduce the Loss Given Default. 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.
During the credit granting and managing process, the presence 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 personal guarantees and real estate collateral uses a single platform at Group level, which is integrated with the register of real estate assets and the portal that manages the 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 Code ("Property Valuation rules for credit purposes") prepared by the Bank. The content of the internal Code is 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 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, every three years for major exposures.
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 mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.
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 reference to each of the three methods permitted by the regulations for calculating capital requirements. 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 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 to compensate credits and debts if a counterparty defaults.
This is achieved by entering into ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
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.

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. In further detail, the gap analysis of seven International Subsidiary Banks was completed for the main types of guarantees and for five of these banks an action plan was drawn up and is being implemented over a three-year period (work started at the end of 2017 and is scheduled for completion in 2019). The project aimed at providing the International Subsidiary Banks an application capable of managing covenants was also completed in 2017.

In 2017 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 involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.
During the year – again under the "GARC" Project – a synthetic securitisation was also completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. The operations are part of the "SME Initiative Italy (SMEI)", a project co-financed by the Ministry of Economic Development, the European Commission and the EIB Group (European Investment Bank and European Investment Fund), through a combination of national funds and the European Structural and Investment Funds (ESIF), resources from the COSME (Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) and from the EIB Group. The initiative is aimed at providing new credit to small and medium-sized enterprises in Southern Italy through the reinvestment of funds freed up through the securitisation.
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 (EU Regulation 575/2013 and Bank of Italy Circular 285/2013).
For details of the transactions carried out in 2017 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

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 2017, the integration and dialogue between these systems was implemented, together with a verification of the data quality and an update of the information recorded. The project work in the area of collateral management also involved the launch of organisational initiatives for the management and recording of information and its monitoring, with the strengthening of the structures responsible for those activities and an update of the statistical valuation model for non-performing positions of a small amount (positions below 2 million euro). For these positions, on one hand, account was taken of the integration of the systems and the data quality checks, with effects in terms of higher provisions of 228 million euro in the 2017 Financial Statements and, on the other hand, the revision of the application of the “LGD model” for the estimate of the recoverable amount to bring it into line with the methods used to calculate the LGD. In essence, the latter is calculated without taking account of changes in the value of the assets given as collateral for the respective positions. Pending the completion of the above activities, the Group used the model on a precautionary basis, also assigning the average LGD calculated on unsecured positions to the unsecured amount of the positions that have become partially secured due to a reduction in the value of the collateral. This component has now been removed and, in line with the criteria for the calculation of the secured LGD, it is applied to the entire amount of the collateralised positions regardless of the value of the collateral (subject, of course, to the application of the unsecured LGD to the fully unsecured positions). The adjustment generated a positive impact on the 2017 income statement of 73 million euro.

Performing loans

Collective measurement is compulsory for all loans for which there is no objective evidence of impairment. Such loans must be measured collectively in homogeneous portfolios, i.e. with similar characteristics in terms of credit risk. The concept of "loss" to which to refer when measuring impairment is that of incurred loss, as opposed to expected or future losses. In the case of collective measurement, this means that reference should be made to the losses already included in the portfolio, although these cannot be identified with reference to specific loans, also defined as "incurred but not reported losses".

In any event, as soon as new information allows the loss to be assessed at the individual level, the financial asset must be excluded from collective measurement and subject to individual measurement.

Although international accounting standards do not explicitly refer to the methods developed in the context of supervisory regulations, the definition of the elements to which to refer when classifying loans into groups to be subject to collective measurement has many points of contact with the Basel 3 regulations and the possible synergies are therefore evident. Through exploitation of such synergies, a measurement model has been structured involving the use of risk parameters (Probability of Default and Loss Given Default) essentially similar to those of Basel 3.

Therefore, in accordance with regulatory provisions, the method calls for expected loss (EL) to be determined according to the risk parameters estimated for the AIRB models under banking supervision regulations.

Expected loss calculated for the purposes of the collective loan measurement procedure differs from that calculated for reporting purposes inasmuch as the LGD used in incurred loss does not (in accordance with international accounting standards) include indirect recovery costs and calibration on the negative phase of the cycle ("LGD downturn").

For loans to customers only, the expected loss (EL) is transformed into incurred loss (IL) by applying factors that capture the loss confirmation period (LCP) and economic cycle of the portfolio:

- the LCP is a factor that represents the time interval between the event that gives rise to the default and the occurrence of the sign of default, which allows the loss to be transformed from expected to incurred;
- the cyclical coefficient is an annually updated coefficient estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient, which is determined by regulatory segment according to the methods described in the Group Accounting Policies, is equal to the ratio between the default rates, estimated for the following 12 months (according to the available forecast and the methods set out in the ICAAP), and the current probabilities of default.

The cyclical coefficients were reviewed for the collective valuation of performing loans for the 2017 Financial Statements and were examined and approved by the Chief Risk Officer. Specifically, the improvement in the default rates resulted in a reduction in the cyclical coefficients for the Corporate, SME Corporate and SME Retail segments. The Loss Confirmation Period factors, on the other hand, remained unchanged.

Overall, the reduction in the cyclical coefficients and the general improvement in the customer ratings, together with the combination of the transition to default of higher risk positions and new loans to better rated customers, led to a reduction in provisions for performing loans.

The illustrated measurement method has also been extended to guarantees and commitments. In the case of the latter, the unused margins on irrevocable lines of credit are not included in the basis of calculation.

The method and assumptions used are subject to periodic revision.

For the companies included in the roll out plan, the EAD and LGD internal rating models are subject to a level two control by the Validation function and a level three control by the Internal Auditing Head Office Department. The control functions produce a report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the existence of the compliance requirements.

Non-performing financial assets

Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.

On 9 January 2015, on the proposal of the European Banking Authority (EBA), the European Commission approved the "final" version of the “Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013”.

Following this decision, the Bank of Italy issued an update to its corpus of regulations that, in line with the previous representation of the risk statuses of non-performing loans, fully reflects the new Community regulations with effect from 1 January 2015.

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 “non-performing past due exposures”.

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 an attribute of the above categories of non-performing assets.
The process of managing such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by an IT tool that ensures pre-established, autonomous and independent management procedures.

Non-performing assets are subject to an individual measurement process or calculation of the expected loss for uniform categories (identified based on the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position (individual statistical assessment). 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.
This measurement is performed when the exposures are classified as non-performing loans or when significant events occur and, in any case, is periodically revised in accordance with the criteria and methods described, with regard to the “Loans” caption, in Part A.2 “Accounting Policies, Main financial statement captions” above, to which specific reference should be made.
With reference to past due loans and unlikely to pay loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, directly at the operating points that handle the accounts, or within peripheral organisational units that perform specialist activities and within the Head Office Departments, which are responsible for the overall management and coordination of these matters.
With regard to bad loans, since 2015 the Group has adopted a new organisational model according to which almost all (in terms of total exposure) new bad loan flows are to be managed by the Group's Loan Recovery Department. In particular, this model calls for:

- the assignment to the Loan Recovery Department of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks in the Banca dei Territori Division) of all positions that it manages and customers classified to the bad loan category from May 2015 (with the exception of a portion of loans with individual exposures below a given threshold, collectively representing an insignificant percentage in terms of exposure with respect to total bad loans, which are assigned for management to new external servicers under a specific agreement and with pre-defined limits);
- the suspension (with limited exceptions) from May 2015 of assignment to Italfondiario S.p.A. of new bad loan flows, without prejudice to its management of the bad positions assigned to it until 30 April 2015;
- for bad positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as bad loans, with some specific exceptions.

The Loan Recovery Department relies on its own specialist units throughout the country to manage recovery activity for loans entrusted directly to it. As part of these activities, in order to identify the optimal strategies to be implemented for each position, judicial and non-judicial solutions are examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. 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.
The activity of Italfondiario S.p.A. and the new external servicers in managing the loans entrusted to them under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.

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 loan monitoring and recovery. Classification involves the use of automatic mechanisms when given objective default thresholds are exceeded. This occurs in cases of past-due loans, which are identified at the Group level, and performing positions with forborne exposures that have not yet completed their probation period, if those exposures become relevant for the purposes of regulatory provisions concerning reallocation to the non-performing category.
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.

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. Checks were also conducted on bad loans to which adjustments have been allocated on a lump-sum basis to provide feedback to the competent structures of the CRO Area in the models adopted to calculate the statistical grids used to determine those adjustments.

With regard to the valuation of the different types of non-performing exposures, as already mentioned, the Group uses two general criteria:

- a specific individual valuation for bad loans and unlikely-to-pay loans of amounts above 2 million euro. This valuation is 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, possible mitigating factors (collateral) and 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.

  For the valuation of real estate guarantees, surveys and/or expert opinions are taken into account, as well as impairment losses resulting from the progress of legal proceedings. The methods used to determine the estimated recoverable amounts in enforcement proceedings for real estate assets pledged as collateral take into account the different possible recovery times, the timing of the various auctions, the actual conditions for recovery of the asset, and the estimate of the amount of provisions needed to cover the decrease in the recoverable amount of the property associated with legal proceedings that take a long time.
  For Unlikely-to-Pay Loans, the valuation 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;
  - 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 have been 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 and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims.
- a statistical individual analysis for Bad Loans and Unlikely-to-Pay Loans of an amount of less than 2 million euro and for past-due loans.
  With regard to bad loans, the individual-statistical assessment 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. technical 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, technical type).
  For Unlikely-to-Pay Loans, the valuation is carried out by applying 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 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. technical type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Lastly, with regard to non-performing loans, you are reminded that the Intesa Sanpaolo Group uses the write-off/deletion of unrecoverable accounting positions and, in the following cases, the consequent allocation of the remainder to the loss 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) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
c) disposal of loans.

In some cases, partial write-offs of gross loans are also necessary to bring them into line with the Bank's actual credit claims. These circumstances occur, for example, in the case of unchallenged measures, in bankruptcy proceedings, under which a claim lower than the amount entered in the accounts is recognised. The debt amounts written off are usually already fully provisioned.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and units of UCI, whereas "exposures" includes these items. The only exception is table A.2.1 related to credit exposures by external rating classes, which includes units of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

The data shown in the following tables (A.1.1, A.1.2 and in the subsequent one referring to performing positions by past-due bracket), refer to all companies within the scope of consolidation for accounting purposes. In the tables A.1.1 and A.1.2, figures for the Banking Group are stated net of all intragroup dealings, including those with other companies within the scope of consolidation.

A.1.1. Breakdown of credit exposures 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 available for sale	1	-	-	-	126,448	126,449
2. Investments held to maturity	-	-	-	-	1,174	1,174
3. Due from banks	-	-	-	-	72,462	72,462
4. Loans to customers	12,625	12,460	379	8,191	377,091	410,746
5. Financial assets designated at fair value through profit and loss	-	-	-	-	4,911	4,911
6. Financial assets under disposal	-	265	13	-	9	287
Total 31.12.2017	**12,626**	**12,725**	**392**	**8,191**	**582,095**	**616,029**
Total 31.12.2016	**14,896**	**14,438**	**435**	**6,922**	**519,011**	**555,702**

With respect to non-performing assets in the portfolio "Loans to customers", forborne exposures amounted to 1,262 million euro amongst bad loans, 6,071 million euro amongst unlikely to pay loans and 27 million euro amongst non-performing past due exposures.
The forborne exposures included among performing assets in the portfolio "Loans to customers" amounted to 7,828 million euro.

A.1.2. Breakdown of credit exposures by portfolio classification and credit quality (gross and net values)

(millions of euro)

Portfolio / quality	NON-PERFORMING ASSETS			PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
A. Banking group							
1. Financial assets available for sale	34	-33	1	126,448	-	126,448	126,449
2. Investments held to maturity	-	-	-	1,174	-	1,174	1,174
3. Due from banks	4	-4	-	72,577	-115	72,462	72,462
4. Loans to customers	52,073	-26,609	25,464	386,615	-1,333	385,282	410,746
5. Financial assets designated at fair value through profit and loss	-	-	-	X	X	4,911	4,911
6. Financial assets under disposal	313	-35	278	9	-	9	287
Total 31.12.2017	**52,424**	**-26,681**	**25,743**	**586,823**	**-1,448**	**590,286**	**616,029**
Total 31.12.2016	**58,176**	**-28,407**	**29,769**	**522,626**	**-1,698**	**525,933**	**555,702**

Portfolio / Quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulated capital	Net exposure	Net exposure
1. Financial assets held for trading	**46**	**309**	**37,248**
2. Hedging derivatives	**-**	**-**	**4,217**
Total 31.12.2017	**46**	**309**	**41,465**
Total 31.12.2016	**87**	**350**	**47,778**

The amount of partial derecognition of non-performing loans came to 6,521 million euro as at 31 December 2017.

Performing financial assets may be broken down by portfolio and past due bracket as follows:

(millions of euro)

Credit exposures	Past due up to 3 months	Past due from 3 months up to 6 months	Past due from over 6 months up to 1 year	Past due by over 1 year	Total
1. Financial assets available for sale	-	-	-	-	-
2. Investments held to maturity	-	-	-	-	-
3. Due from banks	-	-	-	-	-
4. Loans to customers	6,257	707	573	654	8,191
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-
Total performing exposures (net exposure)	**6,257**	**707**	**573**	**654**	**8,191**

In accordance with regulations, the exposures presented in the foregoing table also include the portion of debt that has not yet come due, amounting to 4,069 million euro for the bracket "up to three months", to 461 million euro for the bracket "between three and six months", to 460 million euro in the bracket "between six months and one year" and to 269 million euro in the bracket "over one year".

During 2017, the Intesa Sanpaolo Group purchased an insignificant amount of non-performing loans. Accordingly, the outstanding amounts as at 31 December 2017 were immaterial.

A.1.3. Banking group - On- and off-balance sheet credit exposures to banks: gross and net values and past-due brackets

(millions of euro)

Type of exposure/value	GROSS EXPOSURE					INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
	Non-performing assets				Performing assets			
	Up to 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Over 1 year*				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	-	-	-	4	X	-4	X	-
Of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
Of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
c) Non-performing past due exposures	-	-	-	-	X	-	X	-
Of which: forborne exposures	-	-	-	-	*X*	-	*X*	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
Of which: forborne exposures	*X*	*X*	*X*	*X*	-	*X*	-	-
e) Other performing exposures	X	X	X	X	77,093	X	-115	76,978
Of which: forborne exposures	*X*	*X*	*X*	*X*	-	*X*	-	-
TOTAL A	-	-	-	4	77,093	-4	-115	76,978
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	12	-	-	-	X	-1	X	11
b) Performing	X	X	X	X	25,291	X	-10	25,281
TOTAL B	12	-	-	-	25,291	-1	-10	25,292
TOTAL (A + B)	12	-	-	4	102,384	-5	-125	102,270

On-balance sheet exposures include all on-balance sheet financial assets claimed from banks, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.

Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending transactions, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

A.1.4. Banking group – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reason/Categories	Bad loans	Unlikely to pay	Non performing past due exposures
A. Initial gross exposure	**2**	**4**	**-**
- of which exposures sold not derecognised	-	-	-
B. Increases	**3**	**2**	**-**
B.1 inflows from performing exposures	-	1	-
B.2 transfers from other non-performing exposure categories	3	-	-
B.3 other increases	-	1	-
B.4 business combinations	-	-	-
C. Decreases	**-1**	**-6**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-1	-	-
C.3 repayments	-	-3	-
C.4 credit disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other non-performing exposure categories	-	-3	-
C.7 other decreases	-	-	-
C.8 business combinations	-	-	-
D. Final gross exposure	**4**	**-**	**-**
- of which exposures sold not derecognised	-	-	-

A.1.4bis Banking group - On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

This type of exposure did not exist as at 31 December 2017.

A.1.5. Banking group – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reason/Categories	Bad loans		Unlikely to pay		Non performing past due exposures	
		Of which: forborne exposures		*Of which: forborne exposures*		*Of which: forborne exposures*
A. Initial total adjustments	**2**	**-**	**4**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**3**	**-**	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing exposure categories	3	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
B.5 business combinations	-	-	-	-	-	-
C. Decreases	**-1**	**-**	**-4**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-1	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-1	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-3	-	-	-
C.6 other decreases	-	-	-	-	-	-
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-

A.1.6 Banking group - On- and off-balance sheet credit exposures to customers: gross and net values and past-due brackets

(millions of euro)

Type of exposure/value	GROSS EXPOSURE					INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
	Non-performing assets				Performing assets			
	Up to 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Over 1 year*				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	**458**	**36**	**93**	**33,639**	**X**	**-21,600**	**X**	**12,626**
Of which: forborne exposures	***271***	***5***	***20***	***2,691***	***X***	***-1,723***	***X***	***1,264***
b) Unlikely to pay	**7,909**	**505**	**1,927**	**7,603**	**X**	**-5,004**	**X**	**12,940**
Of which: forborne exposures	***4,773***	***246***	***757***	***2,628***	***X***	***-2,074***	***X***	***6,330***
c) Non-performing past due exposures	**96**	**166**	**178**	**48**	**X**	**-96**	**X**	**392**
Of which: forborne exposures	***5***	***9***	***13***	***5***	***X***	***-5***	***X***	***27***
d) Performing past due exposures	**X**	**X**	**X**	**X**	**8,315**	**X**	**-124**	**8,191**
Of which: forborne exposures	***X***	***X***	***X***	***X***	***731***	***X***	***-16***	***715***
e) Other performing exposures	**X**	**X**	**X**	**X**	**451,758**	**X**	**-1,186**	**450,572**
Of which: forborne exposures	***X***	***X***	***X***	***X***	***7,223***	***X***	***-87***	***7,136***
TOTAL A	**8,463**	**707**	**2,198**	**41,290**	**460,073**	**-26,700**	**-1,310**	**484,721**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	**1,316**	**-**	**-**	**-**	**X**	**-237**	**X**	**1,079**
b) Other	**X**	**X**	**X**	**X**	**135,424**	**X**	**-78**	**135,346**
TOTAL B	**1,316**	**-**	**-**	**-**	**135,424**	**-237**	**-78**	**136,425**
TOTAL (A + B)	**9,779**	**707**	**2,198**	**41,290**	**595,497**	**-26,937**	**-1,388**	**621,146**

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending transactions, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.
Net performing on-balance sheet exposures to customers include 6,599 million euro in dealings between the Banking Group and other companies within the scope of consolidation.
Net on-balance sheet exposures to customers classified as "unlikely to pay" include 216 million euro, adjusted for 23 million euro, in dealings between the Banking Group and other non-banking companies within the scope of consolidation.
In the net performing off-balance sheet exposures the amount of the transactions between the Banking Group and the other companies in the scope of consolidation is 2,696 million euro.
Non-performing exposures with forbearance measures in the past-due bracket by "up to three months" include 4,037 million euro that do not present past-due amounts during the "cure period".

A.1.7 Banking group – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reason/Categories	**Bad loans**	**Unlikely to pay**	**Non performing past due exposures**
A. Initial gross exposure	**37,867**	**19,986**	**554**
- of which exposures sold not derecognised	*25*	*175*	*2*
B. Increases	**4,350**	**6,557**	**2,012**
B.1 inflows from performing exposures	148	2,660	1,806
B.2 transfers from other non-performing exposure categories	2,775	1,550	49
B.3 other increases	1,283	1,759	119
B.4 business combinations	144	588	38
C. Decreases	**-7,991**	**-8,599**	**-2,078**
C.1 outflows to performing exposures	-73	-1,713	-508
C.2 write-offs	-4,932	-672	-5
C.3 repayments	-1,711	-2,639	-154
C.4 credit disposals	-411	-147	-
C.5 losses from disposals	-135	-10	-
C.6 transfers to other non-performing exposure categories	-231	-2,756	-1,387
C.7 other decreases	-498	-662	-24
C.8 business combinations	-	-	-
D. Final gross exposure	**34,226**	**17,944**	**488**
- of which exposures sold not derecognised	*166*	*284*	*14*

The “other increases” mainly include the application of penalty interest, increases in balances for charges, collections of loans derecognised in full (through “Repayments”) and the revaluation of positions in foreign currency following the change in the exchange rate.
The caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.
The "other decreases" mainly refer to the decrease in the balances in foreign currency due to changes in the exchange rate and the collection of penalty interest assessed in previous years.

A.1.7bis Banking group - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reason/Categories	**Forborne exposures: non-performing**	**Forborne exposures: performing**
A. Initial gross exposure	**11,956**	**8,135**
- of which exposures sold not derecognised	-	-
B. Increases	**3,148**	**6,681**
B.1 inflows from non-forborne performing exposures	127	4,114
B.2 inflows from forborne performing exposures	645	X
B.3 inflows from non-performing forborne exposures	X	1,023
B.4 other increases	2,166	1,544
B.5 business combinations	210	-
C. Decreases	**-3,681**	**-6,862**
C.1 outflows towards non-forborne performing exposures	X	-3,737
C.2 outflows towards forborne performing exposures	-1,064	X
C.3 outflows towards non-performing forborne exposures	X	-636
C.4 write-offs	-450	-730
C.5 collections	-1,405	-1,373
C.6 gains on disposal	-158	-
C.7 losses on disposal	-12	-
C.8 other decreases	-592	-386
C.9 business combinations	-	-
D. Final gross exposure	**11,423**	**7,954**
- of which exposures sold not derecognised	*45*	*23*

For the non-performing forborne exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

A.1.8. Banking group – On-balance sheet credit exposures to customers: changes in total adjustments

(millions of euro)

Reason/Categories	Bad loans	Of which: forborne exposures	Unlikely to pay	Of which: forborne exposures	Non performing past due exposures	Of which: forborne exposures
A. Initial total adjustments	**22,970**	**1,309**	**5,334**	**2,227**	**120**	**11**
- of which exposures sold not derecognised	*9*	*-*	*20*	*-*	*-*	*-*
B. Increases	**5,275**	**811**	**2,537**	**977**	**315**	**30**
B.1 impairment losses	3,270	401	1,717	530	263	24
B.2. losses on disposal	135	7	10	8	-	-
B.3 transfers from other non-performing exposure categories	1,077	294	368	57	19	3
B.4 other increases	744	105	326	340	27	2
B.5 business combinations	49	4	116	42	6	1
C. Decreases	**-6,645**	**-397**	**-2,867**	**-1,130**	**-339**	**-36**
C.1 recoveries on impairment losses	-992	-96	-739	-419	-17	-
C.2 recoveries on repayments	-239	-25	-146	-79	-6	-
C.3 profits on disposal	-49	-8	-12	-11	-	-
C.4 write-offs	-4,932	-186	-672	-222	-5	-
C.5 transfers to other non-performing exposure categories	-105	-27	-1,078	-295	-282	-31
C.6 other decreases	-328	-55	-220	-104	-29	-5
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**21,600**	**1,723**	**5,004**	**2,074**	**96**	**5**
- of which exposures sold not derecognised	*82*	*2*	*52*	*5*	*2*	*-*

The “other increases” mainly include the application of penalty interest, collections of loans derecognised in full (through “recoveries on repayments”) and increases in balances of funds in foreign currency following the change in the exchange rate.
The caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.
The "other decreases" consist mainly of collection of overdue interest applied in previous years, losses on disposal not covered by the allowance and the decrease in the balances of funds in foreign currency due to changes in the exchange rate.

Conversion of loans into equity instruments

During the year, loans were converted into equity instruments as part of restructuring agreements for non-performing positions.
Gross loans converted into equity instruments and shares amounted to 96.4 million euro.
The adjustments directly attributable to the conversion process amounted to 78.7 million euro, partly made during previous years and partly during the current year.
Equity instruments and units of UCI were recognised at their fair value of approximately 17.7 million euro at the execution date of the transactions among Assets available for sale, as well as an for amount fully written down among Investments.
In 2017, loans amounting to approximately 29 million euro (fully written down), classified among AFS represented by debt securities were also transformed into convertible bonds.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Banking group - Breakdown of on- and off-balance sheet credit exposures by external rating classes

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 and DBRS 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.
The Class 6 rating column essentially includes non-performing loans.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures	**23,658**	**23,765**	**127,532**	**15,112**	**5,764**	**27,134**	**341,096**	**564,061**
B. Derivatives	**1,003**	**1,636**	**4,397**	**356**	**120**	**-**	**3,406**	**10,918**
B.1. Financial derivatives	1,003	1,636	4,397	306	120	-	3,404	10,866
B.2. Credit derivatives	-	-	-	50	-	-	2	52
C. Guarantees given	**520**	**1,319**	**8,119**	**2,616**	**451**	**651**	**26,936**	**40,612**
D. Commitments to lend funds	**3,043**	**25,873**	**30,088**	**8,691**	**2,354**	**626**	**36,437**	**107,112**
E. Other	**131**	**1,632**	**393**	**1**	**2**	**68**	**850**	**3,077**
Total	**28,355**	**54,225**	**170,529**	**26,776**	**8,691**	**28,479**	**408,725**	**725,780**

It should be noted that the exposures presented in the table also include units of UCI of 2,362 million euro.
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
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
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 R-6

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch	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	Ba3 and lower	BB- and lower

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	NP	lower than F3	lower than A -3

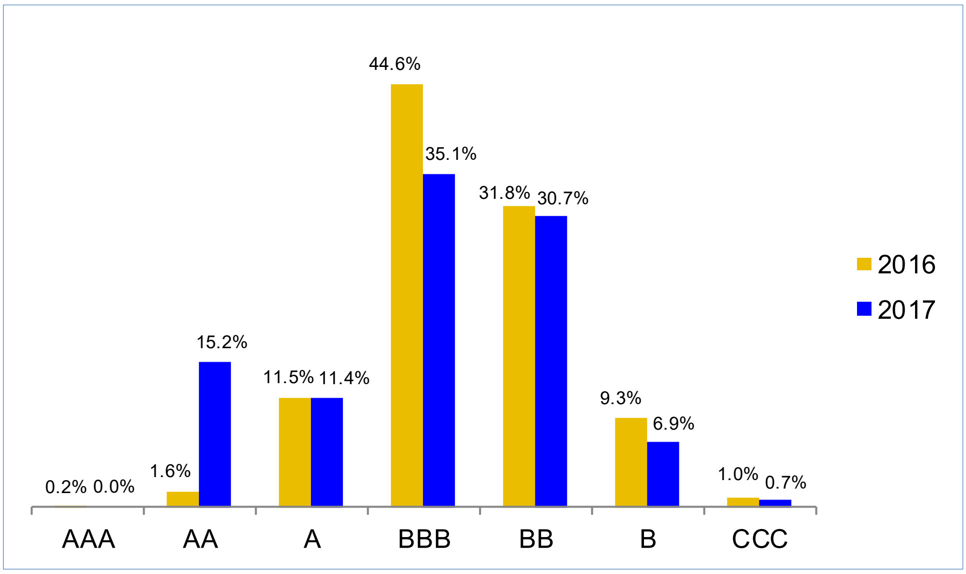
A.2.2. Banking group - Breakdown of on- and off-balance sheet exposures by internal rating classes

As indicated above in the paragraph entitled "Basel 3 regulations and the Internal Project" of Qualitative information, the Intesa Sanpaolo Group has a set of ratings that have been validated in respect of the Corporate, Retail Mortgages (residential mortgages for private individuals), Retail SME and Public Entities portfolios.
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 12.2% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not yet available, to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries which have yet to be fully integrated into the credit risk management system.
For the purposes of calculating the risk indicators, unrated counterparties are assigned an estimated rating on the basis of the average probabilities of default, deriving from the past experience of the respective sectors.
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 73.5% of the total, whilst 20% fall within the BB+/BB- range (class 4) and 6.5% fall under higher risk classes (of which 1% below B-).

(millions of euro)

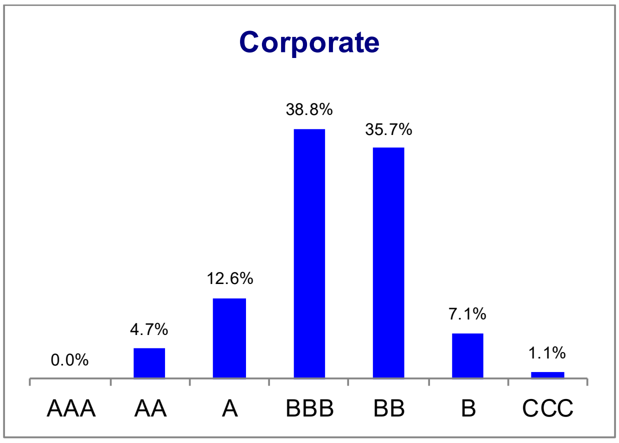
Exposures	INTERNAL RATING CLASSES							UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Non-performing exposures		
A. On-balance sheet exposures	**27,719**	**69,064**	**244,464**	**95,816**	**28,100**	**4,367**	**25,958**	**66,211**	**561,699**
B. Derivatives	**248**	**2,408**	**5,390**	**1,403**	**441**	**34**	**-**	**994**	**10,918**
B.1. Financial derivatives	248	2,408	5,390	1,353	441	34	-	992	10,866
B.2. Credit derivatives	-	-	-	50	-	-	-	2	52
C. Guarantees given	**4,293**	**6,168**	**15,908**	**9,613**	**1,515**	**126**	**619**	**2,370**	**40,612**
D. Commitments to lend funds	**5,014**	**25,635**	**40,406**	**15,132**	**3,457**	**1,513**	**471**	**15,484**	**107,112**
E. Other	**101**	**2,358**	**505**	**23**	**70**	**-**	**-**	**20**	**3,077**
Total	**37,375**	**105,633**	**306,673**	**121,987**	**33,583**	**6,040**	**27,048**	**85,079**	**723,418**

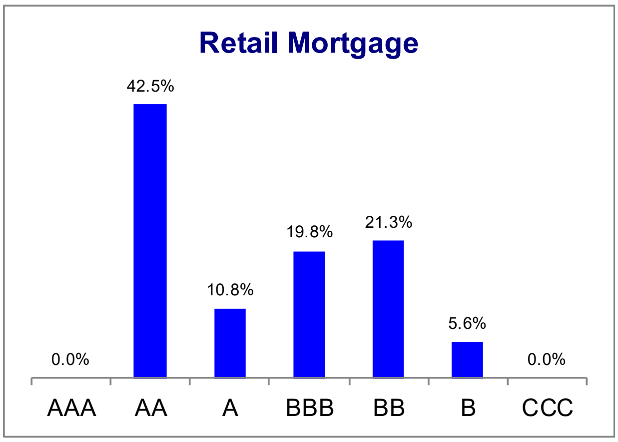
In addition to the tables required by the financial reporting regulations, the rating allocation for performing credit exposures to customers attributable to banks with internal models is shown below.
As at 31 December 2017, performing loans to customers assigned an individual rating internally or by an external agency accounted for 97% of the loans of banks with internal models and for 71% of the entire aggregate at the Group level.

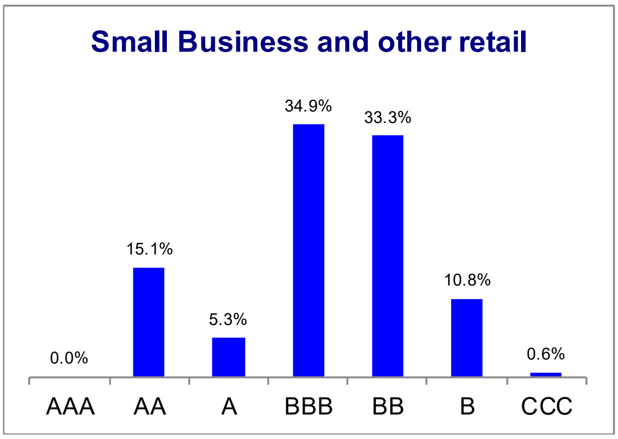


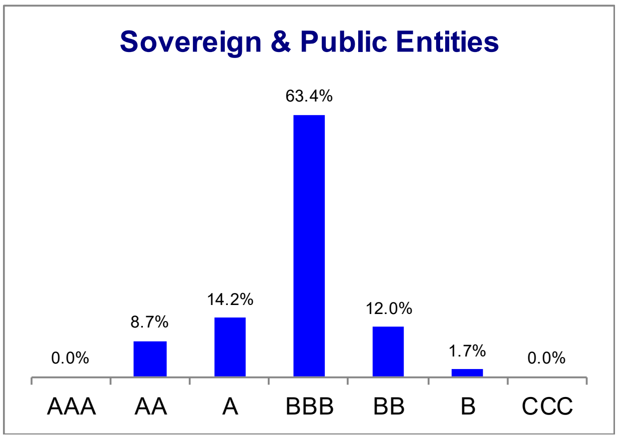
The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive) of 61.8%, up compared to the previous year (58.0%).
Movements between ratings classes are mainly caused by changes in risk parameters as a result of model changes occurring during the year.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail and Sovereign & Public Entities.









Investment grade positions account for 56.1%, 73.1%, 55.3% and 86.3% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Banking group - Guaranteed credit exposures to banks

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**8,850**	**-**	**151**	**-**	**2,694**	**-**	**5,689**	**-**	**17,384**
COLLATERAL[(1)]									
Real estate assets	5	-	-	-	-	-	-	-	5
Mortgages	-	-	-	-	-	-	-	-	-
Financial leases	*5*	-	-	-	-	-	-	-	*5*
Securities	8,583	-	-	-	351	-	23	-	8,957
Other	-	-	-	-	2,333	-	4,605	-	6,938
GUARANTEES [(1)]									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*37*	-	-	-	-	-	-	-	*37*
Other public entities	-	-	-	-	-	-	-	-	-
Banks	*155*	-	*25*	-	*9*	-	-	-	*189*
Other counterparties	*58*	-	*1*	-	-	-	-	-	*59*
TOTAL	**8,838**	**-**	**26**	**-**	**2,693**	**-**	**4,628**	**-**	**16,185**

[(1)] Fair Value of the collateral/guarantee or, if difficult to calculate, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Banking group - Guaranteed credit exposures to customers

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**236,678**	***17,358***	**24,846**	***3,461***	**16,886**	***310***	**4,234**	***150***	**282,644**
COLLATERAL[(1)]									
Real estate assets	145,275	***13,302***	3,830	***1,840***	1,943	***165***	574	***55***	151,622
Mortgages	*135,493*	***11,012***	*3,800*	***1,820***	*1,914*	***165***	*535*	***55***	*141,742*
Financial leases	*9,782*	***2,290***	*30*	***20***	*29*	**-**	*39*	**-**	*9,880*
Securities	42,728	*167*	2,130	*144*	4,447	*13*	245	*2*	49,550
Other	10,615	*818*	1,015	*75*	1,499	*8*	282	*12*	13,411
GUARANTEES [(1)]									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*11,814*	*209*	*2,687*	*90*	*1,241*	*1*	*61*	-	*15,803*
Other public entities	*306*	*13*	*100*	*3*	*6*	-	-	-	*412*
Banks	*485*	*36*	*294*	*1*	*96*	-	*8*	-	*883*
Other counterparties	*24,540*	*2,745*	*5,642*	*526*	*7,613*	*121*	*1,299*	*18*	*39,094*
TOTAL	**235,763**	***17,290***	**15,698**	***2,679***	**16,845**	***308***	**2,469**	***87***	**270,775**

[(1)] Fair Value of the guarantee or, if difficult to be determined, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Banking group - Breakdown by sector of on- and off-balance sheet credit exposures to customers (book value)

(millions of euro)

Exposures/Counterparties	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES			INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES		
	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments
A. ON-BALANCE SHEET EXPOSURES																		
A.1. Bad loans	5	-6	X	180	-70	X	155	-311	X	-	-	X	10,460	-18,910	X	1,826	-2,303	X
- of which forborne exposures	1	-	X	-	-20	X	33	-80	X	-	-	X	1,050	-1,485	X	180	-138	X
A.2. Unlikely to pay	-	-1	X	118	-28	X	460	-206	X	-	-	X	10,899	-4,265	X	1,463	-504	X
- of which forborne exposures	-	-	X	87	-18	X	320	-109	X	-	-	X	5,370	-1,798	X	553	-149	X
A.3. Non-performing past due exposures	-	-	X	-	-	X	3	-3	X	-	-	X	236	-45	X	153	-48	X
- of which forborne exposures	-	-	X	-	-	X	1	-	X	-	-	X	19	-3	X	7	-2	X
A.4. Performing exposures	74,013	X	-11	13,580	X	-16	69,894	X	-128	1,543	X	-	184,959	X	-880	114,774	X	-276
- of which forborne exposures	3	X	-	146	X	-1	386	X	-10	-	X	-	5,901	X	-79	1,415	X	-13
Total A	**74,018**	**-7**	**-11**	**13,878**	**-98**	**-16**	**70,512**	**-520**	**-128**	**1,543**	**-**	**-**	**206,554**	**-23,220**	**-880**	**118,216**	**-2,855**	**-276**
B. OFF-BALANCE SHEET EXPOSURES																		
B.1. Bad loans	-	-	X	1	-4	X	2	-	X	-	-	X	166	-82	X	6	-2	X
B.2. Unlikely to pay	-	-	X	-	-	X	13	-1	X	-	-	X	878	-145	X	5	-2	X
B.3. Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	6	-	X	2	-1	X
B.4. Other exposures	7,516	X	-	2,605	X	-2	18,211	X	-4	5,164	X	-	98,347	X	-65	3,273	X	-6
Total B	**7,516**	**-**	**-**	**2,606**	**-4**	**-2**	**18,226**	**-1**	**-4**	**5,164**	**-**	**-**	**99,397**	**-227**	**-65**	**3,286**	**-5**	**-6**
TOTAL (A+B) 31.12.2017	**81,534**	**-7**	**-11**	**16,484**	**-102**	**-18**	**88,738**	**-521**	**-132**	**6,707**	**-**	**-**	**305,951**	**-23,447**	**-945**	**121,502**	**-2,860**	**-282**
TOTAL 31.12.2016	**93,911**	**-4**	**-8**	**17,246**	**-115**	**-31**	**98,517**	**-522**	**-153**	**2,618**	**-1**	**-**	**274,480**	**-24,854**	**-1,326**	**94,734**	**-3,093**	**-248**

B.2. Banking group - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers (book value)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	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	12,247	-20,739	376	-785	1	-18	1	-6	1	-52
A.2. Unlikely to pay	11,994	-4,372	742	-496	107	-88	6	-2	91	-46
A.3. Non-performing past due exposures	349	-78	40	-18	-	-	-	-	3	-
A.4. Performing exposures	331,766	-904	98,980	-325	18,403	-25	5,044	-13	4,570	-43
Total A	**356,356**	**-26,093**	**100,138**	**-1,624**	**18,511**	**-131**	**5,051**	**-21**	**4,665**	**-141**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	149	-70	25	-12	-	-	-	-	1	-6
B.2. Unlikely to pay	799	-126	42	-21	53	-	-	-	2	-1
B.3. Other non-performing assets	6	-	2	-1	-	-	-	-	-	-
B.4. Performing exposures	62,090	-31	54,904	-40	14,353	-3	1,715	-1	2,054	-3
Total B	**63,044**	**-227**	**54,973**	**-74**	**14,406**	**-3**	**1,715**	**-1**	**2,057**	**-10**
TOTAL (A+B) 31.12.2017	**419,400**	**-26,320**	**155,111**	**-1,698**	**32,917**	**-134**	**6,766**	**-22**	**6,722**	**-151**
TOTAL 31.12.2016	**389,363**	**-27,730**	**146,441**	**-2,226**	**33,029**	**-155**	**5,910**	**-42**	**6,763**	**-202**

B.2 bis Breakdown of relations with customers resident in Italy by geographical area (book value)

(millions of euro)

Exposures/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	3,906	-6,636	2,697	-4,623	2,779	-4,727	2,865	-4,753
A.2. Unlikely to pay	4,658	-1,778	2,317	-723	2,850	-1,029	2,169	-842
A.3. Non-performing past due exposures	84	-19	77	-17	90	-18	98	-24
A.4. Performing exposures	102,438	-344	64,764	-192	119,758	-208	44,806	-160
Total A	**111,086**	**-8,777**	**69,855**	**-5,555**	**125,477**	**-5,982**	**49,938**	**-5,779**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	35	-15	51	-29	57	-23	6	-3
B.2. Unlikely to pay	360	-9	97	-35	251	-80	91	-2
B.3. Other non-performing assets	1	-	-	-	5	-	-	-
B.4. Performing exposures	22,024	-12	7,922	-7	29,683	-10	2,461	-2
Total B	**22,420**	**-36**	**8,070**	**-71**	**29,996**	**-113**	**2,558**	**-7**
TOTAL (A+B) 31.12.2017	**133,506**	**-8,813**	**77,925**	**-5,626**	**155,473**	**-6,095**	**52,496**	**-5,786**
TOTAL 31.12.2016	**121,969**	**-9,519**	**56,433**	**-5,754**	**163,381**	**-6,203**	**47,580**	**-6,254**

B.3 Banking group - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks (book value)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	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	-	-	-	-3	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Performing exposures	43,796	-55	26,463	-30	3,147	-19	2,114	-8	1,458	-3
Total A	**43,796**	**-55**	**26,463**	**-31**	**3,147**	**-19**	**2,114**	**-11**	**1,458**	**-3**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	-	-	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	1	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	10	-1	-	-
B.4. Performing exposures	4,102	-1	15,948	-4	350	-	1,340	-2	695	-3
Total B	**4,102**	**-1**	**15,948**	**-4**	**350**	**-**	**1,351**	**-3**	**695**	**-3**
TOTAL (A+B) 31.12.2017	**47,898**	**-56**	**42,411**	**-35**	**3,497**	**-19**	**3,465**	**-14**	**2,153**	**-6**
TOTAL 31.12.2016	**35,502**	**-12**	**57,766**	**-38**	**6,310**	**-17**	**4,172**	**-16**	**2,140**	**-14**

B.3 Bis Breakdown of relations with banks resident in Italy by geographical area (book value)

(millions of euro)

Exposures/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	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4. Performing exposures	4,930	-3	371	-49	38,449	-3	46	-
Total A	**4,930**	**-3**	**371**	**-49**	**38,449**	**-3**	**46**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.4. Performing exposures	1,792	-1	72	-	2,231	-	7	-
Total B	**1,792**	**-1**	**72**	**-**	**2,231**	**-**	**7**	**-**
TOTAL (A+B) 31.12.2017	**6,722**	**-4**	**443**	**-49**	**40,680**	**-3**	**53**	**-**
TOTAL 31.12.2016	**3,263**	**-4**	**1,314**	**-3**	**30,911**	**-5**	**14**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	146,854
b) Weighted value (millions of euro)	15,786
b) Number	7

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 EU Regulation 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.

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

With regard to the business combinations "Aggregate Set of Banca Popolare di Vicenza in compulsory administrative liquidation" and "Aggregate Set of Veneto Banca in compulsory administrative liquidation" described in Part G of these Notes to the Consolidated Financial Statements, there were several securitisations in place at the two banks in compulsory administrative liquidation and at their respective subsidiaries at the date of execution.

The securitisations carried out in 2017 are summarised below:

GARC Securitisations

In 2017 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 involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. As part of these operations, during the year the junior risk relating to a total portfolio of 2.5 billion euro in loans to approximately 5,300 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB), was sold to specialised investors.

SME Initiative Italy Securitisation

During the year the synthetic securitisation "SME Initiative Italy" (SMEI), which is included within the framework of the "GARC" (Active Credit Risk Management) Project, was also completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. This initiative was jointly financed by the Ministry of Economic Development and the European Commission and the EIB Group - European Investment Bank and European Investment Fund. The transaction involves the issue of a personal guarantee by the European Investment Fund on the investments in the Junior, Lower Mezzanine, Middle Mezzanine and Upper Mezzanine tranches, which covers the credit risk relating to a portfolio of around 500 million euro of loans to around 1,400 businesses in the Corporate and SME Corporate regulatory segment, valued using internal models (Advanced IRB). In exchange for that guarantee, the bank undertakes to provide new funds to support lending to SMEs in Southern Italy.

Telefonia 2 Securitisation

This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 100 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.

Telefonia 3 Securitisation

This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 500 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.

K_Equity Securitisation

In 2017, the Intesa Sanpaolo Group sold non-performing exposures totalling around 226 million euro through two securitisations. Another Italian bank also participated in the securitisations.
The securitisations consisted of the transfer of their credit exposures with several industrial companies to specifically established third party entities, in order to enable their value enhancement through financial and industrial restructuring.
That transfer specifically fulfils the purpose of ensuring the management of said exposures by entities established and managed by specialised third parties to optimise the recovery of the overall exposure by using the know-how and experience of the parties involved in the financial and industrial restructuring processes and, possibly, the granting of new financing to benefit the transferred debtors.
Among other things, the transaction involved the use of a securitisation company established pursuant to Law 130/99, Norma SPV S.r.l., which purchases and securitises the credit exposures and, where necessary, provides new lending to the transferred borrowers.
The Group holds no investments in the abovementioned company which is therefore a third party that is independent from Intesa Sanpaolo.
Norma SPV shall execute the securitisations by issuing Senior, Mezzanine and Junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the selling banks from a single debtor.
The exposures sold have not currently been derecognised either from the financial statements or for prudential purposes. Against said sales, in addition to the notes mentioned above, Super Senior notes subscribed by third parties were also issued. All the securities issued are unrated.

Quantitative information

C.1. Banking group - 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	**63**	**-**	**11**	**-**	**22**	**-4**
– Residential mortgage loans (*)	-	-	-	-	8	-4
– Commercial mortgage loans	19	-	7	-	-	-
– Consumer credit	44	-	4	-	14	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**6,189**	**-15**	**838**	**2**	**3,201**	**-5**
– Trade receivables	34	-	8	-	-	-
– Residential mortgage loans (**)	620	1	617	2	3,098	-5
– Loans to businesses (including SMEs) (***)	5,535	-16	213	-	103	-
TOTAL	**6,252**	**-15**	**849**	**2**	**3,223**	**-9**

(*) The entire amount refers to non-performing financial assets.

(**) The junior notes held also refer to the securitisations of the former Veneto Banca and the former Banca Popolare di Vicenza, with notes issued near the deadline set out by contract for their repurchase and cancellation and with underlying loans which, on completion of the due diligence conducted by the Board of Experts, were excluded - to the extent of the portion considered non-performing at the acquisition date - from the Aggregate Set transferred to the Intesa Sanpaolo Group.

(***) The amounts also include non-performing financial assets amounting to 89 million euro in Senior exposures, 212 million euro in Mezzanine exposures and 70 million euro in Junior exposures. "Loans to businesses (including SMEs)" also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

The securitisations in point a in the above table also include – in addition to the securitisations that meet the requirements of IAS 39 for derecognition – those for which the Group has exercised the option of exemption from compliance with IAS/IFRS permitted by IFRS 1 on first-time adoption. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting principles and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

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
A. Fully derecognised	-	-	-	-	-	-	**43**	-	-	-	-	-
– Consumer credit	-	-	-	-	-	-	43	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-	**2,751**	-	-	-	-	-
– Trade receivables (*)	-	-	-	-	-	-	2,751	-	-	-	-	-
TOTAL	-	-	-	-	-	-	**2,794**	-	-	-	-	-

(*) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39

C.2. Banking group - Breakdown of exposures deriving from the 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
Other assets (*)	5,230	-	7	-	1	-
Securitisations	47	-	-	-	-	-
Consumer credit	72	-	21	-	-	-
Trade receivables	272	-1	-	-	-	-
Leases	22	-	5	-	14	-
Commercial mortgage loans	52	-	20	-1	8	-
Residential mortgage loans	1,062	4	233	5	125	-
Loans to businesses (including SMEs) (**)	554	-9	197	-3	66	-38
TOTAL	**7,311**	**-6**	**483**	**1**	**214**	**-38**

(*) The amount also includes the Romulus securities for 4,944 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 3 – Risks of other companies, of this Part E.

(**) The exposures include non-performing financial assets amounting to 66 million euro in Senior exposures, 75 million euro in Mezzanine exposures and 63 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.

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	-	-	-	-	-	-	*2,414*	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**2,414**	**-**	**-**	**-**	**-**	**-**

C.3. Banking group - 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)	(g)	4,109	-	144	2,870	-	1,350
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	40	-	265	305	-	17
Intesa Sanpaolo Securitisation Vehicle S.r.l. (c) (d)	Milan	Consolidated	19	-	30	26	-	156
Intesa Sec 3 S.r.l.	Milan	Consolidated	(e)	(e)	(e)	(e)	(e)	(e)
Intesa Sec NPL S.p.A.	Milan	Consolidated	(e)	(e)	(e)	(e)	(e)	(e)
Augusto S.r.l. (f)	Milan	(g)	2	-	2	14	-	-
Colombo S.r.l. (f)	Milan	(g)	16	-	7	-	20	10
Diocleziano S.r.l. (f)	Milan	(g)	8	-	2	-	-	-
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
TIBET CMBS S.r.l.	Milan	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) [i]	Milan	Consolidated	24,384	-	3,415		27,445	
ISP CB Ipotecario S.r.l. [i]	Milan	Consolidated	19,968	-	4,980		23,000	
ISP CB Pubblico S.r.l. [i]	Milan	Consolidated	3,823	2,203	2,849		8,562	
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(g)	6,976	-	297	6,025	-	1,067
Claris ABS 2011 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris Finance 2005 S.r.l. (l)	Rome	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Claris FINANCE 2006 S.r.l. (c) (l)	Conegliano Veneto (TV)	Not consolidated	78		5		58	3
Claris FINANCE 2007 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris FINANCE 2008 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2011 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2014 (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2016 S.r.l.. (c) (l)	Conegliano Veneto (TV)	Not consolidated	1,005		58	781	116	144
Claris SME 2015 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris SME 2016 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Berica 5 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 6 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 8 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 9 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 10 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica Abs S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 2 S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Barica ABS 3 S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 4 S.r.l. (l)	Vicenza	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 5 S.r.l. (c) (l)	Vicenza	Not consolidated	560		36	452	60	52
Berica Funding 2016 S.r.l. (c) (l)	Vicenza	Not consolidated	949		62	581	199	185
BERICA PMI 2 S.r.l. (c) (l)	Vicenza	Not consolidated	582		51	82		531
Apulia Finance n. 2 S.r.l. (c) (l)	Conegliano Veneto (TV)	(g)	13		5	0	10	5
Apulia Mortgages Finance n. 3 S.r.l. (c) (l)	Conegliano Veneto (TV)	(g)	33		3	4	13	8
Apulia Finance n. 4 S.r.l. (l) (m)	Conegliano Veneto (TV)	(g)	113		5	74		24

(a) Consolidation method referring to the "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4.

(d) This vehicle (former Intesa Lease Sec S.r.l.) has been used to launch a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB in Hungary, also in currencies other than the euro, for a total of 343 million euro.

(e) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of these Notes to the consolidated financial statements.

(f) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2016).

(g) Vehicle consolidated at equity.

(h) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

(i) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section E.4 in Part E of these Notes to the consolidated financial statements.

(l) Vehicle deriving from the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca

(m) Vehicle that includes three sub-funds, of which one referring to a self-securitisation (3rd issue) and two referring to securitisations (1st and 2nd issues)

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers and K-Equity, 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 Banking group – Not consolidated securitisation vehicles

With reference to not consolidated structured entities used for securitisations, the Group reports its residual investments in the vehicles Augusto, Colombo and Diocleziano, consolidated at equity. These vehicles are entities used to implement securitisations of assets, primarily land and public works financing, of a company subject to joint control and sold in previous years.

The Group holds a residual investment in the vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.

The not consolidated securitisation vehicles also include those used by the Intesa Sanpaolo Group in which the Group does not hold any stake.

Trade Receivables Investment Vehicle S.a.r.l.
Securitisation of trade receivables

(millions of euro)

A. Assets	**340**
A.1 Receivables	334
A.2 Other assets	6
B. Liabilities	**340**
B.1 Class A securities issued	334
B.2 Class B securities issued	6
B.3 Other liabilities	-
C. Interest charge	**8**
D. Interest income	**8**

Tibet CMBS S.r.l.
Securitisation of commercial mortgage loans

(millions of euro)

A. Securitised assets	**192**
A.1 Loans	192
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**11**
B.1 Deposits with banks	11
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**192**
C.1 Class A securities	99
C.2 Class B securities	26
C.3 Class C securities	9
C.4 Class D securities	58
C.5 Class X securities	-
D. Financing received	**10**
E. Other liabilities	**2**
E.1 Sundry payables	-
E.2 Accrued expenses and deferred income	1
E.3 Charges of losses on segregated assets	-
E.4 Gains/losses on segregated assets	1
F. Interest expense on securities issued	**8**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Securities placement commissions	-
H. Other expenses	**-**
H.1 Interest expense	-
H.2 Forecast losses on loans	-
H.3 Additional return	-
I. Interest income on securitised assets	**-**
L. Other revenues	**8**
L.1 Interest income	8

CLARIS ABS 2011 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**1,354**
A.1 Loans	1,354
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**70**
B.1 Deposits with banks	70
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**1,179**
C.1 Class A	525
C.2 Class B	654
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**89**
E. Other liabilities	**156**
E.1 Sundry payables	151
E.2 Accrued expenses and deferred income	5
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**13**
G. Commissions and fees	**1**
G.1 Servicing	-
G.2 Other services	1
H. Other expenses	**6**
H.1 Interest expense	1
H.2 Forecast losses on loans	5
H.3 Additional return	-
I. Interest income on securitised assets	**28**
L. Other revenues	**8**
L.1 Interest income	8

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2007 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**128**
A.1 Loans	128
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**12**
B.1 Deposits with banks	11
B.2 Credits to be recognised	1
B.3 Prepayments and accrued income	-
C. Securities issued	**112**
C.1 Class A	84
C.2 Class B	6
C.3 Class C	13
C.4 Class D	9
C.5 Class X	-
D. Financing received	13
E. Other liabilities	**13**
E.1 Sundry payables	13
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**7**
H.1 Interest expense	-
H.2 Forecast losses on loans	7
H.3 Additional return	-
I. Interest income on securitised assets	**2**
L. Other revenues	**6**
L.1 Interest income	6

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2008 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**138**
A.1 Loans	138
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**7**
B.1 Deposits with banks	7
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**110**
C.1 Class A	11
C.2 Class B	44
C.3 Class C	55
C.4 Class D	-
C.5 Class X	-
D. Financing received	**15**
E. Other liabilities	**18**
E.1 Due to Originator	18
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**3**
H.1 Interest expense	-
H.2 Forecast losses on loans	3
H.3 Additional return	-
I. Interest income on securitised assets	**3**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS RMBS 2011 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**544**
A.1 Loans	544
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**66**
B.1 Deposits with banks	66
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**538**
C.1 Class A	335
C.2 Class B	203
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**41**
E. Other liabilities	**47**
E.1 Sundry payables	46
E.2 Accrued expenses and deferred income	1
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**7**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**8**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	6
I. Interest income on securitised assets	**11**
L. Other revenues	**11**
L.1 Interest income	11

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS RMBS 2014 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**482**
A.1 Loans	482
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**16**
B.1 Deposits with banks	16
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**457**
C.1 Class A	281
C.2 Class B	
C.3 Class C	-
C.4 Class D	-
C.5 Class X	176
D. Financing received	**-**
E. Other liabilities	**40**
E.1 Sundry payables	40
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**10**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**2**
H.1 Interest expense	-
H.2 Forecast losses on loans	-
H.3 Negative swap differences	2
I. Interest income on securitised assets	**13**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

Berica ABS 4 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**643**
A.1 Loans	643
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**23**
B.1 Deposits with banks	23
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**610**
C.1 Class A	392
C.2 Class B	76
C.3 Class C	47
C.4 Class D	-
C.5 Class J	95
D. Financing received	**26**
E. Other liabilities	**-**
E.1 Sundry payables	-
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**4**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	2
I. Interest income on securitised assets	**16**
L. Other revenues	**3**
L.1 Interest income	3

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS SME 2015 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**959**
A.1 Loans	959
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**112**
B.1 Deposits with banks	112
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**1,021**
C.1 Class A	329
C.2 Class B	290
C.3 Class C	-
C.4 Class D	-
C.5 Class J	402
D. Financing received	**-**
E. Other liabilities	**50**
E.1 Due to Originator	48
E.2 Accrued expenses and deferred income	2
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**15**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**22**
H.1 Interest expense	-
H.2 Forecast losses on loans	21
H.3 Negative swap differences	1
I. Interest income on securitised assets	**33**
L. Other revenues	**5**
L.1 Interest income	5

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS SME 2016 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
	561
A.1 Loans	561
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**64**
B.1 Deposits with banks	64
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**628**
C.1 Class A	235
C.2 Class B	393
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**-**
E. Other liabilities	**17**
E.1 Due to Originator	16
E.2 Accrued expenses and deferred income	1
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**12**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**14**
H.1 Interest expense	-
H.2 Forecast losses on loans	14
H.3 Additional return	-
I. Interest income on securitised assets	**19**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2005 S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**62**
A.1 Loans	61
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loan management	**13**
B.1 Debt securities	13
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**49**
C.1 Class A	15
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	24
C.5 Class C	10
D. Financing received	13
E. Other liabilities	**14**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Intesa San Paolo S.p.A.	-
E.4 Due to SPV	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	14
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**1**
H.1 Interest expense	1
H.2 Forecast losses on loans	-
H.3 Additional return	-
I. Interest income on securitised assets	**1**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 5 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**132**
A.1 Loans	132
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**18**
B.1 Debt securities	18
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**141**
C.1 Class A1	64
C.2 Class B	27
C.3 Class C	16
C.4 Class D	34
C.5 Class X	-
D. Financing received	4
E. Other liabilities	**16**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originator	7
E.4 Sundry payables	8
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	1
F. Interest expense on securities issued	**1**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	-
H.2 Forecast losses on loans	3
H.3 Amortisation of excess spread	1
I. Interest income on securitised assets	**2**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 6 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**299**
A.1 Loans	299
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**160**
B.1 Debt securities	-
B.2 Equities	-
B.3 Other assets	160
C. Securities issued	**310**
C.1 Class A1	270
C.2 Class B	21
C.3 Class C	14
C.4 Class D	4
C.5 Class E	1
D. Financing received	-
E. Other liabilities	**78**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Sundry payables	78
E.4 Due to SPV	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**1**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Additional return	-
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 8 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**394**
A.1 Loans	394
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**72**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	72
C. Securities issued	**375**
C.1 Class A1	200
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	175
C.5 Class C	-
D. Financing received	**49**
E. Other liabilities	**26**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	4
E.4 Sundry payables	20
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	2
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**1**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**11**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	9
I. Interest income on securitised assets	**10**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 9 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**465**
A.1 Loans	465
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**59**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	59
C. Securities issued	**441**
C.1 Class A1	-
C.2 Class A2	-
C.3 Class A3	248
C.4 Class B	193
C.5 Class C	-
D. Financing received	54
E. Other liabilities	**6**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	2
E.4 Sundry payables	4
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**5**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Negative swap differences	4
I. Interest income on securitised assets	**8**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 10 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**457**
A.1 Loans	457
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**38**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	38
C. Securities issued	**409**
C.1 Class A1	225
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	184
C.5 Class C	-
D. Financing received	**44**
E. Other liabilities	**5**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	1
E.4 Sundry payables	3
E.5 "Additional return" allowance	1
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	-
G.2 Other services	1
H. Other expenses	**3**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Negative swap differences	2
I. Interest income on securitised assets	**8**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**680**
A.1 Loans	680
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**25**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	25
C. Securities issued	**572**
C.1 Class A1	134
C.2 Class A2	110
C.3 Class A3	286
C.4 Class B	42
C.5 Class C	-
D. Financing received	**68**
E. Other liabilities	**7**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	2
E.4 Sundry payables	5
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**8**
H.1 Interest expense	2
H.2 Forecast losses on loans	4
H.3 Negative swap differences	2
I. Interest income on securitised assets	**12**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS 2 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**447**
A.1 Loans	447
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**40**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	40
C. Securities issued	**396**
C.1 Class A1	-
C.2 Class A2	216
C.3 Class A3	-
C.4 Class B	180
C.5 Class C	-
D. Financing received	**34**
E. Other liabilities	**2**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	1
E.4 Sundry payables	1
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**3**
H.1 Interest expense	1
H.2 Forecast losses on loans	2
H.3 Additional return	-
I. Interest income on securitised assets	**9**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS 3 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**546**
A.1 Loans	546
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**19**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	19
C. Securities issued	**501**
C.1 Class A1	292
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	94
C.5 Class J	115
D. Financing received	**28**
E. Other liabilities	**-**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Intesa San Paolo S.p.A.	-
E.4 Sundry payables	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**4**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**6**
H.1 Interest expense	2
H.2 Forecast losses on loans	2
H.3 Negative swap differences	2
I. Interest income on securitised assets	**15**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

Apulia Finance n. 4 S.r.l. issue I and issue II
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**214**
A.1 Loans	212
A.2 Securities	-
A.3 Other assets	2
B. Investments of the funds collected from loan management	**-**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**178**
C.1 Class A1	75
C.2 Class A2	70
C.3 Class A3	19
C.4 Class B	14
C.5 Class C	-
D. Financing received	-
E. Other liabilities	**49**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	-
E.4 Sundry payables	12
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Income/Losses of segregated assets	37
F. Interest expense on securities issued	**-**
G. Commissions and fees	**2**
G.1 Servicing	1
G.2 Other services	1
H. Other expenses	**2**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Additional return	1
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

C.5. Banking group - 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 assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
Intesa Sanpaolo	Intesa Sanpaolo Securitisation Vehicle (*)	19	-	-	97	0%	58%	0%	0%	0%	0%
Intesa Sanpaolo	Intesa Sec 3 S.r.l.	23	216	8	101	0%	100%	0%	93%	0%	0%
Italfondiario	Intesa Sec NPL S.p.A.	11	-	4	-	100%	0%	46%	0%	0%	0%
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	1	7,014	-	153	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS ABS 2011 S.r.l.	90	1,264	-	164	0%	79%	0%	0%	0%	22%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	12	50	-	11	0%	8%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2006 S.r.l. (*)	1	127	-	12	0%	100%	0%	3%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2007 S.r.l.	19	109	-	15	0%	83%	0%	0%	0%	21%
Intesa Sanpaolo	CLARIS FINANCE 2008 S.r.l.	26	112	-	23	0%	98%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2011 S.r.l.	4	540	-	21	0%	71%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l.	25	457	-	65	0%	73%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS SME 2015 S.r.l.	154	805	-	279	0%	80%	0%	20%	0%	20%
Intesa Sanpaolo	CLARIS SME 2016 S.r.l.	101	460	-	143	0%	64%	0%	0%	0%	11%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	16	989	-	121	0%	15%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 5 Residential MBS S.r.l.	36	96	-	17	0%	90%	0%	0%	0%	3%
Intesa Sanpaolo	Berica 6 Residential MBS S.r.l.	11	288	-	44	0%	100%	0%	76%	0%	78%
Intesa Sanpaolo	Berica 8 Residential MBS S.r.l.	30	364	-	69	0%	84%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 9 Residential MBS S.r.l.	15	450	-	68	0%	73%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 10 Residential MBS S.r.l.	19	438	-	62	0%	70%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS S.r.l.	58	622	-	80	0%	77%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 2 S.r.l.	19	428	-	65	0%	70%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	34	512	-	78	0%	54%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	26	617	-	83	0%	46%	0%	0%	0%	0%
Intesa Sanpaolo	Berica PMI 2 S.r.l. (*)	10	572	-	95	0%	87%	0%	0%	0%	0%
Intesa Sanpaolo	Berica Funding S.r.l. 2016 (*)	9	936	-	148	0%	35%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	2	558	-	164	0%	11%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. issue I	12	74	-	15	0%	33%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. issue II	40	86	-	17	0%	26%	0%	0%	0%	0%
Total		**822**	**18,184**	**12**	**2,210**						

(*) Vehicle used for self-securitisations

C.6. Banking group – Consolidated securitisation vehicles

Intesa SEC 3 S.r.l.
Securitisation of performing residential mortgage loans

(millions of euro)

A. Securitised assets	**242**
A.1 Loans	241
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loan management	**121**
B.1 Debt securities	121
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**236**
C.1 Class A1	90
C.2 Class A2	73
C.3 Class A3	73
C.4 Class B	-
C.5 Class C	-
D. Financing received	**49**
E. Other liabilities	**44**
E.1 Amounts due for services rendered	44
E.2 Due to customers	-
E.3 Due to Parent Company	-
E.4 Due to securitisation vehicle	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**2**
G.1 Servicing	1
G.2 Securities placement commissions	1
H. Other expenses	**8**
H.1 Interest expense	3
H.2 Forecasted losses on loans	4
H.4 Additional return	1
I. Interest income on securitised assets	**6**
L. Other revenues	**1**
L.1 Interest income	1

Intesa SEC NPL S.p.A.
Securitisation of non-performing mortgage loans

(millions of euro)

A. Securitised assets	**13**
A.1 Loans	11
A.2 Securities	-
A.3 Other assets	2
B. Investments of the funds collected from loan management	**2**
B.1 Debt securities	-
B.2 Equities	-
B.3 Accrued expenses and deferred income	2
C. Securities issued	**155**
C.1 Class A	-
C.2 Class B	-
C.3 Class C	-
C.4 Class D	114
C.5 Class E	41
D. Financing received	**6**
E. Other liabilities	**84**
E.1 Amounts due for services rendered	1
E.2 Accrued expenses – interest on securities issued	83
E.3 Other accrued expenses	-
E.4 Floor option premium received	-
F. Interest expense on securities issued	**15**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**20**
H.1 Interest expense	2
H.2 Other expenses	-
H.3 Losses on penalty interest	-
H.4 Losses on loans	-
H.5 Forecasted losses on loans	18
I. Interest income on securitised assets	**27**
L. Other revenues	**-**
L.1 Interest income	-
L.2 Recovery of legal expenses	-
L.3 Write-backs	-
L.4 Other income	-

D. 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.

D.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.

D.2 Structured entities not consolidated in the accounts

D.2.1 Structured entities consolidated for regulatory purposes

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

D.2.2 Other structured entities not consolidated for regulatory purposes

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 "E. 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 funds managed by IMI Fondi Chiusi SGR, which sponsors and manages closed-end private equity funds, in the form of UCIs reserved to qualified operators, specialised in investment in Small and Medium-Sized Enterprises, operating in two complementary business lines: Private Equity and Venture and Seed Capital.
In the area of Private Equity, there are several operating funds dedicated to investment in SMEs throughout the country and in specific geographical areas.
In the area of Venture and Seed Capital, the sponsored funds operate in the following areas:
- participation in new business initiatives characterised by sound technological profiles;
- participation in projects to introduce process or product innovation using digital technology;
- investments in businesses with high forecast growth rates and cutting-edge technological development, both through direct investments in Seed Capital (financing the assessment and development of a business idea prior to the start-up phase) and indirect investments in UCI units with an investment policy matching the Fund's objectives or in business incubators/accelerators.

Investments in these types of funds derive from the Group's willingness to subscribe unplaced units offered during the placement to qualified investors, to ensure that the initiatives are successful, in any event, while maintaining suitable separation of management in organisational terms.

The closed-end funds in question finance their activities exclusively using the capital that investors committed to paying in at the time of placement, without using any types of debt.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR, in line with the financial portfolio management policies issued by the company, in agreement with the Intesa Sanpaolo Group Guidelines.
In detail, the asset management company has 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 Treasury 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 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 a subsidiary do not prejudice the operational autonomy and capacity of the asset management company to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

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.

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.

The Intesa Sanpaolo Group also 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.

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		**4,277**		**264**	**4,013**	**5,439**	**1,426**
	Financial assets held for trading	416	Due to customers	259			
	Financial assets designated at fair value through profit and loss	-	Financial liabilities held for trading	5			
	Financial assets available for sale	18		-			
	Loans to customers	3,843		-			
2. UCI		**2,929**		**445**	**2,484**	**2,924**	**440**
	Financial assets held for trading	1,081	Due to customers	433			
	Financial assets designated at fair value through profit and loss	105	Financial liabilities held for trading	12			
	Financial assets available for sale	1,176		-			
	Loans to customers	567		-			

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 (ex. 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 sponsored structured entities; the main revenue component recognised is in the form 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	6	1,860	14	143	2,023
Special-purpose vehicles	113	14	-	7	134

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 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

E.1. Banking group - Financial assets sold not derecognised: book value and full value

(millions of euro)

Type / Portfolio	CASH ASSETS				DERIVATIVES	31.12.2017		31.12.2016	
	Debt securities	Equities	UCI	Loans		Total	*of which non-performing assets*	Total	*of which non-performing assets*
FINANCIAL ASSETS HELD FOR TRADING	**4,611**	**-**	**-**	**-**	**-**	**4,611**	**-**	**4,758**	**-**
- Financial assets sold totally recognised (book value)	4,611	-	-	-	-	4,611	-	4,758	-
- Financial assets sold partly recognised (book value)	-	-	-	-	-	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	-	-	-	-	-
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	**18,098**	**-**	**-**	**-**	**X**	**18,098**	**-**	**19,091**	**-**
- Financial assets sold totally recognised (book value)	18,096	-	-	-	X	18,096	-	19,081	-
- Financial assets sold partly recognised (book value)	1	-	-	-	X	1	-	5	-
- Financial assets sold partly recognised (full value)	1	-	-	-	X	1	-	5	-
INVESTMENTS HELD TO MATURITY	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
DUE FROM BANKS	**100**	**X**	**X**	**-**	**X**	**100**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	100	X	X	-	X	100	-	-	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
LOANS TO CUSTOMERS	**302**	**X**	**X**	**4,570**	**X**	**4,872**	***329***	**1,536**	***397***
- Financial assets sold totally recognised (book value)	302	X	X	4,570	X	4,872	*329*	1,536	*397*
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
Total 31.12.2017	**23,111**	**-**	**-**	**4,570**	**-**	**27,681**	**329**	**X**	***X***
Total 31.12.2016	**24,675**	**-**	**-**	**710**	**-**	**X**	**X**	**25,385**	***397***

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

Operations mainly refer to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the SEC 3 and K-Equity securitisations, as well as the securitisation transactions deriving from the acquisition of the Aggregate Set of the former Banca Popolare di Vicenza and former Veneto Banca Groups.

E.2. Banking group - Financial liabilities corresponding to financial assets sold not derecognised: book value

(millions of euro)

	DUE TO CUSTOMERS		DUE TO BANKS		SECURITIES ISSUED		Total 31.12.2017	Total 31.12.2016
	Fully recognised	Partly recognised	Fully recognised	Partly recognised	Fully recognised	Partly recognised		
Financial assets held for trading	3,469	-	968	-	-	-	4,437	4,023
Financial assets measured at fair value	-	-	-	-	-	-	-	-
Financial assets available for sale	8,987	-	9,121	-	-	-	18,108	19,084
Investments held to maturity	-	-	-	-	-	-	-	-
Due from banks	6	-	-	-	-	-	6	-
Loans to customers	3,555	-	212	-	236	-	4,003	1,155
Total	**16,017**	**-**	**10,301**	**-**	**236**	**-**	**26,554**	**24,262**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.
The financial liabilities corresponding to financial assets sold not derecognised (shown in the columns Due to Customers and Due to Banks) mainly relate to repurchase agreements for securities recorded under assets, as well as the K-Equity securitisation and those deriving from the acquisition of the Aggregate Set of the former Banca Popolare di Vicenza and former Veneto Banca Groups.

On the other hand, in accordance with the regulations, the liabilities issued as part of the related securitisations by the SEC3 vehicle (included within the scope of consolidation) are shown under securities issued.

However, they do not include the repurchase agreements relating to securities received under reverse repurchase agreements.

E.3. Banking group - Sales with liabilities having recourse exclusively on the assets sold: fair value

(millions of euro)

Type / Portfolio	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS		FINANCIAL ASSETS AVAILABLE FOR SALE		INVESTMENTS HELD TO MATURITY (fair value)		DUE FROM BANKS (fair value)		LOANS TO CUSTOMERS (fair value)		Total 31.12.2017	Total 31.12.2016
	Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:			
	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised		
A. Cash assets	**4,611**	**-**	**-**	**-**	**18,093**	**1**	**-**	**-**	**101**	**-**	**4,717**	**-**	**27,523**	**25,411**
1. Debt securities	4,611	-	-	-	18,093	1	-	-	101	-	265	-	23,071	24,689
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCI	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	4,452	-	4,452	722
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total Assets	**4,611**	**-**	**-**	**-**	**18,093**	**1**	**-**	**-**	**101**	**-**	**4,717**	**-**	**27,523**	**25,411**
C. Associated liabilities	**4,437**	**-**	**-**	**-**	**18,108**	**-**	**-**	**-**	**6**	**-**	**3,994**	**-**	**X**	**X**
1. Due to customers	3,469	-	-	-	8,987	-	-	-	6	-	3,539	-	X	X
2. Due to banks	968	-	-	-	9,121	-	-	-	-	-	219	-	X	X
3. Securities issued	-	-	-	-	-	-	-	-	-	-	236	-	X	X
Total Liabilities	**4,437**	**-**	**-**	**-**	**18,108**	**-**	**-**	**-**	**6**	**-**	**3,994**	**-**	**26,545**	**24,265**
Net Value 2017	**174**	**-**	**-**	**-**	**-15**	**1**	**-**	**-**	**95**	**-**	**723**	**-**	**978**	**X**
Net Value 2016	**735**	**-**	**-**	**-**	**-15**	**5**	**-**	**-**	**-**	**-**	**421**	**-**	**X**	**1,146**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2017.

E.4. Banking group - 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 at the end of July 2009, had an amount of 20 billion euro (the original 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. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold, the last of which (amounting to around 1 billion euro) in April 2013. As at 31 December 2017 loans and securities sold to the vehicle had a book value of 6 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 which matured in the fourth quarter of 2011, 12 billion euro relating to issues acquired by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012). During 2017:

- the early repayment of the eighth series of CB was carried out, for a nominal value of 2 billion euro which, as it was fully subscribed for 1.8 billion euro by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;

- The thirteenth series of Covered Bonds was issued, for a nominal value of 1.6 billion euro. The notes, with floating rate and 7-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A1 rating, and are eligible for Eurosystem transactions;

Therefore, as at 31 December 2017 a total nominal amount of 6.7 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 6.6 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2017, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 5.3 billion euro.
As at 31 December 2017 loans sold to the vehicle had a book value of 20 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 28.7 billion euro (of which 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).
During 2017:

- the second series of CB reached maturity, with a nominal value of 1.9 billion euro;
- in June, twenty-second series of CB was issued in the form of a fixed-rate bond (1.125%) for a nominal value of 1 billion euro, with a 10-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was placed with institutional investors;

As at 31 December 2017, a total nominal amount of 15.1 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.7 billion placed with third party investors and 3.4 billion subscribed by Intesa Sanpaolo.

In 2012 the new multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). A sale was completed in June 2017 totalling 1.1 billion euro.

As at 31 December 2017 loans sold to the vehicle had a book value of 10.1 billion euro.
The other Group Banks sold assets to the vehicle for a total original nominal value of 17.7 billion euro, of which 1.8 billion euro sold in 2017.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 49.7 billion euro (of which 28 billion euro subject to early redemption and reimbursed). During 2017:

- in February, the ninth series of CB reached maturity, with a value of 1.375 billion euro;
- in August, the tenth series of CB reached maturity, with a value of 1.375 billion euro;
- in February, the following was issued:
  - the twenty-third series of CB, with a nominal value of 1.375 billion euro. This is an 9-year, floating-rate bond;
  - the twenty-fourth series of CB, with a nominal value of 1.375 billion euro. This is an 10-year, floating-rate bond;

All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.
As at 31 December 2017 a total nominal amount of 21.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2017 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	8,875	4	8,562	147	167
ISP CB IPOTECARIO	RMBSs (Performing residential mortgages)	24,948	115	23,000	11,713	12,473
ISP OBG (4) (5)	Mortgages	27,799	246	27,445	-	-

(1) This caption includes the subordinated loan granted by ISP 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 professional investors and international financial intermediaries, for the entire amount issued.

(4) The total assets amount to 11,160 million euro for Intesa Sanpaolo; of the remainder: 8,550 million euro is comprised of securitised assets of Banco di Napoli, 3,451 million euro is comprised of securitised assets of CR Veneto, 2,677 million euro is comprised of securitised assets of CR Firenze and 1,961 million euro is comprised of securitised assets of CR Bologna.

(5) The write-downs to the securitised portfolio amounts to 137 million euro for Intesa Sanpaolo; of the remainder: 80 million euro relates to the Banco di Napoli portfolio, 21 million euro relates to assets of CR Veneto, 4 million euro relates to assets of CR Bologna and 4 million euro relates to assets of CR Firenze.

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 2017 the subsidiary VUB had issued 2.3 billion euro in this type of securities, booked in the financial statements at a value of approximately 2.3 billion euro.

F. BANKING GROUP - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2017, the expected loss on core banks (Basel 3 validation area) amounted to 0.44% of disbursed loans, a 0.08 percentage point decrease on the figure as at the end of 2016. The economic capital corresponded to 2.2% of disbursed loans, a reduction of 1.7% compared to the figure in 2016.
The improvement in the risk indicators is due to the change of the rating models, the use of new LGD grids and the application of new credit conversion factors, in addition to the active management of the portfolio towards better exposures and the transitions to non-performing loan status, which contribute to removing performing customers with worse ratings from the portfolio.
For the companies included in the roll out plan, the PD, LGD and EAD internal models are subject to a second level of control by the Validation function and a third level three of control by the Internal Auditing Head Office 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 performances of the models. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

1.2. BANKING GROUP - 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 Group Risk Governance Committee, replaced by the Steering Committee (Article 18.2.2, letter c) of the Articles of Association provided for the establishment of a Steering Committee, on 25/07/2017, chaired by the Managing Director and CEO and composed of the heads of the main corporate departments), and the Group Financial Risks Committee.
The Steering Committee (formerly the Group Risk Governance Committee), the 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 the 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 Risks 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 Statutory 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 Risks 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 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	**603,170**	**98,076**	**505,094**	
Financial assets held for trading	39,042	37,791	1,250	Interest rate risk, credit spread, equity
Financial assets designated at fair value through profit and loss	863	425	439	Interest rate risk, credit spread
Financial assets available for sale	64,968	59,819	5,149	Interest rate risk, equity risk
Financial assets held to maturity	1,174	-	1,174	Interest rate risk
Due from banks	71,883	-	71,883	Interest rate risk
Loans to customers	415,029	-	415,029	Interest rate risk
Hedging derivatives	4,213	41	4,172	Interest rate risk
Investments in associates and companies subject to joint control	5,998	-	5,998	Equity risk
Liabilities subject to market risk	**572,132**	**41,874**	**530,258**	
Due to banks	99,805	-	99,805	Interest rate risk
Due to customers	327,482	-	327,482	Interest rate risk
Securities issued	96,137	-	96,137	Interest rate risk
Financial liabilities held for trading	41,215	41,004	211	Interest rate risk
Financial liabilities designated at fair value through profit and loss	4	-	4	-
Hedging derivatives	7,489	870	6,619	Interest rate risk

REGULATORY TRADING BOOK
1.2.1. INTEREST RATE RISK AND PRICE RISK
Consistent with the use of internal risk measurement models, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

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

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

Internal model validation
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
In particular, the validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.
Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios.
Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.

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 historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of the document, the period relevant to the measurement of stressed VaR was set as 1 April 2008 to 30 March 2009 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

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

Incremental Risk Charge (IRC)
The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio 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.

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 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.

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).

QUANTITATIVE INFORMATION

Daily VaR evolution
During the fourth quarter of 2017, the market risks originated by Intesa Sanpaolo and Banca IMI declined compared to the previous period: the average daily VaR for the fourth quarter of 2017 was 58.6 million euro, slightly down on the third quarter, primarily for Banca IMI.
With regard to the whole of 2017, the Group's average risk profile (69 million euro) decreased compared to the average values in 2016 (94.9 million euro).

Daily 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	8.0	6.3	8.7	8.9	11.6	11.5
Banca IMI	50.5	44.2	59.5	52.6	58.4	73.7
Total	**58.6**	**52.3**	**67.8**	**61.5**	**70.0**	**85.3**

[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.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2017 and 2016 [a]

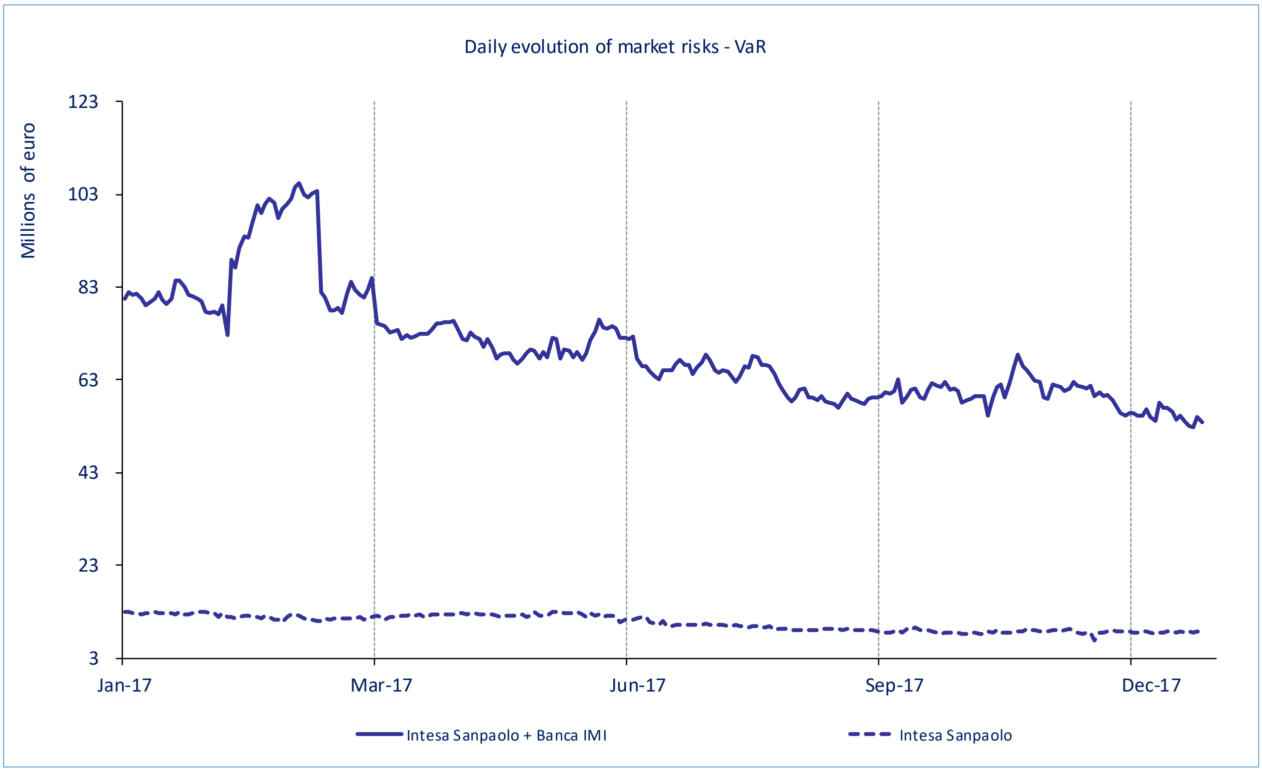
(millions of euro)

	2017				2016		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	10.0	6.3	12.5	8.0	12.4	9.8	17.6
Banca IMI	58.9	44.2	93.2	45.1	82.5	51.8	125.6
Total	**69.0**	**52.3**	**104.8**	**53.2**	**94.9**	**63.3**	**137.9**

[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 VaR, shown in the following chart, was mainly determined by Banca IMI.

During the first quarter of 2017 an increase in risks was recorded, due initially to a "scenario" effect (at the beginning of February a particularly volatile scenario was recorded for the credit spread risk factor) and subsequently to an increase in risks in the credit and equity sector. In the last month, the VaR recorded a decline due to the technical effect linked to the passage of time, whereby past scenarios, at the time volatile, assume, with the passing of days, a lower weighting in the calculation of risks. In the second quarter of 2017, in addition to the abovementioned technical effect, according to which the "Brexit scenario" has been phased out of the VaR calculation period, a further decline in risks was recorded due to a reduction in the securities portfolio.
The risk profile declined in the third and fourth quarter of 2017 as a result of the lesser exposure to the government bond portfolio and interest rate risk. In addition, volatile scenarios had a lesser impact due to the technical effect linked to the passage of time.



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

4th quarter 2017	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	4%	6%	21%	46%	21%	1%	1%
Banca IMI	5%	0%	6%	81%	1%	6%	1%
Total	**4%**	**1%**	**8%**	**76%**	**4%**	**6%**	**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 2017, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

The breakdown of risk profile in the fourth quarter of 2017 with regard to the various factors shows the prevalence of the risk generated by the spread, which accounted for 46% of the total VaR for Intesa Sanpaolo and 81% for Banca IMI.

Contribution of strategies to portfolio breakdown [(a)]

	31.12.2017	31.12.2016
- Catalist Driven	20.1%	12.4%
- Credit	33.9%	37.8%
- Directional trading	25.5%	33.4%
- Equity hedged	2.9%	0.0%
- Equity Long Only	0.0%	3.3%
- Multi-strategy	17.6%	13.1%
Total hedge funds	**100.0%**	**100.0%**

(a) The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2017, the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to credit (34% of the total in terms of portfolio value).
Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table: The shocks applied to the portfolio were updated on an annual basis by the Financial and Market Risks Department.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-3	31	-4	-6	280	-275	43	-15	3	13

In particular:
- for positions on equity markets, there would be a theoretical loss of 3 million euro in the event of a market crash (decline in prices of 15% on the European market and of 10% on the U.S. market and increase in volatility of 70%).
- for positions in interest rates, there would be a loss of 4 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 275 million euro;
- for positions in foreign exchange, there would be losses of 15 million euro in the event of a 10% increase in the EUR-USD exchange rate and reduction in volatility of 25%.
- finally, for positions on commodities, in both crash and bullish scenarios there would be gains given the portfolio non-linearity

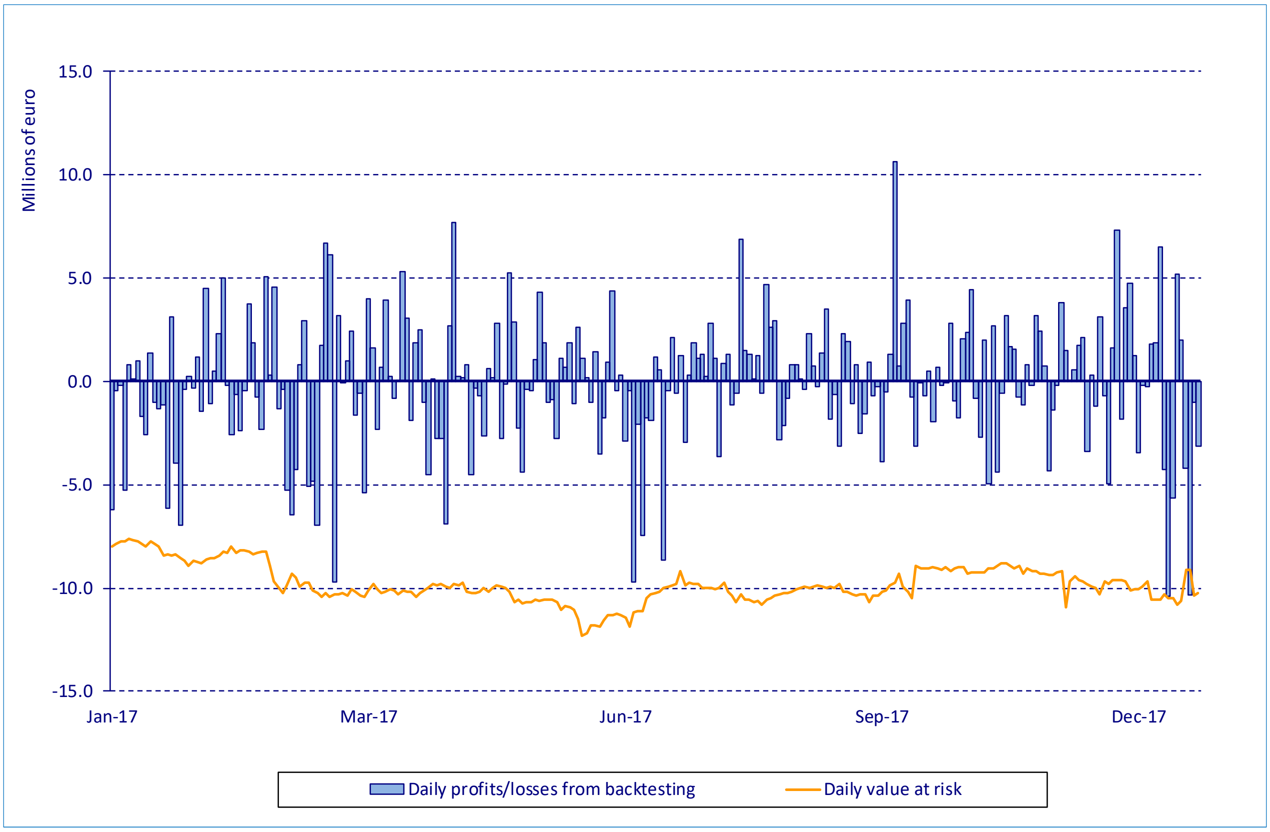
Backtesting

The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

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

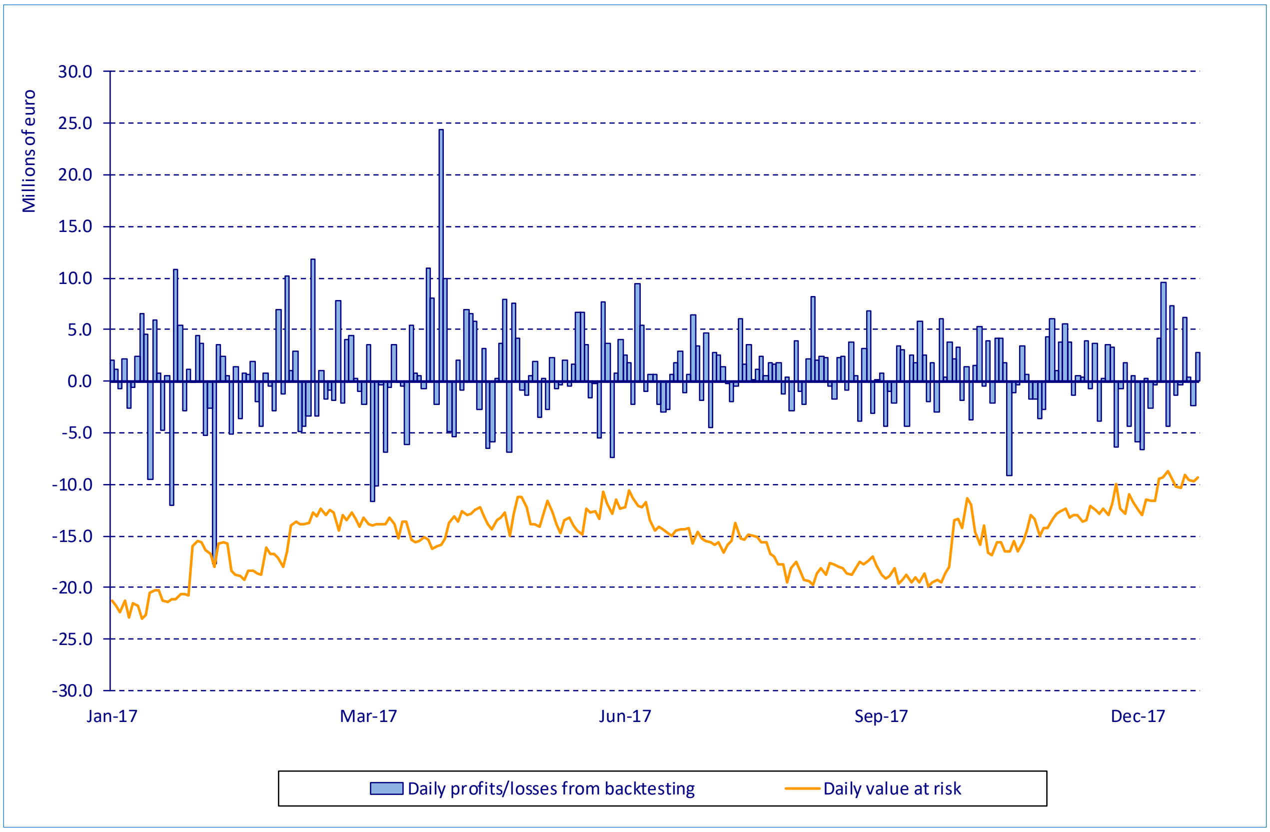
Backtesting in Intesa Sanpaolo

On 28 December 2017, there was theoretical backtesting exception on Intesa Sanpaolo's trading portfolio. The risk factor that contributed to almost all of the loss was the rate; specifically, strong short-term shocks were observed on the USD Basis and Forex curves, mainly due to year-end rolling.



Backtesting in Banca IMI

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



Issuer risk
Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it 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	61%	5%	0%	0%	4%	77%	14%
Banca IMI	39%	1%	22%	-13%	8%	-3%	85%
Total	**100%**	**3%**	**9%**	**-5%**	**6%**	**46%**	**41%**

[(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.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the securitisation 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 Risks 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.

For the 2017 RAF, an overall limit was set for the trading component of 155 million euro, in line with the previous year.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 52% in 2017, with a maximum use of 65%. For Banca IMI, the average VaR limit came to 45%, with a maximum use of 72%. It should be specified that for Banca IMI the VaR limit also includes the AFS component.

The use of the IRC limits at year end amounted to 21.8% for Intesa Sanpaolo (limit of 150 million euro) and 23% for Banca IMI (limit of 430 million euro).

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 38%. For 2017, the limit for this component remained in line with 2016 at 260 million euro.

BANKING BOOK
1.2.2 INTEREST RATE RISK AND PRICE RISK

QUALITATIVE INFORMATION

A. 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, mostly held by the Parent Company and IMI Investimenti.

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 (∆EVE);
2. net interest income:
   - shift sensitivity of net interest income (∆NII);
   - 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;

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 the 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.

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.

B. Fair value hedging and cash flow hedges

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.
A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.
During the year no hedging activities were performed to cover the price risk of the banking book.

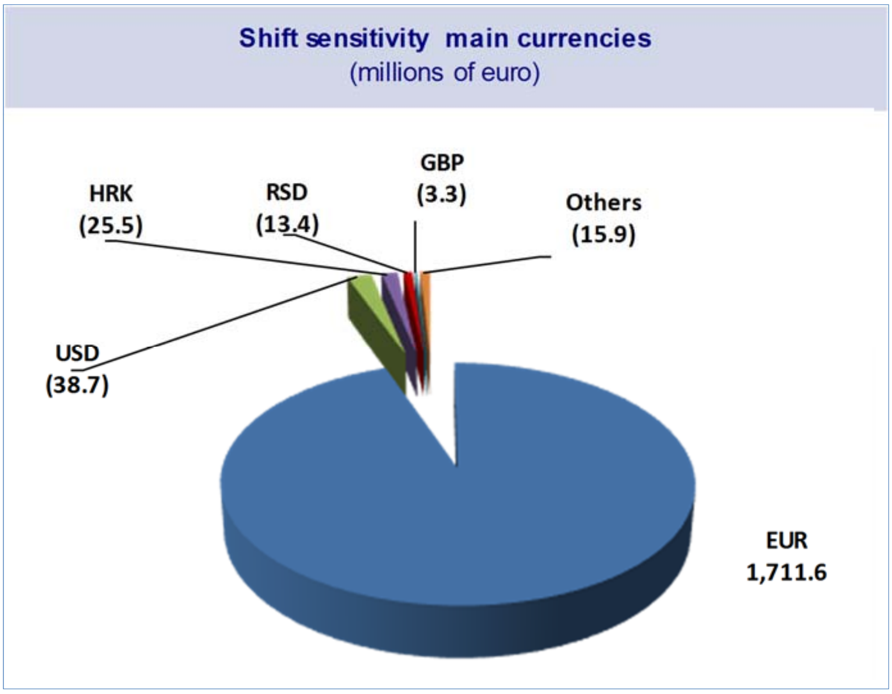
D. Hedging of foreign investments

In 2017, foreign exchange hedges were implemented against the exchange risk on gains in foreign currency generated by the Parent Company’s international branches.

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 794 million euro, -872 million euro and 1,563 million euro, respectively, at the end of 2017. The last of these figures was up the 1,081 million euro recorded at the end of 2016.
In 2017, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 1,155 million euro with a year-end figure of 1,615 million euro (945 million euro at the end of 2016), almost entirely concentrated on the euro currency.

The chart below shows the shift sensitivity broken down according to the main currencies:



Interest rate risk, measured in terms of VaR, averaged 129 million euro in 2017, with a minimum value of 85 million euro and a maximum value of 153 million euro, the same level as at the end of 2017 (117 million euro at the end of 2016).
Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2017 of 103 million euro (161 million euro at the end of 2016), with peak and minimum values of 146 million euro and 57 million euro respectively (64 million euro at the end of 2017).
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 AFS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		Impact on shareholders' equity
Price shock	+10%	60
Price shock	-10%	-60

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 possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Group's balance sheet aggregates. The key sources of exchange rate risk lie in:
– foreign currency loans and deposits held by corporate and/or retail customers;
– purchases of securities, equity investments and other financial instruments in foreign currencies;
– conversion into domestic currency of assets, liabilities and income of branches and subsidiaries abroad;
– trading of foreign currencies and banknotes;
– collection and/or payment of interest, commissions, dividends and administrative costs in foreign currencies.

More specifically, "structural" foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group.
Foreign exchange transactions, spot and forward, are carried out mostly by Banca IMI, which also operates in the name and on behalf of the Parent Company with the task of guaranteeing pricing throughout the Bank and the Group while optimizing the proprietary risk profile deriving from brokerage of foreign currencies traded by customers.
The main types of financial instruments traded include: spot and forward exchange transactions in foreign currencies, forex swaps, domestic currency swaps, and foreign exchange options.

B. Foreign exchange risk hedging activities
Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.
Held for trading exposures are included in the trading book where foreign exchange risk is measured and subjected to daily VaR limits.

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	**30,850**	**2,403**	**607**	**3,898**	**2,844**	**4,234**	**1,388**	**9,097**
A.1 Debt securities	7,818	752	-	1,090	718	694	543	1,998
A.2 Equities	308	25	18	4	27	7	1	520
A.3 Loans to banks	6,948	143	221	1,114	935	570	110	2,609
A.4 Loans to customers	15,776	1,483	368	1,690	1,164	2,963	734	3,970
A.5 Other financial assets	-	-	-	-	-	-	-	-
B. OTHER ASSETS	**4,400**	**556**	**90**	**198**	**55**	**37**	**158**	**114**
C. FINANCIAL LIABILITIES	**32,343**	**1,205**	**382**	**3,272**	**2,389**	**3,314**	**204**	**5,947**
C.1 Due to banks	8,988	333	84	347	8	81	3	846
C.2 Due to customers	9,639	488	291	2,917	1,298	3,233	127	3,476
C.3 Debt securities	13,716	384	7	8	1,083	-	74	1,625
C.4 Other financial liabilities	-	-	-	-	-	-	-	-
D. OTHER LIABILITIES	**452**	**522**	**64**	**245**	**-**	**35**	**4**	**434**
E. FINANCIAL DERIVATIVES								
- Options								
long positions	*3,266*	*210*	*2*	*82*	*-*	*-*	*60*	*253*
short positions	*3,622*	*339*	*38*	*65*	*-*	*-*	*47*	*453*
- Other derivatives								
long positions	*59,658*	*7,478*	*3,418*	*1,849*	*-*	*14*	*4,714*	*9,925*
short positions	*61,669*	*8,369*	*3,541*	*1,914*	*-*	*14*	*6,093*	*11,734*
TOTAL ASSETS	**98,174**	**10,647**	**4,117**	**6,027**	**2,899**	**4,285**	**6,320**	**19,389**
TOTAL LIABILITIES	**98,086**	**10,435**	**4,025**	**5,496**	**2,389**	**3,363**	**6,348**	**18,568**
DIFFERENCE (+/-)	**88**	**212**	**92**	**531**	**510**	**922**	**-28**	**821**

2. Internal models and other sensitivity analysis methodologies
Management of foreign exchange risk relative 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.
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 58.7 million euro as at 31 December 2017. This potential impact would only be reflected in the Shareholders' Equity.

1.2.4. DERIVATIVES AND SECURITIES FINANCING TRANSACTIONS

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 authorisation was extended also to the banks belonging to the Banca dei Territori (BdT) division starting from 31.12.2016.
This approach is applicable to almost the entire trading portfolio (as shown in the table below, as of 31 December 2017 approximately 96% of the total EAD of financial and credit derivatives is measured using EPE models). Derivatives and SFT's out of scope of internal models represent a residual portion of the portfolio (as of 31 December 2017 accounting for approximately 4% of overall EAD) and refer to:

- residual contracts of Banca IMI, Intesa Sanpaolo and BdT to which EPE is not applied (in compliance with EBA non-materiality thresholds);
- EAD generated by other banks and companies of the group which report using the mark-to-market approach.

As envisaged by Basel 3, also CCPs and ETD derivatives 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	31.12.2017		31.12.2016	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	695	15,465	867	17,651

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 more than 3 billion euro for the Parent Company, Banca IMI and the banks of the Banca dei Territori division, while the collateral paid equals 14 billion euro (this amount includes the collateral connected to transactions with central counterparties).

A. FINANCIAL DERIVATIVES

A.1. Regulatory trading book: period-end notional amounts

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,157,321**	**181,701**	**2,009,912**	**229,069**
a) Options	96,243	31,016	112,610	26,038
b) Swaps	2,059,848	-	1,897,237	-
c) Forwards	1,230	-	65	-
d) Futures	-	150,685	-	203,031
e) Others	-	-	-	-
2. Equities and stock indices	**20,441**	**16,370**	**16,431**	**19,059**
a) Options	20,376	14,647	16,215	17,557
b) Swaps	64	-	31	-
c) Forwards	1	-	185	-
d) Futures	-	1,723	-	1,502
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**164,474**	**277**	**149,197**	**275**
a) Options	22,971	29	22,631	60
b) Swaps	50,258	-	49,169	-
c) Forwards	89,925	-	76,525	-
d) Futures	-	248	-	215
e) Others	1,320	-	872	-
4. Commodities	**6,460**	**2,031**	**7,118**	**3,208**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**2,348,696**	**200,379**	**2,182,658**	**251,611**

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to primary clearing houses of 1,943,893 million euro as of 31 December 2017 (1,780,948 million euro as at 31 December 2016).

A.2. Banking book: period-end notional amounts

A.2.1. Hedging derivatives

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**259,609**	**-**	**264,632**	**-**
a) Options	3,708	-	3,908	-
b) Swaps	255,901	-	260,724	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**3,198**	**-**	**3,794**	**-**
a) Options	-	-	-	-
b) Swaps	3,162	-	3,794	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	36	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	**262,807**	**-**	**268,426**	**-**

By convention, the column “Over the counter” includes transactions in OTC derivatives transferred to primary clearing houses of 11,614 million euro as at 31 December 2017.

A.2.2. Other derivatives

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,932**	**-**	**2,936**	**-**
a) Options	1,599	-	1,671	-
b) Swaps	1,333	-	1,265	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**1,113**	**-**	**2,040**	**-**
a) Options	1,113	-	2,040	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**952**	**-**	**885**	**-**
a) Options	45	-	201	-
b) Swaps	99	-	182	-
c) Forwards	808	-	463	-
d) Futures	-	-	-	-
e) Others	-	-	39	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**4,997**	**-**	**5,861**	**-**

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss and the put and call options relating to commitments on equity investments.

A.3. Financial derivatives gross positive fair value – breakdown by product

A.4. Financial derivatives gross negative fair value – breakdown by product

A.5. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements

A.6. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements

A.7. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements

A.8. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements

A.9. Residual maturity of over the counter financial derivatives: notional amounts

Tables A.3 to A.9 were not filled in as the financial derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.
Information on derivatives is shown below, in the section relating to internal models[14].

[14]Based on the financial statement instructions issued by the Bank of Italy, tables A.3 to A.9 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

A.10 Over the counter financial derivatives: counterparty risk/financial risk – internal models

As stated in the initial part of the section on derivatives, Banca IMI, the Parent Company and the banks of the Banca dei Territori Division were authorised to use EPE internal models to determine the requirement for counterparty risk. The other banks of the Group report the requirement using the mark-to-market approach.
At consolidated level, financial derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, with the purpose of sum up all the information on derivatives at group level.

Financial derivatives gross positive fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**22,534**	**478**	**27,645**	**647**
a) Options	2,801	478	3,755	647
b) Interest rate swaps	17,109	-	20,060	-
c) Cross currency swaps	1,551	-	2,382	-
d) Equity swaps	5	-	-	-
e) Forwards	870	-	1,120	-
f) Futures	-	-	-	-
g) Others	198	-	328	-
B. Banking book - hedging	**4,213**	**-**	**6,234**	**-**
a) Options	75	-	83	-
b) Interest rate swaps	3,858	-	5,600	-
c) Cross currency swaps	279	-	551	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	1	-	-	-
C. Banking book - other derivatives	**604**	**-**	**675**	**-**
a) Options	183	-	231	-
b) Interest rate swaps	416	-	441	-
c) Cross currency swaps	3	-	1	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**27,351**	**478**	**34,554**	**647**

Financial derivatives gross negative fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**26,184**	**546**	**33,101**	**718**
a) Options	5,497	546	7,069	718
b) Interest rate swaps	17,687	-	21,553	-
c) Cross currency swaps	1,899	-	2,867	-
d) Equity swaps	2	-	-	-
e) Forwards	822	-	1,257	-
f) Futures	-	-	-	-
g) Others	277	-	355	-
B. Banking book - hedging	**7,489**	**-**	**9,027**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	7,069	-	8,588	-
c) Cross currency swaps	420	-	439	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**289**	**-**	**360**	**-**
a) Options	262	-	329	-
b) Interest rate swaps	24	-	28	-
c) Cross currency swaps	-	-	1	-
d) Equity swaps	-	-	-	-
e) Forwards	3	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**33,962**	**546**	**42,488**	**718**

By convention, the column “Over the counter” includes transactions in OTC derivatives transferred to primary clearing houses of 4,141 million euro (5,188 million euro as at 31 December 2016).

The data contained in the two tables below - unlike the previous tables - refers exclusively to transactions in OTC derivatives.

Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	7,353	2,236	102,941	2,002,436	586	41,166	600
- positive fair value	3,492	586	11,065	2,196	31	1,991	20
- negative fair value	-60	-20	-12,368	-7,031	-	-457	-21
2. Equities and stock indices							
- notional amount	-	-	7,959	1,087	11,286	102	7
- positive fair value	-	-	141	25	1	9	-
- negative fair value	-	-	-2,685	-55	-64	-1	-2
3. Foreign exchange rates and gold							
- notional amount	1,230	-	102,838	41,427	619	18,260	100
- positive fair value	-	-	1,094	853	-	735	3
- negative fair value	-17	-	-2,015	-617	-7	-282	-3
4. Other values							
- notional amount	-	-	1,973	1,626	-	2,858	4
- positive fair value	-	-	96	89	-	104	-
- negative fair value	-	-	-86	-169	-	-226	-

Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	35	407	240,419	20,860	15	28	776
- positive fair value	-	3	4,305	146	-	4	-
- negative fair value	-	-	-6,372	-779	-12	-	-84
2. Equities and stock indices							
- notional amount	-	-	786	74	-	21	232
- positive fair value	-	-	67	7	-	-	-
- negative fair value	-	-	-56	-	-	-	-52
3. Foreign exchange rates and gold							
- notional amount	69	-	3,522	525	-	-	34
- positive fair value	3	-	280	2	-	-	-
- negative fair value	-	-	-264	-159	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B. CREDIT DERIVATIVES

B.1. Credit derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	REGULATORY TRADING BOOK		BANKING BOOK	
	single counterparty	more counterparties	single counterparty	more counterparties
1. Protection purchases				
- Credit default products	7,371	37,390	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2017	**7,371**	**37,390**	**-**	**-**
Total 31.12.2016	**10,736**	**42,989**	**-**	**-**
2. Protection sales				
- Credit default products	8,893	32,743	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2017	**8,893**	**32,743**	**-**	**-**
Total 31.12.2016	**13,239**	**41,532**	**-**	**-**

As at 31 December 2017, none of the contracts shown in the table above have been included within the structured credit products:

Also tables B.2 to B.6 were not filled in as the credit derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.
Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables B.2 to B.6 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

B.2. Over the counter credit derivatives: gross positive fair value – breakdown by product

B.3. Over the counter credit derivatives: gross negative fair value – breakdown by product

B.4. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty – contracts not included under netting arrangements

B.5. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty - contracts included under netting arrangements

B.6. Residual maturity of credit derivatives: notional amounts

B.7. Credit derivatives: counterparty risk/financial risk – Internal models

As stated in the initial part of the section on derivatives, Banca IMI, the Parent Company and the banks of the Banca dei Territori Division were authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.
Credit derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, with the purpose of summarising all the information on derivatives.

Over the counter credit derivatives: gross positive fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE	
	31.12.2017	31.12.2016
A. Regulatory trading book	**1,160**	**1,226**
a) Credit default products	1,160	1,226
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**1,160**	**1,226**

As at 31 December 2017, none of the contracts shown in the table above have been included within the structured credit products.

Over the counter credit derivatives: gross negative fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE	
	31.12.2017	31.12.2016
A. Regulatory trading book	**1,275**	**1,275**
a) Credit default products	1,275	1,275
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**1,275**	**1,275**

As at 31 December 2017, none of the contracts shown in the table above have been included within the structured credit products.

Over the counter credit derivatives: gross (positive and negative) fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	146	23,578	21,037	-	-	-
- positive fair value	-	50	53	20	-	-	-
- negative fair value	-	-	-611	-472	-	-	-
2. Protection sales							
- notional amount	-	-	19,865	21,740	31	-	-
- positive fair value	-	-	545	492	-	-	-
- negative fair value	-	-	-31	-159	-2	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

C. CREDIT AND FINANCIAL DERIVATIVES

C.1. Over the counter credit and financial derivatives: net fair values and future exposure by counterparty

This table was not filled in because, as previously illustrated, the Intesa Sanpaolo Group primarily calculates counterparty risk using the EPE approach. According to the internal models approach, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time.

1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

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 Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation 2015/61, from 1 October 2015 banks, are required to comply with the short-term indicator in accordance with the phase-in process provided for in Article 38 (100% from 1 January 2018).

Since March 2015, the 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 the above-mentioned additional regulations, which revised 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.

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.

The Guidelines for Group Liquidity Risk Management set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including the approval of measurement methods, the definition of the main assumptions underlying the stress scenarios and the composition of early warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The 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 Treasury Department, the Planning and Active Value Management 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 transactions 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, 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 of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The 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 Head Office Department and the Planning and Active Value Management Head Office Department were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.

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 2017: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the Regulations under normal conditions. In 2017, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 176%. For the purposes of compliance with the internal limits, the LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of EU Regulation 2015/61 (Article 23).

At the end of December 2017, the liquid reserves eligible with Central Banks, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 171 billion euro (150 billion euro at December 2016), of which 98 billion euro, net of haircut, was unencumbered (96 billion euro at the end of December 2016). At the end of 2017, the HQLA component represented

62% of the proprietary and 88% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Proprietary		Unencumbered (net of haircut)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash and Deposits at Central Banks (HQLA)	43,343	34,675	43,343	34,675
Highly Liquid Securities (HQLA)	62,663	76,721	42,821	57,420
Other eligible and/or marketable reserves	65,215	48,744	11,710	5,914
Total Group Liquidity Reserves	**171,221**	**160,141**	**97,874**	**98,009**

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.

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 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 demand liabilities and the representation of cash 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
Cash assets	**60,390**	**26,777**	**9,708**	**14,237**	**24,178**	**19,982**	**32,046**	**157,097**	**130,469**	**35,738**
A.1 Government bonds	12	-	6	71	527	2,636	4,515	26,519	21,065	1
A.2 Other debt securities	31	567	1,312	2,801	204	497	777	4,919	8,234	-
A.3 Quotas of UCI	2,191	-	-	-	-	-	-	-	-	-
A.4 Loans	58,156	26,210	8,390	11,365	23,447	16,849	26,754	125,659	101,170	35,737
- Banks	*11,621*	*2,295*	*934*	*684*	*2,513*	*988*	*2,099*	*1,616*	*123*	*35,736*
- Customers	*46,535*	*23,915*	*7,456*	*10,681*	*20,934*	*15,861*	*24,655*	*124,043*	*101,047*	*1*
Cash liabilities	**269,432**	**26,913**	**3,294**	**6,676**	**9,125**	**11,997**	**20,478**	**112,823**	**24,191**	**1,575**
B.1 Deposits and current accounts	250,970	1,756	841	5,008	4,199	3,995	6,449	7,169	1,388	1
- Banks	*5,000*	*128*	*39*	*67*	*62*	*54*	*640*	*1,611*	*308*	*-*
- Customers	*245,970*	*1,628*	*802*	*4,941*	*4,137*	*3,941*	*5,809*	*5,558*	*1,080*	*1*
B.2 Debt securities	137	96	978	523	2,882	7,102	12,129	38,827	18,594	1,572
B.3 Other liabilities	18,325	25,061	1,475	1,145	2,044	900	1,900	66,827	4,209	2
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*2,324*	*8,807*	*5,306*	*7,214*	*15,996*	*6,495*	*8,426*	*22,343*	*8,995*	*-*
- Short positions	*1,732*	*7,060*	*4,990*	*9,266*	*16,609*	*5,216*	*7,451*	*18,857*	*8,682*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*21,829*	*2*	*3*	*20*	*619*	*561*	*393*	*326*	*24*	*-*
- Short positions	*24,871*	*534*	*402*	*25*	*176*	*110*	*245*	*492*	*59*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*37,924*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*37,289*	*5*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*2,563*	*18,275*	*452*	*133*	*911*	*52*	*801*	*12,533*	*2,774*	*-*
- Short positions	*38,277*	*248*	*6*	*130*	*38*	*167*	*273*	*128*	*3*	*-*
C.5 Financial guarantees given	180	18	1	49	26	29	62	120	48	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*625*	*553*	*597*	*2,199*	*1,112*	*-*
- Short positions	*-*	*-*	*-*	*-*	*625*	*553*	*597*	*2,239*	*1,404*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*843*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*912*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

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
Cash assets	**3,258**	**4,459**	**1,506**	**2,536**	**5,059**	**5,277**	**6,982**	**16,725**	**8,720**	**2,040**
A.1 Government bonds	10	82	37	144	958	1,115	873	3,061	3,256	-
A.2 Other debt securities	22	40	48	357	79	179	369	1,917	1,129	-
A.3 Quotas of UCI	170	-	-	-	-	-	-	-	-	-
A.4 Loans	3,056	4,337	1,421	2,035	4,022	3,983	5,740	11,747	4,335	2,040
- Banks	*1,225*	*2,624*	*832*	*437*	*1,239*	*1,642*	*2,580*	*206*	*48*	*2,004*
- Customers	*1,831*	*1,713*	*589*	*1,598*	*2,783*	*2,341*	*3,160*	*11,541*	*4,287*	*36*
Cash liabilities	**13,481**	**5,412**	**2,802**	**4,955**	**4,187**	**1,235**	**1,940**	**9,752**	**6,122**	**3**
B.1 Deposits and current accounts	12,713	2,906	1,137	2,093	1,620	682	1,036	1,449	391	-
- Banks	*1,291*	*866*	*273*	*368*	*294*	*40*	*44*	*276*	*102*	-
- Customers	*11,422*	*2,040*	*864*	*1,725*	*1,326*	*642*	*992*	*1,173*	*289*	-
B.2 Debt securities	6	550	218	1,545	566	547	874	7,541	5,467	-
B.3 Other liabilities	762	1,956	1,447	1,317	2,001	6	30	762	264	3
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*393*	*9,021*	*6,031*	*12,767*	*15,055*	*6,298*	*11,654*	*20,066*	*9,829*	-
- Short positions	*211*	*10,681*	*6,073*	*10,713*	*16,885*	*7,420*	*14,027*	*20,566*	*9,217*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,260*	-	-	*22*	*32*	*52*	*42*	*45*	*235*	-
- Short positions	*1,062*	-	-	*11*	*33*	*30*	*90*	*45*	*235*	-
C.3 Deposits and loans to be settled										
- Long positions	*191*	-	-	-	-	-	-	-	-	-
- Short positions	-	*171*	*9*	-	*2*	-	*8*	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*44*	*5*	*7*	*1*	*222*	*1,582*	*694*	*10,036*	*607*	-
- Short positions	*14,196*	*23*	*2*	*73*	*67*	*151*	*355*	*347*	*375*	-
C.5 Financial guarantees given	237	1	1	5	27	32	21	32	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*609*	*236*	*17*	*628*	*8*	-
- Short positions	-	-	-	-	*609*	*236*	*17*	*628*	*8*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*223*	-	-	-	-	-	-	-	-	-
- Short positions	*248*	-	-	-	-	-	-	-	-	-

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 2017 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in November 2017, with the support of the vehicle Adriano Lease Sec S.r.l., 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, for a total amount of approximately 4,220 million euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the Parent Company for refinancing transactions on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. issued two series of notes:

- a Senior tranche (class A), with a nominal amount of 2,870 million euro, listed and assigned an A1 rating by Moody's;
- a Junior tranche (class B), with a nominal amount of 1,350 million euro, unlisted and unrated.

The securities were purchased in full by Mediocredito Italiano. As at 31 December 2017, the junior security had been sold in full to the Parent Company through a repurchase agreement.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC. SA, which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Intesa Sanpaolo Securitisation Vehicle S.r.l.

In December 2014 a new securitisation was approved, involving three portfolios of loans originated by CIB Bank ZRT, primarily non-performing positions, secured by guarantees and mortgages and denominated in euro, Hungarian forints and Swiss francs. Those portfolios were transferred without recourse to Intesa Sanpaolo, which on 30 December 2014 in turn sold the three portfolios without recourse to the vehicle for 241 million euro, around 17 billion Hungarian forints and around 57 million Swiss francs, respectively.
Intesa Sanpaolo is the servicer of the portfolio and CIB Bank ZRT the sub-servicer, in accordance with applicable legislation.
As at 31 December 2017, the asset pools held by the vehicle are composed as follows:

- securitised assets in euro of around 17 million, in addition to cash of around 23 million euro. The securities in issue have a residual value of 15 million euro (class A) and 103 million euro (class J);
- securitised assets in Hungarian forints with a value in euro of around 16 million euro. The securities in issue have a residual value of 11 million euro (class A) and 30 million euro (class J);
- securitised assets in Swiss francs with a value in euro of 2 million euro and cash with a value in euro of 0.4 million euro. The class A securities issued have a residual value of zero, whereas the class J securities issued have a residual value of 23 million euro.

Brera Sec S.r.l.
In October 2017, a new 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 (Banco di Napoli, Cassa di Risparmio di Bologna, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is 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) 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. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
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 will take care 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 and 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 a Aa2 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:
- Intesa Sanpaolo subscribed 54.30% of the senior (3,272 million euro) and junior securities (580 million euro)
- Banco di Napoli subscribed 11.25% of the senior (678 million euro) and junior securities (120 million euro)
- CR Bologna subscribed 9.02% of the senior (543 million euro) and junior securities (96 million euro)
- CR Forlì e della Romagna subscribed 12.09% of the senior (728 million euro) and junior securities (129 million euro)
- CR Friuli Venezia Giulia subscribed 13.34% of the senior (804 million euro) and junior securities (142 million euro).

Berica ABS 5 S.r.l.
This is a multi-originator 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 with an external rating assigned by Fitch ("AA-") and Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2017, securities totalling 452 million euro were still to be repaid;
- mezzanine tranche of 39 million euro, fully redeemable, with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro, fully redeemable, with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro, fully redeemable, without rating and indexed to the 3-month Euribor.

Berica PMI 2 S.r.l
This is a multi-originator self-securitisation with an underlying of secured loans and mortgages granted to small and medium enterprises. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 640 million euro with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 6-month Euribor plus 130 bps. As at 31 December 2017, securities totalling 82 million euro were still to be repaid;
- junior tranche of 531 million euro, fully redeemable, without rating and indexed to 6-month Euribor.

Berica Fundng 2016 S.r.l.
This is a multi-originator self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 893 million euro with an external rating assigned by Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 125 bps. As at 31 December 2017, securities totalling 581 million euro were still to be repaid;
- mezzanine tranche of 115 million euro, fully redeemable, with an external rating assigned by Moody's ("A2") and yield indexed to the 3-month Euribor plus 200 bps;
- mezzanine tranche of 84 million euro, fully redeemable, with an external rating assigned by Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 250 bps;
- junior tranche of 185 million euro, fully redeemable, without rating and indexed to the 3-month Euribor plus 300 bps.

Claris RMBS 2016 S.r.l.
In November 2016, Veneto Banca, now merged into Intesa Sanpaolo, 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 srl", 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 have a residual amount of 781 million euro and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class B tranche of 116 million euro, with an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, without rating;
- class J2 tranche of 30 million euro, without rating.

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 subscribed proportionally by the Parent Company Veneto Banca, now merged into Intesa Sanpaolo, and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing transactions with the European Central Bank.
The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca, now merged into Intesa Sanpaolo, and Banca Apulia. Their yield is based on a quarterly floating rate coupon, subject to the full redemption of higher class securities.
As at 31 December 2017, the book value of the remaining loans was 1,005 million euro.

Claris Finance 2006 S.r.l.
In 2006, Veneto Banca, now merged into Intesa Sanpaolo, carried out a securitisation of mortgages for a total of 300 million euro that were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale (1 July 2006).
The transaction, which obtained a rating on the tranching from Standard & Poor's, involved the issuance of four different securities:
- class A1 for an amount of 220 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class A2 for an amount of 17 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class B for an amount of 60 million euro, with a BBB+ rating, which had a residual amount of 58 million euro as at 31 December 2017;
- class C for an amount of 3 million euro and without rating.

Initially, the class A1 securities were subscribed by the EIB, whereas the class A2, B and C securities were subscribed by Veneto Banca, now merged into Intesa Sanpaolo, or by its Group companies.
This was a revolving transaction, which required Veneto Banca to replace the capital repaid by mortgages with the same characteristics, every six months for the first four years of the operation.
As a guarantee of timely payment of the interest and the full redemption of the senior and mezzanine securities, the vehicle "Claris Finance 2006 srl" was also granted a subordinated loan of around 6 million euro.
As at 31 December 2017, the book value of the remaining loans was 78 million euro.

Apulia Finance n. 2 S.r.l
In 2003, Banca Apulia completed a securitisation of a portfolio of performing mortgages for a total amount of 170 million euro, which were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, "Apulia Finance n. 2 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 175 million euro, broken down as follows:
- class A securities for an amount of 153 million euro, without rating and fully redeemed as at 31 December 2017;
- class B securities for an amount of 7 million euro with Standard & Poor's AA and Fitch AA rating;
- class C securities for an amount of 10 million euro with Standard & Poor's BBB+ and Fitch A- rating;
- class D securities for an amount of 5 million euro without rating.

The three tranches of rated securities are denominated in euro and have quarterly floating rate coupons and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class A, B and C securities, which are listed on the Luxembourg Stock Exchange, were initially placed with institutional investors. The class D securities are denominated in euro, do not have an official rating, and the yield, calculated on a residual basis, is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities. Banca Apulia subscribed the class D securities from the outset, whereas it subsequently repurchased the class B and C securities.
As at 31 December 2017, the book value of the remaining loans was 16 million euro.

Apulia Mortgages Finance n. 3 S.r.l
In 2004, Banca Apulia carried out a securitisation of a performing loan portfolio for a total amount of 241 million euro, which were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, "Apulia Mortgages Finance n. 3 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 244 million euro, broken down as follows:
- class A securities for an amount of 211 million euro, without rating and fully redeemed as at 31 December 2017;
- class B securities for an amount of 11 million euro, with Standard & Poor's A, Fitch AA and Moody's Aa2 rating, and which have a residual amount of 4 million euro;
- class C securities for an amount of 13 million euro with Standard & Poor's BBB+, Fitch A- and Moody's Aa2 rating;
- class D securities for an amount of 8 million euro without rating.

The three tranches of rated securities are denominated in euro and have quarterly floating rate coupons and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class A, B and C securities, which are listed on the Luxembourg Stock Exchange, were initially placed with institutional investors.
The class D securities are denominated in euro, do not have an official rating, and the yield, calculated on a residual basis, is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities. Banca Apulia subscribed the class D securities from the outset, whereas it subsequently repurchased the class B and C securities.
As at 31 December 2017, the book value of the remaining loans was 35 million euro.

Apulia Finance n. 4 S.r.l. - 3rd issue

In November 2008, Banca Apulia completed a second self-securitisation.
This transaction had a warehousing period that started in 2007 with the sale of performing residential mortgages to the bridge vehicle company “Apulia Finance n. 3 srl”. In September 2008 the remaining loans were transferred to the definitive vehicle “Apulia Finance n. 4 srl” and in November of that year the transaction was completed with the issuance of the securities.
Specifically:

- July 2007: Banca Apulia sold Apulia Finance n. 3 srl performing mortgages for an amount of 130 million euro;
- October 2007: Banca Apulia sold Apulia Finance n. 3 srl another portfolio of performing mortgages for an amount of 78 million euro;
- January 2008: Banca Apulia sold Apulia Finance n. 3 srl another portfolio of performing mortgages for an amount of 96 million euro;
- September 2008: the remaining securitised loans of 256 million euro were sold by the provisional vehicle Apulia Finance n. 3 srl to the definitive vehicle Apulia Finance n. 4 srl;
- September 2008: Banca Apulia sold Apulia Finance n. 4 srl the last portfolio of performing mortgages for an amount of 57 million euro.

The securities issued by the vehicle company were fully subscribed by Banca Apulia and were broken down as follows:

- class A securities for an amount of 288 million euro with Standard & Poor’s A and Moody’s Aa2 rating, and which have a residual amount of 74 million euro;
- class B securities for an amount of 24 million euro without rating.

The class A and B securities are listed on the Luxembourg Stock Exchange and provide for the payment of a six-monthly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class B securities are denominated in euro, do not have an official rating and their yield is calculated on a residual basis and is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities.
The transaction was completed by a swap between the vehicle company and BNP Paribas to cover the interest rate risk arising from the differential on the indexing and frequency of the interest on the securitised mortgages and the interest paid on the securities issued.
This swap requires the counterparties to settle the above interest rate differential, on a six-monthly basis, calculated on the average of the nominal amount of the residual principal of the mortgages at the beginning and end of each reference period.
A similar swap, in the opposite direction, was signed between BNP and Banca Apulia.
The service for the management, administration and collection of the mortgages and the handling of disputes is assigned to Banca Apulia.
As at 31 December 2017, the book value of the remaining loans was 103 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 31.12.2017
Adriano Lease SEC S.r.l.					**4,220**
of which issued in euro		Senior	Receivables from lease payments	Moody's A1	2,870
		Junior	Receivables from lease payments	no rating	1,350
Intesa Sanpaolo SEC SA					**322**
of which issued in euro					**291**
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	276
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD					**31**
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	29
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	2
Intesa Sanpaolo Securitisation Vehicle S.r.l.					**182**
of which issued in euro					118
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	15
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	103
of which issued in CHF					23
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	-
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	23
of which issued in HUF					41
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	11
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	30
BRERA SEC S.r.l.					**7,092**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa2 DBRS A(High)	6,025
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
Berica ABS 5 S.r.l.					**564**
of which issued in euro		Senior	Mortgages	Moody's Aa2; Fitch AA-	452
		Mezzanine	Mortgages	Moody's A1; Fitch A	39
		Mezzanine	Mortgages	Moody's A3; Fitch BBB	21
		Junior	Mortgages	no rating	52
Berica PMI 2 S.r.l.					**613**
of which issued in euro		Senior	Unsecured loans and mortgage loans to SMEs	Moody's Aa3; Fitch A+	82
		Junior	Unsecured loans and mortgage loans to SMEs	no rating	531

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2017
Berica Funding 2016 S.r.l.				**965**
of which issued in euro	Senior	Mortgages	Moody's Aa2	581
	Mezzanine	Mortgages	Moody's A2	115
	Mezzanine	Mortgages	Moody's Aa3	84
	Junior	Mortgages	no rating	185
CLARIS RMBS 2016 S.r.l.				**1,041**
of which issued in euro	Senior	Mortgages	Fitch AA+; DBRS AAA	781
	Mezzanine	Mortgages	Fitch A-; DBRS A	116
	Junior	Mortgages	no rating	114
	Junior	Mortgages	no rating	30
CLARIS Finance 2006 S.r.l.				**61**
of which issued in euro	Senior	Mortgages	S&P BBB+	58
	Junior	Mortgages	no rating	3
Apulia Finance 2 S.r.l.				**15**
of which issued in euro	Mezzanine	Mortgages	Fitch A-; S&P BBB+	10
	Junior	Mortgages	no rating	5
Apulia Mortgages Finance n. 3 S.r.l.				**25**
of which issued in euro	Mezzanine	Mortgage loans	Fitch AA; Moody's Aa2; S&P A	4
	Mezzanine	Mortgage loans	Fitch A-; Moody's Aa2; S&P BBB+	13
	Junior	Mortgage loans	no rating	8
Apulia Finance n. 4 Srl III emissione S.r.l.				**98**
of which issued in euro	Senior	Residential mortgage loans	Moody's Aa2; S&P A	74
	Junior	Residential mortgage loans	no rating	24
TOTALE				**15,198**

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.

(millions of euro)

	DEBT SECURITIES							LOANS
	BANKING GROUP					INSURANCE COMPANIES (**)	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading (*)			
EU Countries	**6,304**	**47,797**	**782**	**220**	**-210**	**51,285**	**106,178**	**14,529**
Austria	-	-	-	-	217	1	218	-
Belgium	-	303	-	-	16	5	324	-
Bulgaria	-	-	-	-	-	63	63	-
Croatia	6	665	2	220	76	91	1,060	977
Cyprus	-	-	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	10	-	10	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	31	-	-	75	6	112	-
France	98	3,399	-	-	-6	69	3,560	6
Germany	-	5,507	-	-	-880	568	5,195	-
Greece	-	-	-	-	24	-	24	-
Hungary	-	781	-	-	205	32	1,018	30
Ireland	-	178	-	-	-2	118	294	-
Italy	6,031	21,367	353	-	-437	48,664	75,978	12,951
Latvia	-	9	-	-	-	-	9	45
Lithuania	-	41	-	-	-	-	41	-
Luxembourg	-	30	-	-	20	-	50	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	100	-	-	228	97	425	-
Poland	16	50	-	-	-5	20	81	-
Portugal	-	-	-	-	-32	-	-32	25
Romania	-	199	-	-	4	167	370	-
Slovakia	-	176	427	-	13	-	616	128
Slovenia	-	157	-	-	-	7	164	251
Spain	153	14,713	-	-	279	1,277	16,422	116
Sweden	-	3	-	-	55	-	58	-
United Kingdom	-	88	-	-	-70	100	118	-
North African Countries	**-**	**748**	**-**	**-**	**-**	**-**	**748**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	748	-	-	-	-	748	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**514**	**-**	**514**	**-**

(*) Taking into consideration on-balance sheet positions

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

As illustrated in the table, the exposure to Italian government securities totalled approximately 76 billion euro, in addition to around 13 billion euro represented by loans. The value of debt security exposures decreased by approximately 10 billion euro compared to the figure recorded as at 31 December 2016.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,279 million euro as at 31 December 2017 with respect to funded and unfunded ABSs/CDOs, compared to 2,471 million euro as at 31 December 2016. There were no exposures in structured packages, compared to 7 million euro as at 31 December 2016.

The strategy regarding the portfolio in question in 2017 focused on investments to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, which is now managed by Capital Light Bank, on the other.

The exposure to funded and unfunded ABSs/CDOs designated at fair value, excluding the positions coming from the Venetian banks for 5 million euro, dropped from 2,081 million euro in December 2016 to 2,029 million euro in December 2017. The decrease is attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs/CDOs by the Parent Company, only partially offset by investments in ABSs of Banca IMI (part of which were classified to the available-for-sale portfolio) and in European ABSs/CDOs acquired by the Parent Company and classified to the trading portfolio.

Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.

The exposure represented by securities classified under the loan portfolio, excluding the positions coming from the Venetian banks for 25 million euro, recorded a decrease (from 390 million euro in December 2016 to 220 million euro in December 2017) attributable to the sales carried out by Banca IMI and the Parent Company, only partially offset by greater investments made by the Parent Company.

The elimination of the exposure of structured packages (7 million euro in December 2016) is attributable to sales during the period.

From the perspective of the income statement, a profit of +28 million euro was posted for 2017, against the +13 million euro for 2016.

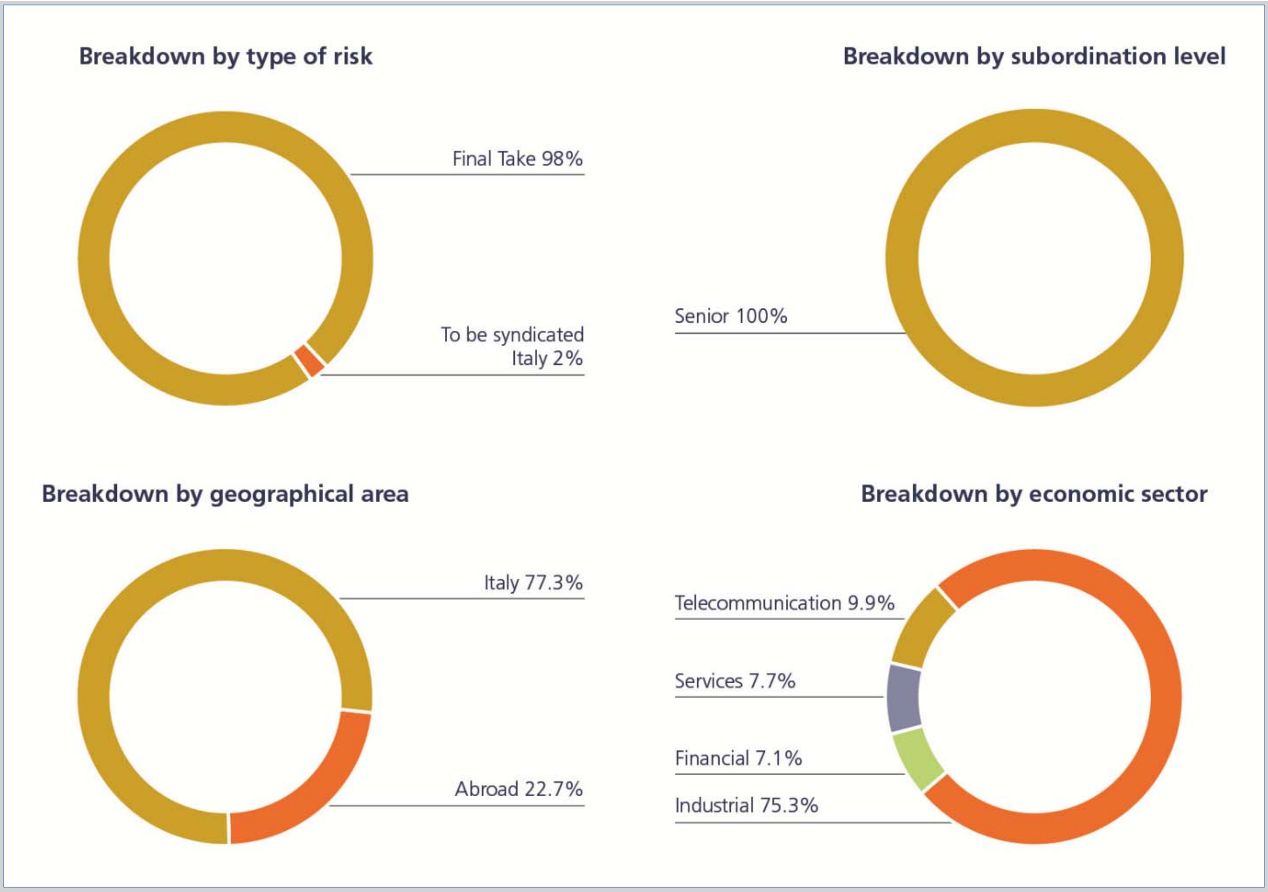
As at 31 December 2017 the “Profits (losses) on trading – caption 80” of the exposure to funded and unfunded ABSs/CDOs came to +17 million euro (+12 million euro in 2016), generated by the positions in funded European and U.S. ABSs/CDOs, while positions in multi-sector CDOs generated a profit of +4 million euro and U.S. subprime positions had a nil result.

The exposure to funded and unfunded ABSs/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net decrease in fair value of 1 million euro in 2017, accounted for in the specific Shareholders’ Equity Reserve (from a reserve at the end of December 2016 of +5 million euro to a reserve of +4 million euro in September 2017) and a nil net impact on the income statement for sales made in the period (+5 million euro in 2016). As at 31 December 2017, securities classified under the Loan portfolio recorded a nil net impact (-6 million euro in 2016) comprising gains on disposals for +4 million euro and value adjustments due to impairment for -4 million euro.

For the “Monoline risk” and “Non-monoline packages” the contribution to “Profits (Losses) on trading – caption 80” of +7 million euro as at 31 December 2017 refers to the sales taking place in the period and is compared with the +2 million euro profit as at 31 December 2016.

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since 2008 Intesa Sanpaolo has represented in this category exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2017, 90 transactions for a total amount granted of 2,634 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



Moreover, it is noted that in May 2017 the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The purpose of the new 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 guidance covers, *inter alia*, the following issues with regard to leveraged transactions: definition, risk appetite and governance, syndication activities, policies and procedures for new deal approval, longer-term monitoring and management of longer-term transactions, secondary market activities and internal reporting requirements, while it does not explicitly regulate public disclosure.
In particular, the scope identified by the ECB is larger than the one currently surveyed by Intesa Sanpaolo in that it includes – in addition to exposures to parties whose majority of capital is held by one or more financial sponsors – also exposures in which the borrower's level of leverage, measured as the ratio of total debt to EBITDA, is greater than 4.
The guidance requires that Banks set up the instruments necessary to apply the new rules, and an internal audit report, describing how the expectations of the Regulator have been endorsed and implemented, must be sent to the specific Joint Supervisory Team of the ECB by November 2018.
Intesa Sanpaolo thus launched a specific project with the purpose of gradual alignment with the ECB guidance on leveraged transactions.

In particular, a macro-plan for adjustment was defined, which sets out an initial short-term phase of releasing application/process measures to identify the new leveraged transactions, and a subsequent phase aimed at structuring measures to guarantee full coverage of the aspects not initially covered.
The application of that new definition will therefore also include exposures classified as "leveraged" according to the new connotation.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio held for trading as at 31 December 2017 totalled 270 million euro, compared to 352 million euro recorded in December 2016, 80% of which were funds on the MAP platform.
The reduction of the portfolio is attributable to the distributions and redemptions that started in the second quarter of last year and continuing also this year, aimed at reducing the risk level of the exposure.
In particular, the most significant redemptions in 2017 concerned the MAP 12A Fund for 38 million dollars, the MAP 5A Fund for 13.5 million dollars, the Eurizon Penghua Fund for almost 12 million euro and, to a lesser extent, the Mount Kellett 14th MAF Fund and the Cyrus Opportunities Fund.
As at the same date, the economic result of the investments in this segment was positive, standing at 16 million euro, compared to the negative 35 million euro of "Profits (Losses) on trading – caption 80" as at 31 December 2016, caused by severe turbulence on the markets. The economic result is mainly attributable to the improvement in the NAV of the Halcyon Energy, MAP 19, Mount Kellet MAF 14A, Master Fun MAP 1A, Charity Investment and Cyprus Opportunities funds, only partially offset by the worsening of the Eclectica MAP12A and Matrix MAP 6A funds.
Overall, the portfolio's strategy remains oriented towards benefiting from the occurrence of specific corporate events, largely independent of the general trend, and the reduction of risk through a general downwards revision of allocations of individual funds in response to continued market uncertainty.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2017, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 7,011 million euro (7,532 million euro as at 31 December 2016). The notional value of these derivatives totalled 50,488 million euro (47,698 million euro as at 31 December 2016). Of these, the notional value of plain vanilla contracts was 46,764 million euro (44,451 million euro as at 31 December 2016), while that of structured contracts was 3,724 million euro (3,247 million euro as at 31 December 2016).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,901 million euro (5,175 million euro as at 31 December 2016), of which 480 million euro (463 million euro as at 31 December 2016) referred to structured contracts.
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,082 million euro as at 31 December 2017 (1,971 million euro as at 31 December 2016). The notional value of these derivatives totalled 22,846 million euro (22,030 million euro as at 31 December 2016). Of these, the notional value of plain vanilla contracts was 20,304 million euro (18,745 million euro as at 31 December 2016), while that of structured contracts was 2,542 million euro (3,285 million euro as at 31 December 2016).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2017, this led to a positive effect of 25 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in Part A of 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.

1.4. BANKING GROUP – OPERATIONAL RISK

QUALITATIVE INFORMATION

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 has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.
The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.
The Group has a centralised function within the Enterprise Risk Management Department for management of the Group’s operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, detection of critical issues and related mitigation actions, scenario analyses and evaluation of the business environment and internal control factors).
The Self-diagnosis Process, conducted on an annual basis, allows the Group to:
- estimate the exposure to potential future losses deriving from operational events (Scenario Analyses) and assess the level of control business environment (Business Environment Evaluation);
- analyse ICT risk exposure ;
- create significant synergies with the Information Security Governance and Business Continuity Sub-department, which supervises the planning of operational processes, IT security and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests on the effectiveness of controls of company processes.

The Self-diagnosis process for 2017 identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks. During the Self-diagnosis process, the organisational units also analysed their exposure to ICT risk. This assessment is in addition to that conducted by the technical functions (ISGS - ICT Head Office Department, Market Risk IT Infrastructure Office of the ISP Financial and Market Risks Head Office Department and the IT functions of the main Italian and international subsidiaries) and the other functions with control duties (Information Security Governance and Business Continuity Sub-Department and the IT Security functions of the main Italian and international subsidiaries).
The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.
The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (Scenario Analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company’s business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various Organisational Units.
Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.
In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber-crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow

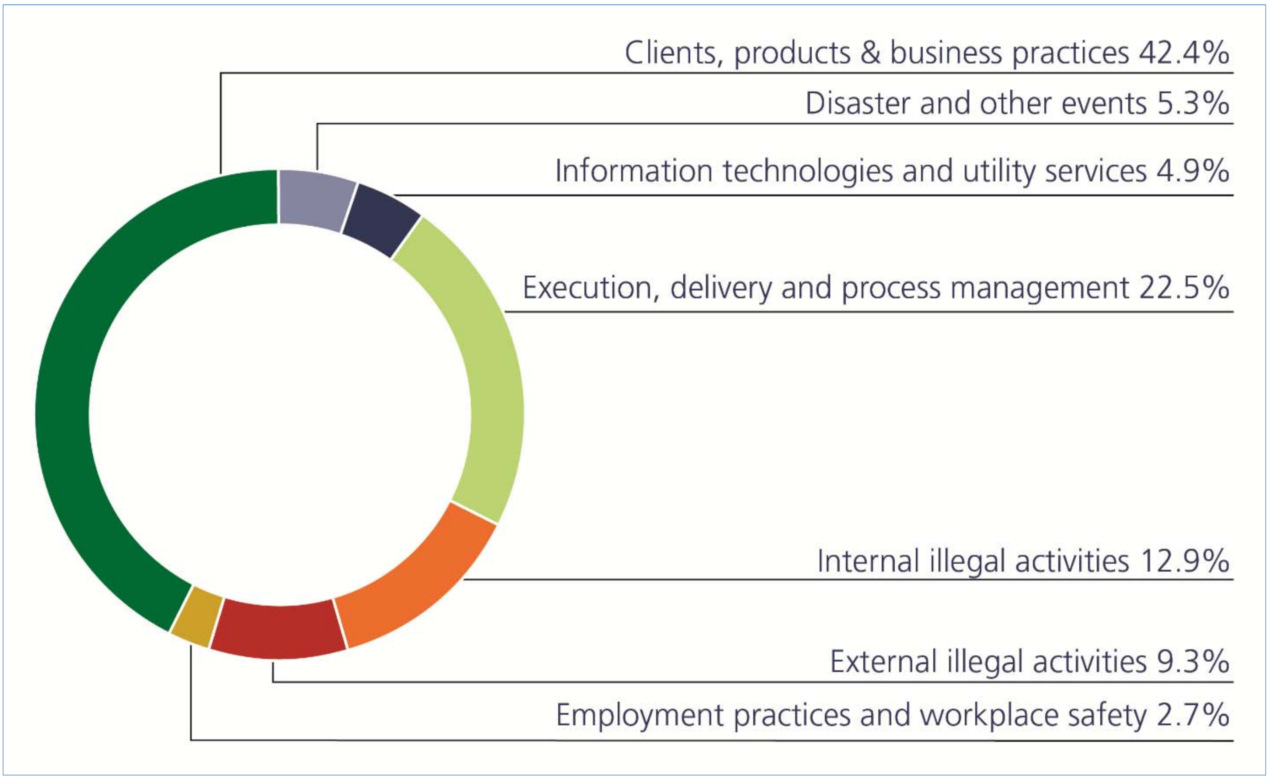
optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,488 million euro as at 31 December 2017, down on the previous year (1,563 million euro) due to the decline in the AMA and TSA components. The BIA component, on the other hand, increased due to the inclusion of Banca Nuova, Banca Apulia and Veneto Banka Croatia.

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of operational event.

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by type of operational event



LEGAL RISKS

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions have been made to the Allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
As at 31 December 2017, there were a total of about 17,000 disputes pending, including the disputes relating to the Aggregate Set and excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo, with a total remedy sought of 5,917 million euro and allowances of approximately 650 million euro.
In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 458 million euro and allowances of 56 million euro;
- insolvency compensation disputes, with remedy sought of 558 million euro and allowances of 10 million euro
- disputes concerning investment services, with remedy sought of 409 million euro and allowances of 68 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 980 million euro and allowances of 139 million euro;
- disputes concerning bank products, with remedy sought of 230 million euro and allowances of 27 million euro;
- complaints concerning loan positions, with remedy sought of 1,418 million euro and allowances of 36 million euro;
- disputes concerning lease contracts, with remedy sought of 110 million euro and allowances of 8 million euro;
- credit recovery disputes, with remedy sought of 175 million euro and allowances of 59 million euro;
- other civil and administrative disputes, with remedy sought of 1,243 million euro and allowances of 92 million euro.

In addition to brief remarks on the litigation involving anatocism and investment services, the following paragraphs provide concise information about the individual relevant disputes (indicatively, those with a remedy sought of more than 100 million euro and where the risk of an outlay is currently deemed probable or possible).

Disputes relating to anatocism and other current account and credit facility conditions - For many years, this type of dispute has been a significant part of the civil disputes brought against the Italian banking industry and therefore also the Group banks. The overall economic impact of lawsuits in this area remains at insignificant level in absolute terms. The risks related to these disputes are covered by specific, adequate provisions to the Allowances for risks and charges.
At the beginning of 2014, 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 the absence of the CICR resolution, Intesa Sanpaolo considered this ban not to be applicable and that the 1999 provisions continued to apply, which allowed the compounding of debit and credit interest on debtors and creditors provided it was applied at the same frequency.
In 2016, Article 120 of the Consolidated Law on Banking was amended again. Without prejudice to the requirement of the same frequency of calculation of the interest, it was established that the frequency must not be “less than one year” (with calculation at 31 December of each year and, in any event, at the end of the relationship) and that debt interest accrued could not in general give rise to interest other than arrears interest. In addition, for current account credit facilities and overdrafts it was established that:

- the debt interest is calculated at 31 December and becomes due on 1 March of the year after the year when it accrued; if the account is closed, the interest becomes due immediately;
- the customer can provide authorisation, also beforehand, for the interest to be charged to their account (and therefore for its compounding) when it becomes due; this authorisation can be revoked at any time, provided it is before the charge has been made.

The implementing resolution by the CICR was published in August 2016. It establishes, among other things, that the new regulations apply to interest accrued from 1 October 2016.
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.
The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an “aggressive” policy aimed at acquiring the authorisation, by soliciting the customers 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.

Disputes relating to investment services - In 2017 the number of disputes continued to fall (particularly those relating to bonds in default). The risks related to this type of dispute are covered by specific, adequate provisions to the Allowances for risks and charges.

Alis Holding lawsuit - in July 2017, an out-of-court settlement was finalised between Intesa Sanpaolo and Alis Holding to close the action for damages lodged by the latter (with a claim of 127.6 million euro) for alleged liability of the Bank with respect to Cargoitalia (a company held jointly by Alis Holding, with 66.67%, and Intesa Sanpaolo, with 33.33%). The settlement was also made with the ‘arrangement with creditors’ procedure of Cargoitalia, which in 2016 joined the proceedings claiming compensation from the Bank. Thanks to the settlement, Intesa Sanpaolo paid a much smaller sum than the initial demand; the amount paid was completely covered by a provision.

ENPAM lawsuit - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan. ENPAM’s allegations related to the trading (in 2005) of several complex financial products known as “JP Morgan 69.000.000” and “JP Morgan 5.000.000”, and the subsequent “swap” (in 2006) of those products with other similar products known as “CLN Corsair 74.000.000”; 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, for which compensation is sought.
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.
At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (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. It also disputed their calculation and, in the alternative, that ENPAM had contributed to causing 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.
During the proceedings, it emerged from the analysis of the 2016 financial statements of ENPAM that the securities subject of the allegations against Cassa di Risparmio di Firenze had been “sold back” to JP Morgan at a price of around 206 million euro. This circumstance was emphasised in further defence pleadings by Cassa di Risparmio di Firenze, highlighting the lack of the alleged damages and perhaps even the presence of a capital gain.
The case is currently pending in relation to the claimant's application for a court-appointed expert review. It is currently not possible to provide a reliable assessment of the risk inherent in the proceedings.

Disputes regarding tax-collection companies - In the context of the government's decision to reassume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A. 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.
A technical roundtable has been formed with Equitalia in order to assess the parties' claims.

Administrative and judicial proceedings against Banca IMI Securities Corp. of New York –The SEC proceedings were concluded in the third quarter through the payment of a total sum of approximately 35 million dollars – entirely covered by provision – levied on the basis of violations of Articles 15(b)(4)(E) of the Exchange Act and 17(a)(3) of the Securities Act.
With regard to the investigation started in October 2016 by the Antitrust Division of the Department of Justice (DoJ), after having submitted documents and information with a view to full co-operation, details are being awaited on the DoJ’s position regarding the non-continuation of that investigation.

Offering of diamonds - In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by that company to the customers of Intesa Sanpaolo and of the banks of the Banca dei Territori Division. The aim of this initiative was to enhance the range of products offered to customers, by introducing 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 activity primarily generated purchase volumes in 2016, with a significant fall 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 intermediaries 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 of Consumer Code through the conduct of DPI and of the banking intermediaries 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 diamond 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.
From November 2017, the Bank:
- terminated the partnership agreement with DPI and ceased the activity, which had already been suspended in October;
- 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 within the contractually-agreed period of 30 days;
- 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 2017, the Bank had received 1,287 requests for the resale of the diamonds, for a total amount of 23.9 million euro.
In this regard, Intesa Sanpaolo Considered it appropriate to make a prudential provision in relation to the potential risks of loss connected to the diamonds for which the Bank may be required to pay the original cost incurred by the customers for their purchase. The provision was determined by taking into account both the appraisal values collected over the years by the Bank on the diamonds sold (retail prices) and their estimated wholesale prices.

Potential assets
With regard to potential assets – given that there have been no changes – please see the information provided in the 2016 Financial Statements regarding the IMI/SIR dispute.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2017. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION
The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 31 December 2017, the Parent Company had 144 pending litigation proceedings (234 as at 31 December 2016) for a total amount of 214 million euro (240 million euro as at 31 December 2016), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 65 million euro as at 31 December 2017 (81 million euro as at 31 December 2016).
With respect to the other Italian companies of the Group included in the scope of consolidation (with the exclusion of Risanamento, which is not subject to management and coordination by Intesa Sanpaolo and in relation to which there are pending claims for 5 million euro), tax disputes totalled 139 million euro as at 31 December 2017 (198 million euro as at 31 December 2016), covered by specific provisions of 32 million euro (35 million euro as at 31 December 2016).
Tax disputes involving international subsidiaries, totalling 11 million euro at year-end (8 million euro as at 31 December 2016), are covered by allowances of 4 million euro (3 million euro as at 31 December 2016).

As regards Intesa Sanpaolo,, no new dispute for a significant amount was initiated in 2017.
The disputes concerning the recovery of registration tax paid on the contributions of business units and the subsequent sales of the participations, which were reclassified by the tax authorities as sales of business units (valued at a total of around 80 million euro), were subject to numerous favourable rulings by the tax commissions during the year. At present, many of the disputes are pending before the Court of Cassation further to the appeal made by the State's Attorney General. Even though the rulings of the lower courts have all been favourable except for one, Intesa Sanpaolo adopted a prudent approach by prudentially considering the unfavourable precedents in the case law of the Court of Cassation and therefore made provisions to cover potential costs. Moreover, such unfavourable precedents – which gave precedence to an alleged real and overall economic rationale of the transaction over the legal content of the single deeds – may be in conflict with Article 1, paragraph 87, letter a), nos. 1 and 2, of the Law no. 205 of 2017, which clarified the scope of application of Article 20 of the Italian Law on Registration Tax, reaffirming the supremacy of the legal effects of the single deed itself act presented for registration over other elements inferable from extratextual data and/or related deeds.
is The disputes regarding the registration tax applicable to the higher value of the business units involved in the reclassification – as assessed by the Italian Revenue Agency –(total value of 38 million euro) are also connected to the above pending disputes.
Overall, these cases represent more than 50% of the value of Intesa Sanpaolo's pending disputes.
With respect to tax credits (861 million euro as at 31 December 2017), reimbursements were received for a total of 128 million euro in 2017, of which 9 million euro related to temporary tax assessments.
On 15 May 2017, the Piedmont Regional Office of the Italian Revenue Agency initiated a tax audit covering the 2014 tax period. The inspection is being conducted in coordination with the Cooperative Compliance Office of the Italian Revenue Agency and to date no dispute has emerged.
On 27 December 2017, Intesa Sanpaolo submitted a request to the Italian Revenue Agency in order to apply for the cooperative compliance regime.
Turning to the other Group companies, the following significant events occurred.
As regards Intesa Sanpaolo Group Services, the claim made by the Piedmont Regional Office, which concerned the contribution of a business unit (branch of activity) from ISP to ISGS completed in 2012, was settled pursuant to Article 6 of Legislative Decree no. 218/97. The case concerned the VAT treatment of fees paid for the services provided by Intesa Sanpaolo to some of its subsidiaries through the said business unit in the part of the year prior to its contribution. Those fees had been invoiced by ISGS without VAT. The Italian Revenue Agency held that VAT should have been applied at the standard rate of 21% applicable at that time on the amount of fees paid by the subsidiaries – i.e. 34 million euro – for the services actually provided by ISP, and therefore assessed an additional amount of VAT due for the year 2012 of 7 million euro. The outcome of the dispute appeared to be strongly influenced by a recent ruling of the Joint Sections of the Court of Cassation, favourable to the Agency's arguments, on the grounds that the chargeable event as identified by Article 6 of the VAT Decree would only be relevant for the purposes of the chargeability of the tax, whereas the substantive rules should in any case be determined in relation to the status of the VAT taxpayer at the time of the material performance of the transaction. Accordingly, ISGS decided to settle the claim, without application of administrative fines, thereby also excluding from the outset the existence of any evidence of the tax offence of false VAT declaration. The settlement of the claim resulted in an outlay for ISGS corresponding to the additional VAT assessed plus interest, totalling 8.4 million euro. The VAT paid by ISGS for the settlement was charged to the individual Group companies that received the services from Intesa Sanpaolo. These companies, which cannot deduct at all their input VAT pursuant to Article 36-bis of Presidential Decree no. 633/1972, will treat this expense as a deductible cost for income tax purposes and will consequently be able to request a refund equal to approximately one third of the VAT they had to pay back. In summary, the expense for the Group resulting from the settlement – net of the aforementioned positive tax effects – can be quantified at 6 million euro.
As regards Banca IMI, the dispute involving the former Banca d'Intermediazione Mobiliare IMI for the years 2005 and 2006 – which started in 2007 when the Italian Revenue Agency performed a tax audit covering the tax period 2004 which was then extended to the tax periods 2003, 2005 and 2006 – was settled pursuant to Article 11 of the Law Decree no. 50. The elements of fact contested, in relation to which the lower court proceedings had been unfavourable, concerned the typical capital markets operations (investments in equity swaps and in equity instruments; securities lending with payment of manufactured dividends and transfer pricing matter with respect to cross-border intragroup transactions) and concerned both direct taxes and substitute / withholding tax requirements. Due to a potential liability of 17.2 million euro, the disputes were settled for a total cost of 8.6 million euro, without any impact on the income statement. The disputes are still ongoing for the periods 2003 (value of 4.4 million euro), 2004 (value of 8.5 million euro) and 2005 with respect to findings other than those relating to withholding taxes (value 4.1 million euro). The provisional payments made on the pending disputes amount to around 15 million euro. A possible negative outcome of the proceedings regarding the claims in question would not have any effect on the income statement, because it is covered by the allowance for tax litigations. Since 22 January 2018, Banca IMI is also subject to a general tax audit by the Italian Revenue Agency in relation to 2015 tax period. The inspections are still at the stage of the document collection.
As regards Fideuram Intesa Sanpaolo Private Banking, the Tax Police of Rome ("Guardia di Finanza") initiated on 26 January 2017 a tax audit for income tax purposes in relation to the 2012 tax year as well as, by virtue of a specific protocol between the *Guardia di Finanza* and AMA S.p.A., a verification of the regular payment of the Italian waste tax for the tax periods 2013 till 2016. The initial phase of the audit was completed on 11 October 2017, with service of an auditors' report containing solely the claim of non-deductibility of consultancy fees for IRES and IRAP purposes for an amount of 1.3 million euro – corresponding to a tax of 0.425 million euro – for alleged lack of pertinent link between those expenses and the company's business activity (the support documentation was considered insufficient to demonstrate the effective nature of the services received). Fideuram ISPB decided to resolve the claims through a tax settlement proposal, since the Italian Revenue Agency had recognised the deduction of the consultancy fees, albeit with half allocated to the Bank and the other half allocated to the subsidiary Fideuram Vita. On that basis, the settlement involved a total cost of around 100.000 euro for interest and fines, taking into account the recovery of taxes by Fideuram Vita.
The audit by the Tax Police of Rome is continuing for the tax periods after 2012, with additional investigations regarding some specific situations.
As regards Intesa Sanpaolo Private Banking, a claim has been lodged concerning the deductibility of a goodwill for IRES and IRAP purposes in relation to tax year 2012 by means of separate assessment notices served on 9 August 2017 and resulting from the tax auditors' report of 23 November 2012 issued by the Italian Revenue Agency - Lombardy Regional Office. The

above auditors' report alleged, pursuant to Article 103, paragraph 3-bis, of the Italian Income Tax Legislation (TUIR), the unlawful deduction of the amortisation charge (around 11.9 million euro) of the goodwill deriving from the value of the private banking business – contributed by Intesa Sanpaolo, by Cassa dei Risparmi di Forlì e della Romagna, by Banca di Trento e Bolzano and by Cassa di Risparmio di Firenze – as realigned by Intesa Sanpaolo Private Banking in accordance with Article 15, paragraph 10, of the Law Decree no. 185 of 29 November 2008. The additional taxable amount assessed in 2017 results in additional IRES of 3.3 million euro and additional IRAP of 0.7 million euro, plus penalties for the same amount and interest.
The same dispute, which had already been brought against the Company in respect of tax period 2011 by notices served in December 2016, was thoroughly discussed in last year's annual report. On 18 December 2017, the Milan Provincial Tax Commission upheld the joint appeals and offset the legal costs (value of the disputes: IRES of 3.2 million euro, plus interest, and a penalty of 2.8 million euro; IRAP of 0.6 million euro, plus interest, and a penalty of 0.59 million euro).
In view of the legitimacy of the conduct adopted by the Company and its consistency with the recommended practice (see Italian Revenue Agency’s Circular no. 8/E of 4 March 2010), the risk of liability is considered remote and accordingly no provision was booked in both cases.
As regards Fideuram Investimenti SGR, on 27 October 2015, the Italian Revenue Agency - Lombardy Regional Office issued an auditors’ report claiming additional revenues of 9.5 million euro in relation to tax year 2011 – corresponding to a total of 3.1 million euro of taxes for IRES and IRAP tax purposes – with respect to the remuneration of the outsourced management activity of investment funds made on behalf of the Irish sister company Fideuram Asset Management (“FAMI”). The company resolved the assessment through a tax settlement, achieving a reduction in the initial claim of 35% (additional taxable revenue of 6 million euro). The asset management company (SGR) then made the payment of the additional IRES and IRAP of 2 million euro, plus default interest of 0.3 million euro; no penalty was applied due to the existence of suitable transfer pricing documentation of the intragroup transactions with foreign subsidiaries (i.e. “Master File” and “Local file”). In the first half of 2017, the Italian Revenue Agency - Lombardy Regional Office completed a similar investigation on 2012 and 2013 tax periods and expressed its intention to challenge the value of the commissions paid by FAMI for those periods, on the same grounds as for 2011. The claims for those years were therefore also resolved via tax settlement, by paying additional tax of, respectively, 0.95 million euro and 1.4 million euro, plus interest for a total amount of 0.3 million euro. The settlement did not have any effects on the income statement, since a suitable provision had already been made in the books of the asset management company.
For Intesa Sanpaolo Vita, two disputes regarding VAT for the years 2003 and 2004 were concluded with a positive outcome for the company and the related rulings rendered at the second instance became final (value of the disputes: for 2003, 11.8 million euro and, for 2004, 6 million euro). The disputes were related to the VAT treatment of the co-insurance operations.

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In connection with all the tax disputes outstanding as at 31 December 2017, for a total value of 364 million euro, of which 214 million euro relating to Intesa Sanpaolo (446 million euro as at 31 December 2016, of which 240 million euro for Intesa Sanpaolo), the Group has recognised receivables of 75 million euro accounting wise (86 million euro as at 31 December 2016) to account for amounts paid on a provisional basis due to tax assessments, of which 45 million euro (57 million euro as at 31 December 2016) are related to the Parent Company.
The portion of the provision for risks, which relates to provisional tax assessments, amounts to 48 million euro (57 million euro at 31 December 2016), of which 26 million euro (29 million euro as at 31 December 2016) 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 enforceability 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 2 – RISKS OF INSURANCE COMPANIES

2.1 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). When defining 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 2017.

(millions of euro)

Breakdown of mathematical reserves of life branch: maturity	Mathematical reserve	%
up to 1 year	246	0.32
1 to 5 years	5,748	7.48
6 to 10 years	1,396	1.82
11 to 20 years	1,284	1.67
over 20 years	68,166	88.71
TOTAL	**76,840**	**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%	15,790	19.34
from 1% to 3%	49,045	60.07
from 3% to 5%	6,159	7.55
Insurance products	**5,846**	**7.16**
Shadow reserve	**4,801**	**5.88**
TOTAL	**81,641**	**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 31.12.2017	Total as at 31.12.2016
Unit linked	211	68,187	68,398	57,352
Index linked	-	1	1	806
Subordinated liabilities	537	1,535	2,072	1,402
Total	**748**	**69,723**	**70,471**	**59,560**

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 2017.

(millions of euro)

Development of Claims Reserves	YEAR OF GENERATION/EVENT					TOTAL
	2013	2014	2015	2016	2017	
Reserve amount:						
as at 31/12 generation year N	118	124	122	128	132	
as at 31/12 year N+1	111	102	99	108		
as at 31/12 year N+2	108	99	97			
as at 31/12 year N+3	106	97				
as at 31/12 year N+4	105					
Total claims paid	**92**	**84**	**84**	**76**	**43**	**379**
Claims reserve booked as at 31.12.2016	**14**	**14**	**13**	**32**	**88**	**161**
Final claims reserve for previous years						**19**
Total claims reserve booked as at 31.12.2017						**180**

2.2 FINANCIAL RISKS

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

As at 31 December 2017, the investment portfolios of Group companies, recorded at book value, amounted to 156,043 million euro. Of these, the part regarding 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 amounted to 81,821 million euro. The other component, whose risk is borne solely by the policyholders, mainly consists of investments related to Index-Linked policies, Unit-Linked policies and Pension Funds and amounted to 74,222 million euro. Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the financial assets used 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 loans on policies and positions in derivative financial instruments (-57 million euro at book value) detailed below, 85.48% of the assets (69,987 million euro) consisted of bonds, whereas assets subject to equity price risk represented 1.97% of the total and amounted to 1,612 million euro. The remainder (12.55%, 10,278 million euro) consisted of investments relating to UCI, private equity and hedge funds.

Interest rate risk exposure

The breakdown by maturity of bonds showed 6.30% short-term (under 1 year), 31.65% medium-term and 47.53% long-term (over five years).

(millions of euro)

Financial assets	Book value	%	Duration
Fixed-rate bonds	**64,334**	**78.57**	**6.02**
up to 1 year	4,393	5.37	
1 to 5 years	23,600	28.82	
over 5 years	36,341	44.38	
Floating rate/indexed bonds	**5,653**	**6.91**	**3.73**
up to 1 year	766	0.94	
1 to 5 years	2,314	2.83	
over 5 years	2,573	3.14	
TOTAL	**69,987**	**85.48**	**-**
Equities or similar capital securities	**1,612**	**1.97**	
UCI, Private Equity, Hedge Fund	**10,278**	**12.55**	
TOTAL AS AT 31.12.2017	**81,877**	**100.00**	

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights both exposure of the securities portfolio and the effect of positions represented by hedging derivatives which reduce its sensitivity. 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 3,834 million euro.

(millions of euro)

	Book value	%	Fair value changes due to interest rate fluctuations	
			+100 bps	-100 bps
Fixed-rate bonds	64,334	91.92	-3,653	4,050
Floating rate/indexed bonds	5,653	8.08	-181	197
Interest rate risk hedging effect	-	-	-	-
TOTAL	**69,987**	**100.00**	**-3,834**	**4,247**

Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 3.21% of total investments and A bonds approximately 5.31%. Low investment grade securities (BBB) were 74.87% of the total, while the portion of speculative grade or unrated was minimal (2.09%).
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	**69,987**	**85.48**
AAA	1,658	2.02
AA	972	1.19
A	4,350	5.31
BBB	61,299	74.87
Speculative grade	1,572	1.92
Unrated	136	0.17
Equities or similar capital securities	**1,612**	**1.97**
UCI, Private Equity, Hedge Fund	**10,278**	**12.55**
TOTAL	**81,877**	**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 75.00% of the total investments, whereas the securities of corporate issuers contributed around 25.00%.
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 2017, 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	52,493	75.00	-3,036	3,396
Corporate bonds	17,494	25.00	-857	906
TOTAL	**69,987**	**100.00**	**-3,893**	**4,302**

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to 161 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	205	12.72	-20
Equities - Non-financial companies and other counterparties	1,407	87.28	-141
TOTAL	**1,612**	**100.00**	**-161**

Exchange risk exposure
Approximately 97% of investments are made up of assets denominated in the EU currency. The residual exposure to exchange risk was hedged by positions in financial instruments, particularly domestic currency swaps, in the same currency.

Financial derivative instruments
Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management.
Liquidity risk associated with positions in financial derivative instruments is primarily attributable to plain-vanilla derivatives (chiefly interest rate swaps, credit default swaps and futures) traded on OTC markets with significant liquidity characteristics and sizes. These instruments are thus also liquid and easily liquidated both with the counterparty with which they were traded and with other market operators.
The table below shows the book values of the financial derivative instruments as at 31 December 2017.

(millions of euro)

Type of underlying	INTEREST RATES		EQUITIES, EQUITY INDICES, COMMODITIES, EXCHANGE RATES		TOTAL	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
Hedging derivatives	-	4	-	-	-	4
Effective management derivatives	-	-67	6	-	6	-67
TOTAL	**-**	**-63**	**6**	**-**	**6**	**-63**

The capital losses shown for the hedging derivatives are offset, due to the nature of the instruments, by the capital gains on the positions hedged. For the purpose of reducing investment risk, the instruments shown under effective management derivatives are also netted with the appreciation of the associated assets.

SECTION 3 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the companies Romulus Funding Corporation 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 2017, 5.1 billion euro of the securities issued by Romulus had been subscribed by the Parent Company Intesa Sanpaolo for around 4.9 billion euro.
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 2017, the investment portfolio of the vehicle Romulus included 5.1 billion euro of loans with the vehicle Duomo, in addition to cash, other assets and positive fair value of hedging derivatives for a total of around 1 million euro.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 5.1 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 2017 – in addition to receivables from Intesa Sanpaolo Group banks of 2.5 billion euro – this portfolio mainly consisted of loans to customers of 2.4 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2017.

(millions of euro)

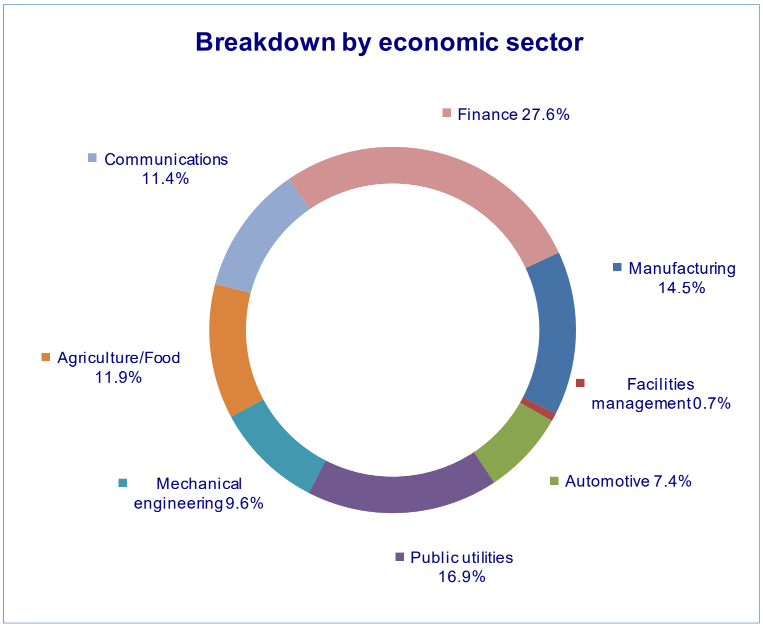
		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset backed commercial paper conduit	5,078 [1]		-	-		-	5,078	4,929	Loans	Amortised cost
DUOMO FUNDING PLC	Asset backed commercial paper conduit	5,111	-	5,208 [2]	26		-	-			

[1] Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.
[2] of which 2,751 million euro referring to credit lines granted to cover loans of Intesa Sanpaolo Group for which did not meet the criteria for derecognition pursuant to IAS 39.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.3% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 65% accounted for by trade receivables and the remainder by consumer loans (10%), loans deriving from lease contracts (8%), inventory-backed loans (7%), factoring contracts (5%), mortgage loans (3%) and loans/lease contracts to pharmaceutical companies (2%). Almost all of the eligible assets held by the vehicles are expressed in euro (92% of the total portfolio). The remainder is denominated primarily in British pounds (3%) and US dollars (5%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, around 99.8% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 97% of the debtors are located in Italy.

RISANAMENTO GROUP

Qualitative and quantitative information

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, including through processes structured in the form of international tenders to involve the major global players.
In the leasing business, the Group’s primary asset (which generates lease revenue of around 16 million euro) is a long-term lease contract entered into with a tenant of high standing.

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 good character, integrity, 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, in 2017 the Risanamento Group signed an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which, as detailed below, represents the Group's main asset.
The signing of this agreement, even though it is currently conditional upon the occurrence of certain events, is of considerable importance for the Risanamento Group since 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 970 million euro.

In further detail, the portfolio may be broken down as follows:
- owner-occupied properties: 39 million euro (registered office and place of business);
- properties held for sale: 271 million euro;
- real-estate development areas and projects: 623 million euro (Milano Santa Giulia);
- trading properties: 37 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.

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.

Starting from 1 January 2017 (ECB decision of 12 December 2016) the Common Equity Tier 1 ratio to be met was set at 7.25% under the transitional arrangements for 2017, and at 9.25% on a fully loaded basis.
This was the result of: a) the 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 requirement relating to a Capital Conservation Buffer of 1.25% under the transitional arrangements for 2017 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0% under the transitional arrangements for 2017 and 0.75% on a fully loaded basis in 2021.
As at 31 December 2017 the Common Equity Tier 1 ratio to be met was 7.27% under the transitional arrangements in force for 2017 and 9.27% on a fully loaded basis, also due to the contribution from the additional requirement consisting of the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017[15].

On 22 December 2017 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2018. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.065% under the transitional arrangements for 2018 and 9.25% on a fully loaded basis.
This is the result of: a) the 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 requirement relating to a Capital Conservation Buffer of 1.875% under

[15] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities in force as at 31 December 2017 (this requirement was set to zero per cent for Italy for the fourth quarter of 2017).

the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.07%[16], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

B. Quantitative information

B.1. Consolidated shareholders' equity: breakdown by type of company

(millions of euro)

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	TOTAL	*of which: minority interests*
Share capital	**9,026**	**-**	**196**	**-196**	**9,026**	***294***
Ordinary shares	9,026	-	196	-196	9,026	*294*
Savings shares	-	-	-	-	-	-
Share premium reserve	**26,031**	**-**	**1**	**-1**	**26,031**	***25***
Reserves	**11,040**	**-437**	**-505**	**942**	**11,040**	***119***
Legal reserve	2,065	-	-	-	2,065	-
Extraordinary reserve	1,023	-	-	-	1,023	-
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	-	-	232	-
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	-	-	302	-
Consolidation reserve	7,196	-437	-505	942	7,196	*119*
Other reserves	222	-	-	-	222	-
Equity instruments	**4,103**	**-**	**-**	**-**	**4,103**	**-**
(Treasury shares)	**-84**	**-2**	**-**	**-**	**-86**	***-2***
Valuation reserves:	**-865**	**417**	**5**	**-421**	**-864**	***-75***
Financial assets available for sale	-130	415	-	-	285	*5*
Property and equipment	1,252	-	-	-	1,252	*14*
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-917	3	-	-	-914	-
Foreign exchange differences	-1,076	-	5	-5	-1,076	*-86*
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-694	-1	-	-	-695	*-8*
Share of valuation reserves connected with investments carried at equity	354	-	-	-416	-62	-
Legally-required revaluations	346	-	-	-	346	-
Parent Company's net income (loss) and minority interest	**7,354**	**506**	**-21**	**-485**	**7,354**	***38***
Shareholders' equity	**56,605**	**484**	**-324**	**-161**	**56,604**	***399***

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.

[16] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for the period 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for the first quarter of 2018).

B.2. Valuation reserves of financial assets available for sale: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	518	-453	374	-9	-	-	-374	9	518	-453
2. Equities	213	-102	33	-3	-	-	-33	3	213	-102
3. Quotas of UCI	130	-17	32	-12	-	-	-32	12	130	-17
4. Loans	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2017	**861**	**-572**	**439**	**-24**	**-**	**-**	**-439**	**24**	**861**	**-572**
Total as at 31.12.2016	**1,064**	**-585**	**524**	**-21**	**-**	**-**	**-524**	**21**	**1,064**	**-585**

The reserve on equities classified as level 1 is negative for about 32 million euro.

B.3. Valuation reserves of financial assets available for sale: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans
1. Initial amount	**107**	**243**	**129**	**-**
2. Positive fair value differences	**436**	**226**	**485**	**-**
2.1 Fair value increases	346	94	141	-
2.2 Reversal to the income statement of negative reserves	42	50	344	-
- impairment	*15*	*-*	*344*	-
- disposal	*27*	*50*	*-*	-
2.3 Other changes	48	82	-	-
3. Negative fair value differences	**-478**	**-358**	**-501**	**-**
3.1 Fair value decreases	-277	-209	-417	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-168*	*-45*	*-80*	-
3.4 Other changes	-33	-104	-4	-
4. Closing amount	**65**	**111**	**113**	**-**

Trading on treasury shares

During the year, Intesa Sanpaolo and Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

Ordinary shares:

Initial number	no.	23,360,324
Purchases	no.	8,590,629
Sales	no.	-5,849,085
End-of-year number	no.	26,101,868

Non-convertible savings shares:
During the year no transactions on savings shares were recorded.

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year the reserves in question recorded a negative change of 39 million euro (32 million euro of which referring to pension funds and 7 million euro to employee termination indemnities). As at 31 December 2017 there was an overall negative reserve equal to approximately 462 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

2.1. Scope of application of regulations

The “Banking Group” differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

- the line-by-line consolidation in the IAS/IFRS financial statements of non-banking, financial and instrumental companies (primarily the insurance segment) not included in the “Banking group”;
- the proportional consolidation in the “Banking Group” of the jointly controlled entities conducting banking, financial and instrumental business that are consolidated at equity in the financial statements.

Own funds and capital ratios were calculated on the basis of the provisions in force (Circulars 285 and 286, both issued during 2013) 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.

2.2. Own funds of banks

A. Qualitative information

The new regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 capital, in turn composed of:
  - Common Equity Tier 1 Capital (CET1);
  - Additional Tier 1 Capital (AT1);
- Tier 2 capital (T2).

Tier 1’s predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, retained earnings, valuation reserves and eligible minority interests, plus deducted elements.

In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:

- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.

A number of prudential filters are also envisaged with effects on Common Equity:

- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on revaluations of the real estate portfolio and of valuable art assets;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
- adjustments to fair value assets associated with the “prudent valuation”.

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:

- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- non significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding the thresholds envisaged in the regulation);
- significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation).

In general, the AT1 category includes equity instruments other than ordinary shares, meeting the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or the specific issues of Additional Tier 1 instruments).

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches.

Moreover, it has been envisaged that the new regulatory framework (the so-called Basel 3 framework) be introduced gradually over a transitional period, generally until 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in (or deduction from) Common Equity, will only have a partial percent effect on

Common Equity Tier 1 Capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from AT1 or T2, or is considered among risk-weighted assets.
Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

The main contractual characteristics of the financial instruments included in Common Equity Tier 1 – CET 1, in the Additional Tier 1 – AT1 and in the Tier 2 –T2, respectively, are summarised below. A distinction is also made between the financial instruments that are subject to grandfathering and other eligible financial instruments.

For a detailed analysis of the contractual characteristics of the issued subordinated instruments such as, for example, the duration, remuneration, etc., please see the information in the "Basel 3 – Pillar 3 Disclosure".

1. Common Equity Tier 1 Capital (CET1)

The Common Equity Tier 1 only includes listed ordinary shares, for an amount equal to 34,738 million euro, including 26,006 million euro of share premium reserve.

2. Additional Tier 1 Capital (AT1)

The Additional Tier 1 includes listed savings shares for 485 million euro, in addition to the subordinated liabilities listed below.

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	484
Intesa Sanpaolo	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	378
Intesa Sanpaolo	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	163
Total Additional Tier 1 instruments subject to transitional provisions									**1,025**
Intesa Sanpaolo	6,25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,121**
Total Additional Tier 1 equity instruments									**5,146**

3. Tier 2 capital (T2).

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 bps/p.a.	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	247
Intesa Sanpaolo (*)	up to 20/6/2018 excluded: 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	193
Intesa Sanpaolo (*)	8.698% up to 24/9/2018 excluded; thereafter 3-month Euribor 3 + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	83
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	YES	373,400,000	5
Intesa Sanpaolo	up to 18/3/2019 excluded: 5.625% p.a.; thereafter: 3-month Sterling Libor + 1.125 p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165,000,000	13
Total Tier 2 capital instruments subject to transition requirements									**541**
Intesa Sanpaolo	3-month Euribor + 1,9%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	724
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,636
Intesa Sanpaolo	6,6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,409
Intesa Sanpaolo	5,71% fixed	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,236
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	980
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	704
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	468
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	362
Intesa Sanpaolo	2,855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	NO	1,250,000,000	59
Intesa Sanpaolo	5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%	YES	28-May-2008	28-May-2018	NO	Eur	NO	1,000,000,000	20
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	12
Intesa Sanpaolo	up to 26/6/2013 excluded: 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	NO	500,000,000	11
Intesa Sanpaolo	up to 20/2/2013 excluded: 3-month Euribor + 0.25% p.a.; thereafter: 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	NO	Eur	NO	750,000,000	4
Total Tier 2 capital instruments not subject to transition requirements									**8,105**
Total Tier 2 capital instruments									**8,646**

(*) Instrument subject to"Grandfathering" in Additional Tier 1 capital, portion subject to cap pursuant to Art. 486 of EU Regulation 575/2013 (CRR).

B. Quantitative information

(millions of euro)

	31.12.2017	31.12.2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**48,219**	**43,298**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-1,272**	**-808**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**46,947**	**42,490**
D. Items to be deducted from CET 1	**-10,176**	**-7,670**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	**1,280**	**1,106**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**38,051**	**35,926**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,640**	**3,842**
of which AT1 instruments subject to transitional adjustments	1,025	1,230
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 pursuant to transitional adjustments	**-226**	**-309**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**5,414**	**3,533**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,776**	**9,154**
of which T2 instruments subject to transitional adjustments	541	410
N. Items to be deducted from T2	**-821**	**-152**
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments	**-47**	**-187**
P. Total Tier 2 (T2) (M - N +/- O)	**7,908**	**8,815**
Q. Total own funds (F + L + P)	**51,373**	**48,274**

Consolidated own funds benefited from the regulation which permits the gradual recognition in the regulatory capital of the effects deriving from application of IAS 19 as entered into force from 1 January 2013.
The amount of the “prudential filter” under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 687 million euro, equals around 241 million euro.

The specific valuation reserve as part of the shareholder’s equity totalling 1,252 million euro following the amendment to the accounting standard for properties and valuable art assets was subjected to the “prudential filter” when applying the national discretion for the properties under Bank of Italy Circular 285 of 17 December 2013.
The amount of this reserve was recognised in CET 1 for about 991 million euro and in Tier 2 capital for about 138 million euro.

The tables below show the changes in Own Funds.

Common Equity Tier 1 Capital and Additional Tier 1 Capital

(millions of euro)

INFORMATION	31.12.2017	31.12.2016
Common Equity Tier 1 capital (CET1) - Beginning of the period[a]	**35,926**	**36,908**
Common Equity Tier 1 capital (CET1) before regulatory adjustments (beginning of the period)	**43,298**	**44,134**
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	-	-
Share premium reserve	-1,343	-
Reserves [a]	1,378	-4
Accumulated other comprehensive income (b)	1,064	-836
Allocation of previous period loss	-	-
Net income for the year	7,316	3,111
Non-eligible net income for the year	-	-3,111
Dividends distributed during the period	-	-
Dividends to be distributed [c]	-3,500	-
Minority interests	6	4
Common Equity Tier 1 capital (CET1) before regulatory adjustments (end of the period)	**48,219**	**43,298**
Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (beginning of the period)	**-8,478**	**-8,683**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	4	-30
Goodwill	104	66
Other intangible assets	-281	-31
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,262	60
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-507	276
Defined benefit pension funds assets	-	-
Prudential filters	-299	2
- of which Cash Flow Hedge Reserves	*-146*	*1*
- of which Gains or Losses due to change in own credit risk (DVA)	*-89*	*13*
- of which Prudent valuation adjustements	*-64*	*-12*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-137	-115
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
Deductions with 10% threshold	-28	48
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-28*	*48*
Deductions with 17.65% threshold [d]	-560	-
Positive or negative items - other	-4	-71
Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (end of the period)	**-11,448**	**-8,478**
Total adjustments in the transitional period (CET1) - (beginning of the period)	**1,106**	**1,457**
Changes in adjustments in the transitional period	174	-351
Total adjustments in the transitional period (CET1) - (end of the period)	**1,280**	**1,106**
Common Equity Tier 1 capital (CET1) - (end of the period)	**38,051**	**35,926**

Additional Tier 1 capital (AT1) - beginning of the period	**3,533**	**2,302**
Additional Tier 1 capital (AT1) before regulatory adjustments - (beginning of the period)	**2,612**	**1,364**
Additional Tier 1 capital (AT1)		
Savings shares	-	-
Other AT1 instruments	2,000	1,250
Minority interests	3	-2
Additional Tier 1 capital (AT1) before regulatory adjustments - (end of the period)	**4,615**	**2,612**
Total regulatory adjustments to Additional Tier 1 capital (AT1) - (beginning of the period)	**-**	**-**
Additional Tier 1 capital (AT1) : Regulatory adjustments		
AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-	-
Positive or negative items - other	-	-
Total regulatory adjustments to Additional Tier 1 capital (AT1) - (end of the period)	**-**	**-**
Total adjustments in the transitional period including minority interests (AT1) - (beginning of the period)	**-309**	**-497**
Changes in adjustments in the transitional period	83	188
Total adjustments in the transitional period including minority interests (AT1) - (end of the period)	**-226**	**-309**
AT1 instruments eligible for grandfathering - (beginning of period)	**1,230**	**1,435**
Change in AT1 instruments eligible for grandfathering	-205	-205
AT1 instruments eligible for grandfathering - (end of period)	**1,025**	**1,230**
Additional Tier 1 capital (AT1) - end of the period	**5,414**	**3,533**
TIER 1 CAPITAL (Tier 1 = CET1 + AT1)	**43,465**	**39,459**

[a] Portion eligible in CET1.

[b] The caption "Accumulated other comprehensive income" includes an increase equal to about 1,234 million euro relating to the fair value measurement of the properties and valuable art assets.

[c] As at 31 December 2017, the figure considers the dividends on 2017 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2017 income allocated to charity, net of the tax effect.

[d] The deductions reported refer solely to DTAs and material investments not deducted in the 10% threshold.

Development of Own Funds - Tier 2 Capital

(millions of euro)

INFORMATION	31.12.2017	31.12.2016
Tier 2 Capital (T2) - beginning of the period	**8,815**	**8,089**
Tier 2 Capital (T2) before regulatory adjustments - (beginning of the period)	**8,744**	**7,603**
Tier 2 Capital (T2)		
T2 instruments	-398	906
Minority interests	3	-4
Excess of provisions over expected losses eligible (excess reserve)	-114	239
Tier 2 capital (T2) before regulatory adjustments - (end of the period)	**8,235**	**8,744**
Total regulatory adjustments to Tier 2 capital (T2) - (beginning of the period)	**-152**	**-152**
Tier 2 capital (T2): Regulatory adjustments		
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-669	-
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 capital (T2) - (end of the period)	**-821**	**-152**
Total adjustments in the transitional period including minority interests (T2) - (beginning of the period)	**-187**	**-239**
Changes in adjustments in the transitional period	140	52
Total adjustments in the transitional period including minority interests (T2) - (end of the period)	**-47**	**-187**
T2 instruments eligible for grandfathering - (beginning of period)	**410**	**877**
Change in T2 instruments eligible for grandfathering	131	-467
T2 instruments eligible for grandfathering - (end of period)	**541**	**410**
Tier 2 Capital (T2) - (end of the period)	**7,908**	**8,815**
TOTAL CAPITAL (TC = T1 + T2)	**51,373**	**48,274**

2.3. Capital adequacy

A. Qualitative information

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 10.77% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement equal to 1.5%, and capital conservation buffer, equal to 1.25% under the transitional arrangements in force for 2017, and the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017) arising from the risks typically associated with banking and financial activity (credit, counterparty, market and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risks following insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

In order to calculate the capital requirements at Consolidated level, the Group was authorised to use internal models for credit, counterparty, market, and operational risks. For additional information reference should be made to Part E of these Notes, paragraph "Basel 3 regulations and the Internal Project" and to the disclosure required by Basel 3 (so-called "Pillar 3").

As already illustrated in Section 2.2 on "Own funds of banks" above, the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 capital, must at all times be equal to at least 8.0% of risk-weighted assets.

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.

Starting from 1 January 2017 (ECB decision of 12 December 2016) the Common Equity Tier 1 ratio to be met was set at 7.25% under the transitional arrangements for 2017, and at 9.25% on a fully loaded basis.
This was the result of: a) the 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 requirement relating to a Capital Conservation Buffer of 1.25% under

the transitional arrangements for 2017 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0% under the transitional arrangements for 2017 and 0.75% on a fully loaded basis in 2021.
As at 31 December 2017 the Common Equity Tier 1 ratio to be met was 7.27% under the transitional arrangements in force for 2017 and 9.27% on a fully loaded basis, also due to the contribution from the additional requirement consisting of the Institution specific Countercyclical Capital Buffer, equal to 0.02% in the fourth quarter of 2017[17].

On 22 December 2017 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2018. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.065% under the transitional arrangements for 2018 and 9.25% on a fully loaded basis.
This is the result of: a) the 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 requirement relating to a Capital Conservation Buffer of 1.875% under the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.07%[18], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

For the sake of completeness, please note that Directive 2013/36/EU (CRD IV) establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the Institution specific Countercyclical Capital Buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular no. 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical ratio (relating to the exposures towards Italian counterparties) for the first three months of 2018 at 0%.

[17] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities in force as at 31 December 2017 (this requirement was set to zero per cent for Italy for the fourth quarter of 2017).

[18] Calculated taking into account the exposure as at 31 December 2017 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for the period 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for the first quarter of 2018).

B. Quantitative information

	31.12.2017		31.12.2016	
	Unweighted amounts (*)	**Weighted amounts/ requirements**	**Unweighted amounts (*)**	**Weighted amounts/ requirements**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**624,979**	**248,839**	**571,335**	**242,312**
1. Standardised approach	260,095	103,122	270,507	114,333
2. Internal rating based approach	355,616	142,470	291,705	123,656
2.1 Basic	*3,577*	*7,550*	*2,842*	*6,622*
2.2 Advanced	*352,039*	*134,920*	*288,863*	*117,034*
3. Securitisations	9,268	3,247	9,123	4,323
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks		**19,907**		**19,385**
B.2 Credit valuation adjustment risk		**76**		**83**
B.3 Settlement risk		**-**		**-**
B.4 Market risk		**1,426**		**1,536**
1. Standardised approach		208		130
2. Internal models		1,218		1,406
3. Concentration risk		-		-
B.5 Operational risk		**1,488**		**1,563**
1. Basic indicator approach		61		39
2. Standardised approach		186		224
3. Advanced measurement approach		1,241		1,300
B.6 Other calculation elements		**49**		**146**
B.7 Total capital requirements		**22,946**		**22,713**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets		**286,825**		**283,918**
C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)		**13.3%**		**12.7%**
C.3 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)		**15.2%**		**13.9%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)		**17.9%**		**17.0%**

(*) In the case of the standardised approach, "unweighted amounts" correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, "unweighted amounts" correspond to "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are also included when determining EAD.

The validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Surveillance Body following completion of the previously recommended corrective actions.

In compliance with the recommendation of the Financial Stability Board, the Basel Committee on Banking Supervision developed a methodology to identify the Global Systemically Important Banks ("G-SIBs") subject to additional requirements to absorb the losses starting from 1 January 2016.
The Committee has included since 2013 a new obligation of minimum disclosure of the 12 indicators used in the assessment methodology for the banks with a leverage ratio exposure measure at the end of the year exceeding 200 billion euro and for those which though being below this threshold - were designated as G-SIBs in the year before the reference one, or were added based on the judgement of the national Supervisory Authority.
Based on the provisions of the Financial Stability Board, for Italian banks with a leverage ratio exposure measure exceeding 200 billion euro – like the Intesa Sanpaolo Group - the Bank of Italy has envisaged the obligation of publication on their website of the information concerning the 12 significant indicators. The publication will take place within the terms provided at the link www.group.intesasanpaolo.com

SECTION 3 – REGULATORY CAPITAL AND CAPITAL RATIOS FOR INSURANCE COMPANIES

The insurance companies controlled solely by the Intesa Sanpaolo Group and subject to insurance supervision are:
- Intesa Sanpaolo Vita;
- Intesa Sanpaolo Life;
- Intesa Sanpaolo Assicura;
- Fideuram Vita.

The new Solvency II framework of prudential supervision regulations, applicable to the entire European insurance segment, came into force on 1 January 2016. The new regulatory framework completely revised the calculation method for synthetic indicators to measure the solvency of insurance companies.

For 2017, the Group's insurance companies implemented all the new obligations required in that regard by the calendar for sending data reports to the Supervisory Authorities IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.

Intesa Sanpaolo Vita calculates the aggregate Solvency Ratio for the insurance companies as the Parent Company of the Insurance Group within the Intesa Sanpaolo Banking Group. Based on Art. 96 of Legislative Decree 209/2005 (the Insurers' Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the Insurance Group that includes Intesa Sanpaolo Assicura and Intesa Sanpaolo Life, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the insurers' code.

As at 31 December 2017, the Intesa Sanpaolo Vita Group had a solvency ratio of 236%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II.
The figure corresponds to what is expected to be sent to the Supervisory Authority with reference to the fulfilment relating to the fourth quarter of 2017.

Lastly, on 07 November 2017, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves in the amount of around 256 million euro. The dividends were paid on 14 November 2017, according to the terms decided.

SECTION 4 – THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

(millions of euro)

	Amounts
A. Financial conglomerate amount	55,064
B. Capital requirements for banking elements	30,211
C. Solvency margins for insurance elements	3,382
D. Total capital requirements of the financial conglomerate (B+C)	**33,593**
E. Financial conglomerate surplus (defincit) (A-D)	**21,471**

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services.
As at 31 December 2017 the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 21,471 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 10.77% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for 2017.
According to Art. 62 – Transitional provisions of IVASS Measure no. 53/2016, the figures regarding the Solvency Capital Requirement and the Minimum Capital Requirement used to calculate the Solvency Ratio are to be understood as estimates. The final figures will be reported to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) drawn up by the Parent Company of the Insurance Group Intesa Sanpaolo Vita according to the timeline set out in the IVASS regulation on Solvency II.

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

1.1 Business combinations

(millions of euro)

Companies	Date of the transaction (a)	Cost of the transaction	Equity stake % (b)	Net interest and other banking income (c)	Net income / loss for the year (d)	Net income / loss recorded as of acquisition date (e)
1. Aggregate Set of Banca Popolare di Vicenza in compulsory administrative liquidation	26-Jun-2017	-	n.d.	n.d.	n.d.	3
2. Aggregate Set of Veneto Banca in compulsory administrative liquidation	26-Jun-2017	-	n.d.	n.d.	n.d.	

(a) Date control was acquired. 30 September 2017 for the investments in Banca Nuova, Banca Apulia, Servizi Bancari, SEC Servizi, Veneto Banka d.d. (Croatia) and 1 October 2017 for the investment in Veneto Banka sh.a. (Albania).

(b) Sum of the percentage stake acquired with voting rights at the ordinary shareholders' meeting and with options on minority interests, if applicable.

(c) Net interest and other banking income (Caption 120 of the income statement) referring to the full year 2017.

(d) Net income/loss from the investee/business for the full year 2017.

(e) Net income/loss from the investee/business after the acquisition date and included in the consolidated net income (loss) of the Intesa Sanpaolo Group; this is an overall figure referring to the Aggregate Set of Banca Popolare di Vicenza in compulsory administrative liquidation and Veneto Banca in compulsory administrative liquidation (and the investees included in the Aggregate Set) and takes into account the effects of the Purchase Price Allocation (PPA) pursuant to IFRS 3.

In addition to business combinations accounted for by IFRS 3, summarised in the previous table, several extraordinary intragroup transactions were carried out during the year, which had no effects on the consolidated financial statements. Such transactions, which are scoped out of IFRS 3, involved the transfer of business lines or legal entities between companies within the Intesa Sanpaolo Group or business combinations between entities 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, without recognition of any economic effect.
The intragroup transactions completed during the year concerned:
- the partial demerger of CIB Factor into CIB Bank;
- the merger by incorporation of Accedo into Intesa Sanpaolo;
- the sale by Intesa Sanpaolo to PBZ of a 51% stake in Banka Intesa Sanpaolo d.d. (Slovenia);
- the sale by Intesa Sanpaolo to Intesa Sanpaolo Holding International of the stake held in Intesa Sanpaolo Bank Luxembourg.

Annual changes in goodwill

(millions of euro)

	31.12.2017
Initial goodwill	**4,059**
Increases	**-**
- Goodwill recorded in the year	-
- Positive foreign exchange differences and other changes	-
Decreases	**-3**
- Impairment recorded in the year	-
- Disinvestments	-3
- Negative foreign exchange differences and other changes	-
Final Goodwill	**4,056**

Goodwill

(millions of euro)

CGUs/Goodwill	31.12.2017	31.12.2016
Banca dei Territori	1,211	1,214
Corporate and Investment Banking	-	-
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)	-	-
Total	**4,056**	**4,059**

1.2 Other information

Acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca
Intesa Sanpaolo signed a business sale contract, effective as of 26 June 2017, with the liquidators of Banca Popolare di Vicenza and Veneto Banca concerning the acquisition, for a token price of 1 euro, of certain assets and liabilities and certain legal relationships (hereinafter the Aggregate Set) of the two banks. The latter were placed into compulsory administrative liquidation on 25 June 2017, as envisaged by the Consolidated Law on Banking and Decree Law 99 of 25 June 2017 concerning "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A." (Venetian Banks Decree), converted into Law 121 of 31 July 2017.
Intesa Sanpaolo acquired an Aggregate Set which excludes NPLs (bad loans, unlikely-to-pay loans and past due exposures), subordinated bonds issued, as well as shareholdings and other legal relationships that the Bank does not consider functional to the acquisition. The Aggregate Set of acquisition includes, in addition to the selected assets and liabilities of Banca Popolare di Vicenza and Veneto Banca (as well the international branches of the latter, located in Romania), and subject to obtaining the related authorisations, the investments in Banca Apulia S.p.A. (excluding the investments held by the latter in Apulia Pronto Prestito S.p.A. and Apulia Previdenza S.p.A.), in Banca Nuova S.p.A., in SEC Servizi S.c.p.a., in Servizi Bancari S.c.p.a., and in the banks located in Moldova, Croatia, and Albania.
The Aggregate Set does not include a corresponding equity component, given that the entire shareholders' equity of the two banking groups has remained in the Banks in compulsory administrative liquidation; The imbalance between the assets and liabilities transferred will be balanced by a loan granted by Intesa Sanpaolo to the banks in compulsory administrative liquidation (to be repaid over 5 years at an interest rate of 1%), backed by the government up to a maximum amount of 6,351 million euro.
As regards anti-trust authorisations, on 10 July 2017 the Italian Competition Authority announced its decision not to investigate the arrangement, thereby giving its clearance for the deal.
With regard to the investments included in the Aggregate Set, it should be noted that the timing for the formulation of the offer and the execution of the contract did not allow the Parties to request and obtain the necessary authorisations from the European Central Bank for the transfer of control by the execution date. As at 31 December 2017, authorisations had been received for all the subsidiaries included in the Aggregate Set, except for Eximbank (Moldova) for which a local legislative provision is being approved to transfer the investee's NPLs to the compulsory administrative liquidation procedure. Without this operation, it will not be possible to register the change of ownership that, according to local legislation, would allow the new owner to exercise the rights as shareholder and therefore of control over the company. Accordingly, as at 31 December 2017, Eximbank was recognised under the investments that are not consolidated on a line-by-line basis.

In order to determine the final imbalance of the Aggregate Set and definitively calculate the amount of public contribution paid by the State, the Ministry for the Economy and Finance and Intesa Sanpaolo have jointly appointed a board of three independent experts (the “Panel of Experts”), selected in accordance with the Venetian Banks Decree, which conducted a due diligence.
Finally, the contract included a termination clause which established that the contract is ineffective and the assets/liabilities/legal relationships acquired can be given back to the banks in compulsory administrative liquidation. This referred, specifically, to the event that the Venetian Banks Decree was not converted into law or was converted with amendments/integrations that made the transaction more expensive for Intesa Sanpaolo, and was not fully enacted within the terms provided by law. The Venetian Banks Decree was converted into Law 121 of 31 July 2017, without significant amendments.

The operation described above was accounted for in accordance with IFRS 3 “Business combinations”. In fact, the Aggregate Set transferred to Intesa Sanpaolo can be classed as a “business” and the operation can thus be regarded as a business combination and accounted for using the “acquisition method”, which involves the following steps:
- identifying the acquirer and determining the acquisition date;
- determining the purchase price (or the consideration transferred);
- allocating the purchase price (Purchase Price Allocation - PPA).

Identifying the acquirer and determining the acquisition date
Without prejudice to the identification of Intesa Sanpaolo as the acquirer, one of the fundamental aspects of accounting for a business combination is the need to determine the acquisition date, that is, the date on which the acquirer obtains control of the acquiree. This is also important because it is only from the acquisition date, when control is obtained, that profit or loss from the business or from the acquired investee are included line by line in the acquirer’s financial position. It is also the date from which the assets acquired and the liabilities assumed are measured at fair value.
For the operation in question, the acquisition date is as follows:
- 26 June 2017 for assets and liabilities arising from Banca Popolare di Vicenza and Veneto Banca, pursuant to art. 6.1.2 of the sale contract, according to which “The transfer of the Aggregate Set shall become effective today, and therefore as of the first instant of 26 June 2017(“Effective Date”)”. Consequently, the reference date to be considered in the balance sheet upon first time consolidation and in determining the fair value of the acquired assets and liabilities is the date of 25 June 2017, that is, the date preceding that on which the operation came into legal effect;
- 30 September 2017 for the investments in Banca Nuova, Banca Apulia, Servizi Bancari, SEC Servizi, Veneto Banka d.d. (Croatia) and 1 October 2017 for the investment in Veneto Banka sh.a. (Albania), in view of the conclusion of the authorisation procedures to obtain control.

Control of Eximbank (Moldova) had yet to be obtained as at 31 December 2017 and the investment therefore remained classified under investments and was not subject to line by line consolidation in the 2017 financial statements.

Determining the purchase price (or the consideration transferred)
Pursuant to paragraph 37 of IFRS 3, the consideration transferred in a business combination is to be determined on the basis of the acquisition-date fair values of the assets transferred by the acquirer and the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. According to art. 1.1.2 of the Sale Contract “The consideration offered by Intesa Sanpaolo for the acquisition of the Aggregate Set is euro 1.00”.

Purchase Price Allocation (PPA)
At the acquisition date, the acquirer must allocate the cost of the business combination by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at their acquisition date fair value, excluding non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5. The latter assets are instead measured at fair value less costs to sell.
The acquirer recognises separately the acquiree’s identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:
a) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
b) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
c) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The recognition of these assets and liabilities at fair value, after the purchase price allocation, is reflected in the income statements after the acquisition date, which will consider the income and expenses relating the acquired business based on the cost of the business combination incurred by the acquirer. For example, depreciation expense that the acquirer recognises in its income statement after the acquisition date and that relates to the acquiree’s depreciable assets, shall be based on the fair values of said depreciable assets as at the acquisition date, i.e. their cost to the acquirer. Furthermore, in the case of disposal of an asset designated at fair value at the date of the PPA, the financial statements of the acquirer shall include the gain or loss from the disposal, determined on the basis of the carrying amount inclusive of the residual gain at date of the disposal.
Any difference between the purchase price of the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities shall be recognised as goodwill; instead if the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the acquirer will recognise a bargain purchase (badwill) in the income statement.
The purchase price allocation to the assets/liabilities of the acquiree and, residually, to goodwill, consequently involves deferred taxation. Paragraphs 15, 19, 21 and 24 of IAS 12 - Income Taxes, provide that, in the case of a business combination:

- the acquirer shall recognise deferred tax liabilities for any increase (decrease) in the fair value of the acquiree's assets (liabilities) and shall recognise specific identifiable intangible assets of the acquiree;
- the acquirer shall recognise deferred tax assets for any decrease (increase) in the fair value of the acquiree's assets (liabilities) if it is probable that taxable income will be available against which the deductible temporary difference can be utilised;
- the acquirer shall not recognise deferred tax liabilities for goodwill, this being a residual value, since any such recognition would increase the carrying amount (thus modifying the nature of the residual value).

Fair value of assets and liabilities acquired
In preparing the financial statements as at 31 December 2017, Intesa Sanpaolo has in some cases, with support from independent experts, identified the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired Aggregate Set. The main changes in fair values compared to the previous carrying amounts refer to the following assets and liabilities:
- loans to customers and due from banks;
- loans represented by securities;
- investments;
- property and other assets;
- amounts due to banks and customers;
- debts consisting of bonds issued;
- allowances for risks and charges.

Furthermore, the following were recorded within the scope of the PPA process:
- intangible assets linked to asset under management (AUM) relationships, which had not been previously recognised by the former Venetian Banks;
- DTAs on past tax losses of the former Venetian Banks, not previously accounted for in the Aggregate Set transferred to Intesa Sanpaolo, taking also into account that with Law Decree 99/2017, converted into Law 121/2017, new specific rules have been introduced to transfer the tax losses of the acquiree to the acquirer.

For cases that have a greater impact in the PPA process, the valuation technique used and the related outcomes have been summarised below.

Loans to customers and due from banks
The total fair value of the receivables in question exceeds the related carrying amount by 322 million euro. This overall difference arises from the composition of the following different measurement effects.

Medium-long term loans
With support from an independent expert, the fair value of the acquired portfolio of loans to customers and due from banks was measured as at the acquisition date. The portfolio subject to measurement refers to medium and long-term exposures. For short-term exposuresand those with residual maturity less than 12 months, the acquired carrying amount is considered to be a reasonable approximation of their fair value in accordance with IFRS 13, taking into account that the discounting of future cash flows is of little significance in presence also of changes in the reference market rates.
The fair value measurement process has maximised the use of observable market inputs and made appropriate adjustments to reflect credit and liquidity risk premiums based on current market conditions.
In detail, fair value was determined by calculating the present value of expected future cash flows ("discount rate adjustment approach"); with this method, cash flows are discounted at a rate that incorporates an estimation of the main risk factors.
The following future cash flows were considered:
- capital payments based on the contractual repayment schedules of the loans;
- interest payments based on the contractual interest payment plans associated with fixed rate loans, calculated in accordance with the rules associated with indexation of market parameters embedded in unknown coupons, contractual spreads and any optional embedded components for floating rate loans.

The discounting rate applied to cash flows was derived from the sum of three components:
- the risk-free interest rates curve at the different maturity dates;
- the average cost of funding, which reflects the cost of liquidity curve of the Intesa Sanpaolo Group and is determined to take into account the features of the portfolio being measured in terms of counterparty segment and average financial life.
- the average credit spread. Each transaction was linked to a credit spread that reflects the risk of insolvency, based on the risk parameters (PD and LGD class) and the average residual financial life of the transaction.

A description of how the above three components were estimated is provided below.

The structure and levels of the risk-free interest rates curve at the different maturity dates are the same as those used to monitor the interest rate risk for the Intesa Sanpaolo Group at the measurement date and are estimated starting from the interbank market deposit rates (Euribor) for maturities up to 12 months and the swap market rates for maturities beyond 1 year.
The cost of funding curve was derived from the weighted average between the curve of the cost of wholesale funding of the Intesa Sanpaolo Group and the curve used in the Group's retail transaction pricing processes. The two curves were weighted taking into account the percentage of retail and corporate type loans included in the perimeter in relation to each average life category present in the portfolio.
The credit spread was determined for each transaction so as to reflect two components: the first associated with the expected loss due to insolvency and the second reflecting the "cost of capital" necessary to cover any unexpected losses arising from the credit risk. The second component was measured using regulatory metrics. Credit spreads were determined using the following parameters:

- for the expected loss component, the PD and LGD levels, obtained using Intesa Sanpaolo's internal models;
- for the term of unexpected losses, the regulatory capital of the acquired positions and the "cost of capital" estimated internally by Intesa Sanpaolo.

Furthermore, specific sensitivity analyses were conducted to measure the sensitivity of the fair value measurements to changes in the estimation parameters and in certain underlying assumptions; in the case at hand, it is particularly important that the sensitivity analysis captures additional elements of comparison in terms of the reasonableness of the estimates obtained, which by definition, may be affected by unavoidable levels of uncertainty. The sensitivity analyses have confirmed that the results are correct and prudent.
Having regard to positions in respect of a number of investees of Banca Popolare di Vicenza and Veneto Banca in compulsory administrative liquidation - attributed to Intesa Sanpaolo during the negotiations - the fair value of said positions takes into account the possibility of these being refinanced at current market rates in view of the specific risks inherent in the sector in which the investees operate (real estate and leasing).
To conclude, fair value adjustments were also made to debt securities classified among loans to customers or due to banks, mostly referring to positions subscribed within the scope of third-party securitisation transactions. Fair value was calculated in accordance with the Group's fair value policy, in line with the fair value hierarchy rules set out in IFRS 13. The valuation process described above has resulted in the determination of a higher fair value, i.e. 567 million more than the carrying value.

Loan to Banks in compulsory administrative liquidation
The Aggregate Set transferred to Intesa Sanpaolo does not include a corresponding equity component and the imbalance between the assets and liabilities transferred has been balanced by an interest-bearing loan granted by Intesa Sanpaolo to the Banks in compulsory administrative liquidation (1% annual interest rate, maximum duration of 5 years, with early repayment linked to collection of the loans excluded from the Aggregate Set and with full repayment on expiry) for an amount equivalent to the imbalance of the Aggregate Set.
The obligations of the Banks in compulsory administrative liquidation and deriving from the loans above are backed by an independent, first demand government guarantee for a maximum total amount of 6,351 million. The foregoing guarantee was issued by Decree of the Ministry for Economy and Finance on 17 January 2018. The Decree provides that the guarantee shall remain in place until the capital and interest payment obligations have been satisfied and shall be reduced in value as the foregoing obligations are progressively satisfied by the Banks in compulsory administrative liquidation.
Since the portion of the loan and the related interest not covered by the guarantee can only be repaid if the Banks in compulsory administrative liquidation have the available liquidity (from realising assets), after repayment of the sums provided by the Government pursuant to the law which enabled the transfer of certain assets and liabilities to Intesa Sanpaolo, the fair value of the initial recognition of the loan was determined taking into account expected future cash flows, discounted at an appropriate market rate in accordance with IFRS 13.
Capital repayment upon expiry was determined taking into account the guaranteed amount less interest collected, which reduces the guaranteed amount. The cash flows determined in this way were then discounted at a rate equivalent to the 5-year BTP yield in consideration of the duration of the loan and the presence of the government guarantee.
The loan's fair value measurement resulted in a capital loss of 245 million.

Investments in associates and companies subject to joint control
The fair value of the investments included in the Aggregate Set transferred to Intesa Sanpaolo has been determined as at the acquisition date. Since these are controlling interests in consolidated entities, the effects of the PPA only apply in the separate financial statements, excluding those of Eximbank which was not consolidated line-by-line at 31 December 2017.
For Eximbank, fair value was measured by applying the Dividend Discount Model (DDM) to a multi-year plan of said investee, which was prepared taking into account that the Moldovan bank, unlike other acquired subsidiaries in Croatia and Albania, cannot be classed as a bank that operates in countries in which the Intesa Sanpaolo Group is already present; the fair value measurement of this investee is 31 million, equivalent to a P/BV multiple of 0.5x.

Property and equipment and intangible assets
The fair value measurement referred to the acquired real estate property and was carried out with the support of independent experts. The experts adopted generally accepted valuation techniques and principles to measure fair value and specifically used the comparative or market method to compare the assets with similar assets recently sold/purchased or offered on the same market or in competitive environments. To determine the open market value of the assets, inspections were conducted inside the properties to confirm the information received (size, designated uses) and verify the quality, features, current condition, etc. of the properties. Local market information (current prices, demand and supply levels, expectations of operators) was also gathered for use in the valuation commentary. Data collected on the local real estate market were appropriately calibrated to the specific characteristics of the property in question and then used to determine the desirability and appeal of the property in the real estate market. The open market value means the best price at which it would be reasonable to unconditionally conclude the sale of the property against payment in cash. Based on the foregoing considerations, the valuation of the acquired property produced a negative fair value difference of 11 million euro.
Additionally, specific analyses were conducted by Intesa Sanpaolo to identify assets, software and improvements made to leased branches acquired from the former Venetian Banks. In light of the integration and migration process, these will be derecognised as of the acquisition date as they have no future use and will not contribute to the company's production process. The foregoing analyses highlighted the need to recognise impairment losses for 29 million euro, accounted for within the scope of the PPA process.

IFRS 3 provides that, in each business combination, the acquirer identifies any intangible assets not previously recognised by the acquiree and verifies that such assets meet the conditions to be independently measured at fair value.
According to IFRS 3 and IAS 38, the acquirer shall recognise, at the acquisition date, an intangible asset that was not previously recognised in the financial statements of the acquiree, only if:

- the asset is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract), or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations;
- the entity has control over the asset, meaning that it has the power to obtain the future economic benefits flowing from the underlying resource and can restrict the access of others to those benefits;
- the fair value of the asset can be reliably measured irrespective of whether the asset was recognised by the acquiree prior to the acquisition.

For the purpose of identifying the intangible assets acquired in a business combination, IFRS 3 provides numerous examples of intangible assets that qualify for recognition separately from goodwill or residual badwill recognised after the combination process. In the case at hand, the following types of intangible assets have been identified in the case of a bank acquisition:
- customer lists: these contain all customer information in the entity's possession and can be exchanged and thus have a market value;
- contracts with customers and the underlying relationships with customers: contracts with customers satisfy the legal requirement to qualify as intangible assets even if the business aggregation arrangement prohibits their sale or transfer separately from the entity acquired. To this end, this category also includes standard practice agreements with customers, irrespective of whether or not a formal contract exists, and all non-contractual relationships that are separable and can be independently measured;
- non-contractual relationships with customers (client relationships): this category includes all intangible assets that, being separable and transferrable separately from the acquired business, can be measured individually and recognised as intangible assets.

In view of the above, specific analyses were conducted with the support of an external consultant. In relation to intangible assets linked to client relationships, the intangible associated with assets under management (AUM) was measured in terms of the capacity of the existing client relationships (as at the acquisition date) to generate income flows throughout the residual life of the acquired relationship.
In view of the negative situation of market rates, the core deposits component was not considered in the measurement of intangibles.
The valuation technique used to measure the economic value of client relationships is based on net future cash flows from indirect customer deposits. The measurement of such flows is based on expected changes in assets, net interest and other banking income less operating costs and taxes.
In detail, the fair value of intangible assets acquired takes into account the following elements:
- initial volumes: these are precise values as at the acquisition date, broken down into the various technical forms. Such volumes were adjusted for assets linked to customers lost after the acquisition date and for assets relating to ordinary customers (relationships already existing with the Intesa Sanpaolo Group);
- lifting curve - changes in initial volumes: statistical elements were used to define the profile by type of customer and the expected evolution of the assets acquired was estimated. To determine the lifting curve of the assets in the case at hand, the useful life of the intangible assets was defined by selecting a representative sample of 32 business combination transactions concluded in the retail banking sector in the period 2007-2017. Using said benchmark, intangible assets with a finite useful life were amortised over an estimated average useful life of 13 years in the case of assets under management and administration. Specific analyses were then completed to ensure that the outcomes of the benchmarking analyses were consistent with the average lifting curve observed for customers of Banca dei Territori;
- revenues (fees and commissions): income flows associated with assets under management reflect fee and commission income arising from the underlying relationships;
- operating costs (cost income ratio): operating costs were estimated on the basis of the cost-income ratio of the acquirees at the acquisition date and then linked, by a process of gradual alignment, to the cost-income ratio of Banca dei Territori, net of non-recurring components and customer development costs (e.g. promotions, marketing, entertainment expenses, etc.) associated with the acquisition of new customers and the development of new relationships;
- taxes: to determine net flows from the intangible assets being measured, the full tax rate of 33.07% (IRES - 27.5%, IRAP - 5.57%) was applied to the respective taxable bases;
- cost of equity capital (Ke): as per normal practice, it was assumed, prudentially, that the riskiness of the flows underlying the identified intangible asset was comparable to the riskiness of a business as whole; therefore, the discount rate was taken as the cost of equity capital of Banca dei Territori - the CGU to which the intangible asset was allocated.

In accordance with the guidelines provided in IFRS 3, the customers considered in the measurement consist only of those relationships which existed prior to the acquisition date; the capacity to generate new relationships was not taken into account.
The valuation process described above has entailed the recognition of new intangible assets linked to asset management relationships, for a total of 80 million euro. The useful life of said intangible assets has been estimated over a period of 13 years.

Deferred tax assets
Paragraph 25 of IFRS 3 provides that "The acquirer shall account for the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition in accordance with IAS 12".
The tax situation of the acquirees includes previous tax losses in relation to which Banca Popolare di Vicenza and Veneto Banca, and their subsidiaries acquired by Intesa Sanpaolo (especially Banca Apulia and Banca Nuova), had not recognised the corresponding deferred tax assets (DTAs) in their financial statements, estimated at a value around 850 million euro.
Decree Law 99/2017, converted into Law 121/2017, introduced specific tax rules governing the transfer to Intesa Sanpaolo of the assets and liabilities of Banca Popolare di Vicenza and Veneto Banca. The aim of these rules is essentially to ensure a limited level of taxation "continuity", on part of the acquirer, with respect to the subjective positions of the acquirees. In particular, art. 7, paragraph 3 of the aforementioned Decree Law, which confirms the applicability to the case at hand of the

rules established for bridge-institutions and institutions under resolution (art. 15 of Decree Law 18/2016), provides that the tax losses of the acquiree are to be transferred to the acquirer. As established at the time of the negotiations, a portion of the deferred tax assets linked to previous tax losses, not previously recognised, was recognised in the Aggregate Set transferred to Intesa Sanpaolo as “Contractual DTAs” for a total amount of 425 million euro.
Paragraph 34 of IAS 12 provides that “A deferred tax asset shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised”. More specifically, paragraph 36 of IAS 12 provides that “to the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised”.
To demonstrate that the deferred tax assets relating to past tax losses qualify for recognition, Intesa Sanpaolo and Banca Apulia carried out specific “probability tests” on a “stand alone” basis (i.e. without considering the income of other companies participating in the Fiscal Consolidation), as required under IAS 12, to assess the likelihood of future taxable profit being available to absorb such losses within a reasonable time frame. The tests were necessarily conducted at individual bank level since tax losses cannot be offset in the Fiscal Consolidation of Intesa Sanpaolo. The test conducted on the Parent Company also considered the tax losses of Banca Nuova as this entity will be merged into Intesa Sanpaolo, with accounting and tax effects from 1 January 2018.
The analyses indicate that deferred tax assets on tax losses arising from Banca Popolare di Vicenza, Veneto Banca, Banca Nuova and Banca Apulia - including both the portion recognised in the balance sheet at the acquisition date and the portion not recognised - should be recovered within a time horizon compatible with the probability of recovery requirement set out in IAS 12. Therefore, DTAs for past tax losses totalling 423 million euro were recognised in the PPA process.

Non-current assets held for sale - “High-risk” loans reclassified to non-performing loans
The sale contract provides that - up to the approval of the financial statements as at 31 December 2020 - Intesa Sanpaolo has the right to transfer to the Banks in compulsory administrative liquidation those loans identified as “high risk” in the due diligence and subsequently reclassified as “bad loans” and/or “unlikely to pay loans”, upon payment of an amount equivalent to 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 Intesa Sanpaolo would have made had the Banks in compulsory administrative liquidation not had the obligation to purchase the related receivable.
After the acquisition date and within the end of 2017, a certain number of high-risk loans were reclassified in the “bad loans” and “unlikely to pay loans” categories following the recognition of events and circumstances that existed prior to the acquisition date but became known after that date; in detail, in light of the short time span between the acquisition date and the date on which the loans were reclassified as bad loans or unlikely to pay loans, it has been deemed that signs of impairment were already present.
The impairment losses recognised on the reclassified positions were accounted for 50% of the value of those which Intesa Sanpaolo would have had to make to comply with its own policies, consistent with the price that will be payable to retransfer the reclassified high-risk loans to the Banks in compulsory administrative liquidation. The price for giving back the loans to the Banks in compulsory administrative liquidation has been established as their fair value as at the acquisition date in accordance with the notion of “exit price” set out in IFRS 13. Said impairment losses total 33 million euro.
In view of the limited timeframe from the completion of the due diligence and the required legal and procedural analyses, the loans in question will be given back to the Banks in compulsory administrative liquidation during the next retrocession windows envisaged by contract and have therefore been reclassified in the 2017 financial statements under assets held for sale pursuant to IFRS 5.

Due to banks
The estimate of the fair value of financial liabilities was measured in accordance with the Group’s fair value policy, in line with the fair value hierarchy rules set out in IFRS 13. Positions due to central banks, on demand or with a maturity less than 12 months were excluded from the fair value measurement.
The analyses conducted have highlighted negative fair value differences, which increase the carrying value of amounts due to banks by 43 million euro and refer mainly to repurchase agreements.

Securities issued and amounts due to customers
The estimate of the fair value of financial liabilities was measured in accordance with the Group’s fair value policy, in line with the fair value hierarchy rules set out in IFRS 13. Market prices observable on active markets were primarily considered and, if not available, the measurement used observable market parameters as inputs, in terms of interest rates and spreads deemed to be representative of the issuer’s creditworthiness.
The following were considered in determining the fair value of liabilities issued by Banca Popolare di Vicenza and Veneto Banca:
- for listed instruments, the price as at 26 June 2017;
- for unlisted instruments, the fair value based on the credit spreads underlying the prices as at 26 June 2017.

The date of the 26 June 2017 was taken as reference in the fair value measurement so as to take into account the assumptions of market operators, as required under IFRS 13, who, at the most recent date of markets open for trade prior to the transaction, that is, Friday 23 June 2017, had not yet priced the bailout of the Venetian Banks by Intesa Sanpaolo.
The measurement process also concerned bonds that had been previously classified by Banca Popolare di Vicenza and Veneto Banca among “Financial liabilities designated at fair value” pursuant to the Fair Value Option, which were reclassified to “Securities issued” as part of the process of alignment with the Group Accounting Policies.
The analyses conducted have highlighted negative fair value differences, which increase the carrying value of Securities issued by 166 million euro.
In relation to amounts due to customers, a number of time deposits and ABS securities placed on the market and issued against the securitisation of owned assets were also measured, again in accordance with the Group’s fair value policy and in line with the fair value hierarchy rules set out in IFRS 13. The analyses conducted have highlighted negative fair value differences, which increase the carrying value of amounts due to customers by 128 million euro.

Allowances for risks and charges and contingent liabilities

The Sale Contract entered into with the liquidators identifies two distinct categories of disputes:

- Previous Disputes, included in the liabilities of the Aggregate Set transferred to Intesa Sanpaolo;
- Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation.

Pursuant to Law Decree 99/2017 and the interpretation of the Sale Contract agreed with the liquidators, specific criteria were defined in relation to the allocation of disputes still pending at the acquisition date; said criteria were considered in the allocation of the Allowances for risks and charges as at the execution date, for the purpose of the due diligence conducted by the Board of Experts.
The foregoing criteria were applied to lawsuits arising out of the applications of the former Venetian Banks in order to identify which of these were specifically classifiable as Previous Disputes. The lawsuits were subject to specific analysis to assess the appropriateness of the provisions made.
The analyses highlighted the need to make further provisions amounting to 13 million euro, which were accounted for within the context of the PPA as they refer to liabilities assumed within the scope of the business combination.
Furthermore, for these lawsuits, Intesa Sanpaolo has prudentially decided not to take into account the compensation rights provided in the Sale Contract (applicable if the funds transferred by each Bank in compulsory administrative liquidation in connection with Previous Disputes are less than the costs to be borne by Intesa Sanpaolo). This is in consideration of the fact that the methods and timing by which the Banks in compulsory administrative liquidation will satisfy such obligation are still being defined with the liquidators.
Additionally, paragraph 22 of IFRS 3 provides that "the acquirer recognises a contingent liability assumed in a business combination at the acquisition date if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation". The analyses conducted have identified as a contingent liability as of the acquisition date the obligation to pay the contribution due to the National Interbank Deposit Guarantee Fund (FITD) from the 1 January to the acquisition date in relation to the protected deposits deriving from the former Venetian Banks; the estimated value of such obligation is around 4 million.
No other contingent liabilities have been recognised in relation to the acquisition, also in view of the guarantees received during the negotiations, which aim to neutralise any risks, obligations and commitments that involve Intesa Sanpaolo for events prior to the acquisition.

Tax effects

Pursuant to Decree Law 99/17 (Venetian Banks Decree), subsequently converted into Law 121 of 31 July 2017, the acquisition by Intesa Sanpaolo of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca complies with the principle of fiscal neutrality. Therefore, the fair value measurement of these assets and liabilities has entailed recognition of higher or lower values which, in view of the fiscal neutrality of the transaction, have not produced a corresponding change in the tax bases of said assets and liabilities. The need has therefore arisen to recognise deferred taxation for the temporary differences between the new carrying values determined and the tax bases. Said deferred taxation was determined using current tax rates and taking into account the tax treatment of the specific captions subject to revaluation/write down.

Calculation of badwill

As specified previously, the contractual terms for this transaction involved the transfer to Intesa Sanpaolo, against payment of 1 euro, a "balanced" Aggregate Set (net assets equal to zero) and contemplate a "balancing" entry consisting of a form of loan to the Banks in compulsory administrative liquidation (subsequently converted into a 5-year loan at an interest rate of 1% on 31 December 2017).
Consequently, the fair value differences emerging during the PPA are automatically reflected as badwill amount (overall gains higher than overall losses) or goodwill (overall losses higher than overall gains). Based on the calculations carried out, an overall net gain was identified for the assets and liabilities acquired, with the consequent recognition of a badwill amount of 363 million euro. The badwill was recognised in the income statement, as required by IFRS 3, under the caption 220 "Other operating income (expenses)" of the official Bank of Italy consolidated format (Circular 262) and the caption "Effect of purchase price allocation (net of tax)" of the reclassified income statement.
The table below provides more details regarding the PPA process and the determination of the badwill.

(millions of euro)

Purchase price [1]	**-**
Shareholders' equity [2]	-
Difference to be allocated (A) - (B)	**-**
Differences in fair value of assets acquired and liabilities assumed	
Loans to customers and due from banks	322
Other financial assets	-2
Investments in associates and companies subject to joint control	-31
Property and equipment and intangible assets	40
DTAs for tax losses	423
Assets held for sale (high risk loans)	-33
Due to banks	-43
Securities issued and amounts due to customers	-294
Allowances for risks and charges	-17
Total fair value difference recognised at acquisition date (before tax)	**365**
Tax effects, minority interests and consolidation adjustments	-2
Total net gain from acquired assets and liabilities	**363**
Badwill in income statement	**363**

(1) Equal to 1 euro pursuant to the Sale Contract

(2) The Aggregate Set is “balanced” (net assets equal to zero)

Regarding the measurement process that led to the recognition of the aforementioned badwill - a process which is in some cases was completed with the help of independent experts - paragraph 36 of IFRS 3 provides that, in order to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date, the acquirer shall, before recognising badwill in the income statement, review the measurement process already completed so as to verify that all of the assets acquired and all of the liabilities assumed have been correctly identified and measured. Intesa Sanpaolo has paid special attention to the aforementioned “review” and has re-examined the procedures used to identify the assets acquired and the liabilities assumed, and the parameters considered in determining their fair value; the review has confirmed the correctness and reasonableness of the conclusions drawn.

Based on the effects arising from the fair value measurement of the identifiable net assets, the balance sheet of the Aggregate Set 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 carrying values derived from the former Venetian Banks, inclusive of the contribution of the acquired investees and the fair values initially recognised in the consolidated financial statements of the Intesa Sanpaolo Group.

(millions of euro)

Assets/liabilities	Book Value	Fair Value
Assets		
Financial assets held for trading	2,073	2,064
Financial assets designated at fair value	2	2
Financial assets available for sale	5,678	5,674
Investments held to maturity	-	-
Due from banks	3,769	3,757
Loans to customers	34,574	34,908
Investments in associates and companies subject to joint control	64	33
Property and equipment and intangible assets	330	370
Tax assets	1,982	2,576
Non-current assets held for sale and discontinued operations	328	295
Other assets	1,207	1,202
Total assets	**50,007**	**50,881**
Liabilities		
Due to banks	10,376	10,419
Due to customers and securities issued	36,079	36,373
Financial liabilities held for trading	1,541	1,541
Financial liabilities designated at fair value	-	-
Tax liabilities	107	264
Liabilities associated with assets held for sale	-	-
Other liabilities	1,748	1,748
Technical reserves	-	-
Allowances for specific purposes	147	164
Shareholders' equity	9	372
- of which badwill in the income statement	-	363
Total liabilities and shareholders' equity	**50,007**	**50,881**

In 2017, as of the acquisition date, the effects attributable to the period arising from the amortisation of the differences between fair values and the carrying values that emerged in the PPA were recognised in the income statement; such differences refer mainly to captions recognised at amortised cost (e.g. loans to customers or securities issued). As specified in the table below, the impact on the 2017 income statement was positive for 15 million euro, net of the related tax effect.

(millions of euro)

Income statement	
Net interest income	25
Adjustments to intangible assets	-3
Taxes on income from continuing operations	-7
Net income (loss)	**15**

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

2.1 Business combinations

On 23 August 2017, Intesa Sanpaolo and the shareholders of Morval Vonwiller Holding SA reached an agreement for the sale to Intesa Sanpaolo of the Swiss group of the same name, including Banque Morval SA, which has been operating in Switzerland as an asset management company since 1974. After obtaining its banking licence in 1989, the company became Banque Morval SA. With head offices in Geneva and offices in Lugano, Banque Morval specialises in wealth and fund management through the Morval Vonwiller Holding Group. Through Banque Morval and the other companies of the Group, Morval Vonwiller Holding SA offers all the services of a banking organisation that specialises in wealth and fund management.

The agreement is in line with Intesa Sanpaolo's strategic plan to strengthen its presence on international markets in the field of private banking. Morval Vonwiller's presence in Geneva will permit Intesa Sanpaolo's Private Banking Division, currently present in Lugano, London and Luxembourg, to further expand its geographic footprint outside Italy. The transaction is subject to obtaining all necessary regulatory authorisations. This process is expected to be concluded by the first quarter of 2018.

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 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:
- participation by the counterparty in the share capital of Intesa Sanpaolo with a holding of between 1% and the minimum threshold set by the regulations on disclosure of significant shareholdings in listed companies;
- equity investment by the entity of the ISP Group in the counterparty exceeding 10% of 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 the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.
With regard to 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 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 Intesa Sanpaolo);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

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

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

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

The 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 2017 within the consolidated accounts – other than those intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	31.12.2017	
	Amount (millions of euro)	Impact (%)
Total financial assets	1,325	0.2
Total other assets	10	0.1
Total financial liabilities	1,755	0.4
Total other liabilities	515	0.2

Equity investments in companies subject to significant influence or joint control (carried at equity), amounting to 677 million euro, are to be added to the foregoing balance sheet aggregates.

	31.12.2017	
	Amount (millions of euro)	Impact (%)
Total interest income	38	0.3
Total interest expense	4	0.1
Total fee and commission income	25	0.3
Total fee and commission expense	8	0.4
Total operating costs	86	0.8

During the period there were net provisions for non-performing loans for 73 million euro on loans and 22 million euro on existing guarantees towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24 (see the next paragraph for information on compensation to Supervisory and Management Board Members) and with Shareholders that have a shareholding above the minimum threshold set in the regulations on disclosure of significant shareholdings in listed companies (calculated solely on shares owned or managed) and the related corporate groups, as well as the entities jointly controlled by those shareholders, as well as other parties included in the scope by self-regulation.

The table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 101 million euro.

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit and loss	Financial assets available for sale	Due from banks	Loans to customers	Other financial assets	Due to banks	Due to customers	Financial liabilities held for trading	Other financial liabilities	Guarantees and committments given	Guarantees and committments received
Subsidiaries not consolidated on a line-by-line basis	-	-	-	-	3	7	28	35	-	3	7	2
Companies subject to joint control and their subsidiaries	12	-	3	-	205	-	-	122	-	1	72	276
Associates and their subsidiaries	136	-	146	-	624	1	2	689	-	41	137	180
Board Members and General Managers, Key Managers and their related parties	-	-	-	-	10	-	-	14	-	7	1	26
Pension funds	-	-	-	-	-	2	-	317	-	461	1	-
Total	148	-	149	-	842	10	30	1,177	-	513	218	484
Shareholders (*)	-	1	21	-	-	-	-	282	-	2	50	1
Companies which the Group has notable investments in and financial links with (**)	1	-	-	-	163	-	-	266	-	-	76	-

(*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies, calculated considering only shares owned or under management (currently 3%), as well as entities jointly controlled by them.

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

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – included in the category of related parties in accordance with the version of IAS 24 in effect are: Penghua Fund Management Co. Ltd, Autostrade Lombarde S.p.A., Equiter S.p.A., Cassa di Risparmio di Fermo S.p.A., Manzoni S.r.l., Autostrada Pedemontana Lombarda S.p.A., Consorzio Bancario Sir S.p.A. in liquidation, Rainbow. The main jointly controlled companies (joint ventures) include the following: Tangenziali Esterne di Milano S.p.A., Mir Capital Sca Sicar and Tangenziale Esterna S.p.A. It should also be noted that the investment in AllFunds Bank S.A. has been sold.

1. Information on transactions with related parties

Most significant transactions

During the year, the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.

Transactions exempt from this obligation, within ordinary securitisation operations, included two transactions for the sale of loan portfolios to two vehicle companies subject to significant influence without significant interest from other Related Parties, aimed at expanding the portfolio of Group securities eligible for refinancing transactions in the Eurosystem.

The first transaction, which has an estimated value of 4.5 billion euro, involves the sale by Mediocredito Italiano S.p.A. to the vehicle company Adriano Lease Sec S.r.l. of a performing loan portfolio arising from car, equipment and property lease contracts with subsequent issue of securities to finance the purchase price of the loans.

The second, approved by the Board of Directors of the Parent Company on 25 July 2017, is a multi-originator securitisation implemented through the sale of loans consisting of mortgages to the vehicle company Brera Sec S.r.l. and involved the following Group companies:

– Intesa Sanpaolo S.p.A., for an amount of 3.9 billion euro;
– Cassa di Risparmio del Friuli Venezia Giulia S.p.A., for an amount of 949 million euro;
– Cassa dei Risparmi di Forlì e della Romagna S.p.A., for an amount of 860 million euro;
– Banco di Napoli S.p.A., for an amount of 850 million euro;
– Cassa di Risparmio in Bologna S.p.A. for an amount of 642 million euro.

The terms of the transaction are in line with those previously structured by the Group, with payment of the sale price through the funds received by the vehicle company and resulting from the issue of Senior and Junior securities subscribed pro rata by the individual selling banks based on the individual sale price.

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 sale of a mortgage portfolio to the vehicle company ISP CB Ipotecario S.r.l. took place during the period, for an amount of about 5.3 billion euro, as part of the Covered Bond issue programme, and will be partially settled by the disbursement of a subordinated loan.

Other significant transactions

Transactions entered into with related parties fall within the scope of the Group's ordinary activities and are usually entered into at market conditions, in any case based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

The main less significant transactions concluded during the period by the Parent Company or subsidiaries with related parties are reported below.

Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.

Relations between the Intesa Sanpaolo Group, board members and general managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees.

With respect to transactions with Shareholders with equity investments 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 amounting to 3% (to which the provisions governing transactions with related parties were extended as a form of self-regulation), mainly ordinary lending transactions were undertaken, settled at market conditions.

Also worth mentioning is the sale of stakes in the capital of the Bank of Italy to Fondazione Cariplo (6,000 stakes) and to Compagnia di San Paolo (3000 stakes) at a price equalling the related nominal value, in line with the conditions applied for the sales to unrelated parties.

OTC derivatives transactions were also carried out by Banca IMI S.p.A. with Blackrock Fund Managers Ltd.

With regard to the Group's most significant relationships with entities under joint control and associates and their subsidiaries, during the period loans and renewals were granted to: Tangenziale Esterna S.p.A., Euromilano S.p.A., Alitalia-Società Aerea Italiana S.p.A., Italconsult S.p.A., Intermarine S.p.A., Autostrada Pedemontana Lombarda S.p.A., Nuovo Trasporto Viaggiatori S.p.A., Eusebi Holdings B.V., IP Cleaning S.p.A. and other minor companies. These transactions were carried out at rates aligned to market rates or in any case suitable for the Group.

Again referring to the transactions with entities under joint control and associates and their subsidiaries, the early settlement of two securitisation transactions no longer functional should be noted. The first was launched in December 2011 by the then Leasint S.p.A. (now Mediocredito Italiano) via the vehicle company Adriano Lease Sec. S.r.l. and concerned a performing loan portfolio arising from car, equipment and property lease contracts. The structure of the transaction, for a value of 2.3 billion euro, included the issue of two series of notes:

- a Senior series, used as collateral for refinancing operations with the ECB and fully repaid;
- a Junior series not eligible at the Eurosystem, which, although the originator essentially maintained the risk and benefits of the portfolio, had not allowed the derecognition of the loans from its financial statements.

The second, realised between Banca CR Firenze S.p.A. and CR Firenze Mutui S.r.l., concerned a securitisation transaction and the exercise of the option to repurchase the portfolio of securitised mortgages, for an amount equal to about 22 million euro.

Furthermore, worth noting is the placement, without guarantee assumption, by Banca IMI, in its capacity as Joint Global Coordinator together with Credit Suisse, of a bond issued by Nuovo Trasporto Viaggiatori S.p.A. for a value equal to 550 million euro and targeted at institutional investors.

Lastly, Banca IMI carried out OTC derivatives transactions with Quaestio Capital SGR S.p.A. and Cassa di Risparmio di Fermo S.p.A. which form part of the Bank’s core business.

For details of the transactions relating to capital increases, subscribed by the Parent Company, see the description provided in the same section of the Notes to the Parent Company's financial statements.

Transactions involving non-performing positions included the deferral and extensions on the loans to Manucor S.p.A., with consequent maintenance of the operational credit facilities of Banco di Napoli S.p.A.. The transaction is aimed at ensuring that the counterparty can adequately manage its operations, pending the establishment of a new recovery plan.

Lastly, the transactions carried out with the associates and Funds established in favour of employees of Intesa Sanpaolo and other Group Companies are reported. In particular the following transactions are shown relating to the process of selling the excess stakes held in the Bank of Italy compared to the regulatory threshold of 3% introduced by Legislative Decree 133 of 30 November 2013, converted into Law no. 5 of 29 January 2014:

- to Cassa di Risparmio di Fermo: 170 stakes for a total of 4 million euro;
- to the Cariplo pension fund: 1,200 stakes for a total of 30 million euro;
- to the Supplementary Pension Fund for the employees of Istituto San Paolo di Torino: 800 stakes for a total of 20 million euro;
- to the Complementary Pension Fund for the employees of Banco di Napoli: 600 stakes for a total of 15 million euro;
- to the Pension Fund for the employees of Cassa di Risparmio di Firenze: 200 stakes, for a total of 5 million euro;
- to the Intesa Sanpaolo Group defined contribution Pension Fund of: 2,840 stakes for a total of 71 million euro;

All the sales took place, in line with the conditions applied for sales to unrelated counterparties and to significant shareholders, at a price equal to the nominal value of the stakes.

Other significant information

With reference to the investments carried at equity, negative impacts of small amounts were recorded on the income statement deriving from Class Digital Service, Autostrada Pedemontana Lombarda, Tangenziale Esterna, Tangenziali Esterne di Milano and Varese Investimenti. Instead, concerning Compagnia Aerea Italiana, the impact on the income statement was nil, since the special allowance for risks and charges set aside in 2015 was used to offset the value adjustments recorded in the period.

For Pension Funds in which Group companies are 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 consolidated balance sheet – Liabilities, Point 12.3 Post employment defined benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

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 2017 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 31.12.2017	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits [3]	23	20	40	31	63	51
Post-employement benefits [4]	-	-	3	2	3	2
Other long-term benefits [5]	-	-	12	-	12	-
Termination benefits [6]	-	-	5	-	5	-
Share-based payments [7]	-	-	14	-	14	-
Total	**23**	**20**	**74**	**33**	**97**	**53**

[1] Figures referring to 547 positions. The table does not include approximately 2 million euro relating to 101 positions on the Boards of Directors (or similar bodies), as this was fully transferred to other Group Companies

[2] Figures referring to 79 positions. The table does not include approximately 7,6 million euro relating to 20 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

1. Description of share-based payments

1.1. Incentive Plan based on financial instruments

The 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 incentives paid (50%) to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2012, and in implementation of the Shareholders' Meeting resolution of 22 April 2013, on 8 October 2013 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,920,413 Intesa Sanpaolo ordinary shares (representing approximately 0.06% of the ordinary share capital) at an average purchase price of 1.72775 euro per share, for a total value of 15,412,287 euro;
- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 09 October 2015 the Intesa Sanpaolo 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 Intesa Sanpaolo 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.

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 system. 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.

1.2 Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group’s resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.
There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the "challenge to create value" represented by the Business Plan (LECOIP).
The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
   - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
   - invest them in Co-Investment Plans through long-term financial instruments, the “LECOIP Certificates”, with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.
As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.
The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:

- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares (“protected capital”) and
- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Adhesion to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.
The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Management Board's mandate to:

– increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
– increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.
The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period, which will end in April 2018.
In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as "equity settled" plans, since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead, the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.
Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 180a "Administrative expenses: personnel expenses", as a balancing entry for an increase in a specific shareholders' equity reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).
For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment, as the shares are not subject to accrual conditions (vesting period).
For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.
The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), will be recognised during the period of accrual of the benefit and throughout the duration of the Plan.

B. QUANTITATIVE INFORMATION

2.1 Incentive plans based on financial instruments in 2017

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2016	15,373,978	-	Mar - Jun 2017 / Sep - Oct 2020
Financial instruments granted during the year	8,461,112	-	Jan 2018 / Mar - Jun 2022
Financial instruments no longer assignable [(a)]	328,666	-	-
Financial instruments vested during the year and assigned	5,092,537	-	-
Financial instruments outstanding as at 31 December 2017	18,413,887	-	Jan 2018 / Mar - Jun 2022
of which: vested and assigned as at 31 December 2017	-	-	-

[(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

Breakdown by residual life

Residual life	Number of shares
Jan - Oct 2018	7,995,950
May - Oct 2019	7,377,388
May - Oct 2020	2,154,794
May - Oct 2021	556,389
Mar-Jun 2022	329,366

2.2 Long-term share-based instruments: LECOIP

The economic effects for 2017 connected to the LECOIP Plans amount to about 151 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).
This being an equity settled plan, payables for cash settled payments are not recorded.
The following tables summarise the changes in the LECOIP Plans from the date of acceptance (December 2014) to 31 December 2017.

	LECOIP									Number of LECOIP Certificates 31.12.2016	Changes in the year (c)	Number of LECOIP Certificates 31.12.2017	Average fair value 31.12.2017
	Free Shares 31.12.2014		Matching Shares 31.12.2014		Discounted Shares 31.12.2014		Sell to cover shares 31.12.2014 (a)		Total number of shares assigned 31.12.2014				
	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	22,646,388	2.3442	42,332,754	2.3310	259,916,568	0.3736	46,201,721	2.4007	371,097,431	62,435,778	-582,634	61,853,144	3.9140

[a] Assigned shares allocated to cover the payment relating to the employee's tax burden.

[b] Fair value of the subscription discount.

[d] 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.

Part L – Segment reporting

Breakdown by business area: 2017 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	4,499	1,592	1,346	171	1	-	-345	7,264
Net fee and commission income	4,282	925	493	1,673	718	-	-248	7,843
Income from insurance business	-	-	-	-	-	1,077	-144	933
Profits (Losses) on trading	68	805	177	25	3	-	233	1,311
Other operating income (expenses)	35	19	-68	10	63	-10	43	92
Operating income	**8,884**	**3,341**	**1,948**	**1,879**	**785**	**1,067**	**-461**	**17,443**
Personnel expenses	-3,034	-389	-518	-315	-76	-80	-1,258	-5,670
Other administrative expenses	-1,869	-593	-338	-221	-80	-95	466	-2,730
Adjustments to property, equipment and intangible assets	-4	-2	-82	-15	-1	-3	-703	-810
Operating costs	**-4,907**	**-984**	**-938**	**-551**	**-157**	**-178**	**-1,495**	**-9,210**
Operating margin	**3,977**	**2,357**	**1,010**	**1,328**	**628**	**889**	**-1,956**	**8,233**
Net adjustments to loans	-1,576	-154	-208	8	-	-	-1,374	-3,304
Net provisions and net impairment losses on other assets	-73	-1	8	-36	-	-2	-114	-218
Other income (expenses)	-	85	196	8	-	-	4,457	4,746
Income (Loss) from discontinued operations	-	-	-	-	-	-	-	-
Gross income (loss)	**2,328**	**2,287**	**1,006**	**1,308**	**628**	**887**	**1,013**	**9,457**
Taxes on income	-909	-665	-162	-392	-116	-248	1,011	-1,481
Charges (net of tax) for integration and exit incentives	-45	-7	-20	-33	-1	-9	-185	-300
Effect of purchase price allocation (net of tax)	-3	-	-	-4	-	-17	351	327
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-649	-649
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-
Minority interests	-	-	3	-	-18	-	-23	-38
Net income (loss)	**1,371**	**1,615**	**827**	**879**	**493**	**613**	**1,518**	**7,316**

Breakdown by business area: balance sheet figures as at 31 December 2017[(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	196,814	109,399	28,637	9,637	361	22	65,876	410,746
Direct deposits from banking business	175,277	111,940	35,538	30,581	6	-	70,132	423,474

[(a)] Figures from the reclassified forms as described in the Report on operations, including the Aggregate Set.

[(b)] The Corporate Centre has been attributed the intersector netting and provisionally attributed the data relating to the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Breakdown by geographical area: 2017 income statement figures[a]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Net interest income	4,877	1,571	816	7,264
Net fee and commission income	6,400	1,276	167	7,843
Income from insurance business	775	158	-	933
Profits (Losses) on trading	1,059	215	37	1,311
Other operating income (expenses)	62	-9	39	92
Operating income	**13,173**	**3,211**	**1,059**	**17,443**
Personnel expenses	-4,987	-563	-120	-5,670
Other administrative expenses	-2,215	-444	-71	-2,730
Adjustments to property, equipment and intangible assets	-716	-87	-7	-810
Operating costs	**-7,918**	**-1,094**	**-198**	**-9,210**
Operating margin	**5,255**	**2,117**	**861**	**8,233**
Net adjustments to loans	-3,064	-171	-69	-3,304
Net provisions and net impairment losses on other assets	-211	-5	-2	-218
Other income (expenses)	4,744	23	-21	4,746
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**6,724**	**1,964**	**769**	**9,457**
Taxes on income	-1,059	-356	-66	-1,481
Charges (net of tax) for integration and exit incentives	-278	-21	-1	-300
Effect of purchase price allocation (net of tax)	329	-2	-	327
Levies and other charges concerning the banking industry (net of tax)	-618	-31	-	-649
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	16	-30	-24	-38
Net income (loss)	**5,114**	**1,524**	**678**	**7,316**

Breakdown by geographical area: balance sheet figures as at 31 December 2017[a]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Loans to customers	343,857	53,383	13,506	410,746
Direct deposits from banking business	354,297	60,946	8,231	423,474

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

[a] Figures from the reclassified forms, as described in the Report on operations, including the Aggregate Set.

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 2017.

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 2017 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems[19].

3. The undersigned also certify that:

   3.1 The Consolidated financial statements as at 31 December 2017:
   - 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.

23 February 2018

Carlo Messina
Managing Director and CEO

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

[19] 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 balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the 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 2017 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

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.4 "Loans"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 7 "Loans to customers"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 8 "Net losses/recoveries on impairment"

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": paragraph 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 totalled €410,746 million at 31 December 2017, accounting for 51.5% of total assets. Net impairment losses recognised in profit or loss during the year totalled €2,717 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. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and 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 impairment, an assessment of any guarantees, the impact of macroeconomic variables and risks of the sectors in which the parent's and subsidiaries' customers operate.	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — examining the design and implementation of controls and the performance of procedures to assess the operating effectiveness of the controls held to be relevant, with particular reference to the identification of exposures with indicators of impairment and the calculation of the impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the official categories and checking, on a sample basis, that the loans and receivables had been correctly classified; — 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 this procedure

For the above reasons, we believe that the classification and measurement of loans and receivables to customers is a key audit matter.	with the assistance of experts of the KPMG network; — 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 official categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant group departments; — checking the appropriate disclosures on loans and receivables with customers 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 held for trading", paragraph A.2.2 "Financial assets available for sale", paragraph A.2.5 "Financial assets designated at fair value through profit and loss", paragraph A.2.15 "Financial liabilities held for trading", paragraph A.2.16 "Financial liabilities designated at fair value through profit and loss", 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 held for trading", Section 3 "Financial assets designated at fair value through profit and loss", Section 4 "Financial assets available for sale", Section 8 "Hedging derivatives"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Liabilities": Section 4 "Financial liabilities held for trading", Section 5 "Financial liabilities designated at fair value through profit and loss", Section 6 "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 financial assets and liabilities designated at fair value", Section 8 "Net losses/recoveries on impairment"

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": paragraph 1.2 "Market risks" and paragraph 2.2 "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 2017 include financial assets and financial liabilities totalling €261,345 million and €116,943 million, respectively. A portion thereof, equal to roughly €42,049 million and €101,426 million, respectively, is made up of financial assets and liabilities measured at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in the 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 environment in relation to the trading, classification and measurement of financial instruments; — examining the design and implementation of controls and the performance of procedures to assess the operating effectiveness of the controls held to be relevant, with particular reference 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, checking 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 group departments; — checking the appropriate disclosures on 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.2.9 "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 13 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 14 "Net adjustments to/recoveries on intangible assets", Section 18 "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 has recognised intangible assets with an indefinite useful life of €5,938 million, which comprise goodwill of €4,056 million and trademarks of €1,882 million. As disclosed in the notes to the consolidated financial statements, the parent's directors allocated the intangible assets with an indefinite useful life to the cash-generating units ("CGU") they identified in accordance with IFRS 3. 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 estimate of: — the future cash flows expected from the CGU, whose estimate considers historical cash flows and the general and sector performance and is based on the directors' forecasts of the group's future performance; — the financial parameters used to discount the cash flows. For the above reasons, we believe that measurement of intangible assets with an indefinite useful life is a key audit matter.	Our audit procedures included: — obtaining an understanding of the impairment testing process approved by the parent's directors; — obtaining an understanding of the business plan drafting process approved by the parent's directors; — analysing any changes between the previous years' historical and business plan figures in order to check the accuracy of the directors' forecasting process; — analysing how the CGU have been identified and matching the amount of the allocated assets and liabilities with the relevant consolidated financial statements figures; — analysing the main assumptions used by the directors to calculate the CGU's value in use. The analyses included checking that the method applied was consistent with that applied in the previous years and comparing the main assumptions used with information obtained from external sources, where available; we carried out this procedure with the assistance of experts of the KPMG network; — checking the key assumptions for impairment testing set out in the sensitivity analysis presented in the notes to the consolidated financial statements; — checking the appropriate disclosures on intangible assets with an indefinite useful life and impairment testing in the consolidated financial statements.

Recognition of business combinations and purchase price allocation procedures

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.19 "Other information, Business combinations"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 15 "Other operating expense (income)"

Notes to the consolidated financial statements "Part G – Business combinations": Section 1 "Transactions carried out in the year"

Key audit matter	Audit procedures addressing the key audit matter
On 26 June 2017, the parent acquired a set of assets, liabilities and legal relationships (the "aggregate set") from Banca Popolare di Vicenza S.c.p.A. and Veneto Banca S.p.A., both in compulsory administrative liquidation (the "banks in CAL"), for €1. The aggregate set comprises assets and liabilities of the two banks, including certain foreign branches and equity investments, but excluding those non-performing exposures, issued subordinated bonds, equity investments and other legal relationships not pertaining to the transaction. The parent gave the banks in CAL a loan to cover the difference between the acquired assets and liabilities (the "imbalance"), which the Italian government has backed for up to a maximum of €6,351 million. A panel of experts was engaged to perform a due diligence to calculate the definitive amount of the imbalance. In exchange for its acquisition, the parent received government grants and guarantees in order to offset the effect of the transaction on the group's regulatory ratios, cover the integration and restructuring costs arising from the acquisition and contain the effect of any risks, obligations and commitments arising any failure to comply with the statements and guarantees given by the banks in CAL. As the transaction qualifies as a business combination, the parent's directors have applied IFRS 3 and have identified the	Our audit procedures included: — analysing the contractual documentation relating to the acquisition of the aggregate set; — analysing the outcome of the due diligence carried out to calculate the definitive amount of the aggregate set's imbalance; — analysing the criteria used to recognise the aggregate set's assets and liabilities; — analysing the criteria used to recognise the government grants received; — analysing the migration of the aggregate set's assets and liabilities from the banks in LCA's to the parent's IT systems; — analysing the valuation approach, assumptions and methods used to determine the transaction-date fair value of the loans and receivables with customers and banks included in the aggregate set; we carried out this procedure with the assistance of experts of the KPMG network; — analysing the valuation approach, assumptions and methods used to determine the transaction-date fair value of the issued securities and amounts due to customers included in the aggregate set; we carried out this procedure with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
acquisition date, calculated the transaction cost (or consideration transferred) and allocated the transaction cost (purchase price allocation procedure). Upon conclusion of the PPA procedure, the group recognised negative goodwill of €363 million in its income statement for the year ended 31 December 2017. Given the materiality of this business combination and the complex valuations requiring a high level of directors' judgement in the measurement of the acquired assets and liabilities, we believe that its recognition and the related purchase price allocation procedure are a key audit matter.	— analysing how the parent identified and measured the deferred tax assets and identifiable intangible assets ("customer relationships"); we carried out this procedure with the assistance of experts of the KPMG network; — checking the appropriate disclosures on the business combination and purchase price allocation procedure in the consolidated financial statements.

Responsibilities of the directors and management control committee of Intesa Sanpaolo S.p.A. 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, in accordance with 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, in accordance with the Italian law, the parent'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 relevant ethical requirements regarding independence 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 11 May 2010, the parent's shareholders engaged 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 the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 were not provided and that we remained independent of the parent in conducting the 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 2017 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 2017 and their compliance with the applicable law and to express a statement on any 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 2017 and have been prepared in compliance with the applicable law.

With reference to the statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the group 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 parent's directors 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, 8 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

Attachments to the Consolidated Financial Statements

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31 December 2016 and the adjusted consolidated balance sheet as at 31 December 2016

Reconciliation between published consolidated income statement for 2016 and adjusted consolidated income statement for 2016

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

Reconciliation between the published/adjusted consolidated balance sheet as at 31 December 2016 and the restated consolidated balance sheet at 31 December 2016

Reconciliation between published/adjusted consolidated income statement for 2016 and restated consolidated income statement for 2016

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Other Attachments to the Consolidated Financial Statements

List of the IAS/IFRS endorsed by the European Commission as at 31 December 2017

Reconciliation between published consolidated financial statements and adjusted consolidated financial statements

Reconciliation between the published consolidated balance sheet as at 31 December 2016 and the adjusted consolidated balance sheet as at 31 December 2016

The published consolidated balance sheet as at 31 December 2016 did not require any adjustments.

Reconciliation between the published consolidated income statement for 2016 and the adjusted consolidated income statement for 2016

The published consolidated income statement for 2016 did not require any adjustments.

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

Reconciliation between the published consolidated balance sheet as at 31 December 2016 and the restated consolidated balance sheet as at 31 December 2016

(millions of euro)

Assets		31.12.2016 Published (*)	Discontinued operations (a)	31.12.2016 Restated
10.	Cash and cash equivalents	8,686	-	8,686
20.	Financial assets held for trading	43,613	-	43,613
30.	Financial assets designated at fair value through profit and loss	63,865	-	63,865
40.	Financial assets available for sale	146,692	-	146,692
50.	Investments held to maturity	1,241	-	1,241
60.	Due from banks	53,146	-	53,146
70.	Loans to customers	364,713	-	364,713
80.	Hedging derivatives	6,234	-	6,234
90.	Fair value change of financial assets in hedged portfolios (+/-)	321	-	321
100.	Investments in associates and companies subject to joint control	1,278	-111	1,167
110.	Technical insurance reserves reassured with third parties	17	-	17
120.	Property and equipment	4,908	-3	4,905
130.	Intangible assets	7,393	-4	7,389
	of which			
	- goodwill	*4,059*	*-3*	*4,056*
140.	Tax assets	14,444	-2	14,442
	a) current	*3,313*	*-*	*3,313*
	b) deferred	*11,131*	*-2*	*11,129*
	- of which convertible into tax credit (Law no. 214/2011)	*8,491*	*-*	*8,491*
150.	Non-current assets held for sale and discontinued operations	312	166	478
160.	Other assets	8,237	-8	8,229
Total Assets		**725,100**	**38**	**725,138**

(*) Figures originally published in the Annual Report 2016.

(a) The restatement of discontinued operations refers to the sale of Allfunds Bank and INFOGROUP S.p.A., finalised in 2017.

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2016 Published (*)	Discontinued operations (a)	31.12.2016 Restated
10.	Due to banks	72,641	-	72,641
20.	Due to customers	291,876	7	291,883
30.	Securities issued	94,783	-	94,783
40.	Financial liabilities held for trading	44,790	-	44,790
50.	Financial liabilities designated at fair value through profit and loss	57,187	-	57,187
60.	Hedging derivatives	9,028	-	9,028
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	773	-	773
80.	Tax liabilities	2,038	-	2,038
	a) current	*497*	-	*497*
	b) deferred	*1,541*	-	*1,541*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	272	28	300
100.	Other liabilities	11,944	9	11,953
110.	Employee termination indemnities	1,403	-5	1,398
120.	Allowances for risks and charges	3,427	-1	3,426
	a) post employment benefits	*1,025*	-	*1,025*
	b) other allowances	*2,402*	*-1*	*2,401*
130.	Technical reserves	85,619	-	85,619
140.	Valuation reserves	-1,854	-	-1,854
150.	Redeemable shares	-	-	-
160.	Equity instruments	2,117	-	2,117
170.	Reserves	9,528	-	9,528
180.	Share premium reserve	27,349	-	27,349
190.	Share capital	8,732	-	8,732
200.	Treasury shares (-)	-72	-	-72
210.	Minority interests (+/-)	408	-	408
220.	Net income (loss)	3,111	-	3,111
Total Liabilities and Shareholders' Equity		**725,100**	**38**	**725,138**

(*) Figures originally published in the Annual Report 2016.

(a) The restatement of discontinued operations refers to the sale of Allfunds Bank and INFOGROUP S.p.A., finalised in 2017.

Reconciliation between published consolidated income statement for 2016 and restated consolidated income statement for 2016

(millions of euro)

	2016 Published (*)	Non-current assets held for sale (a)	Changes in the scope of consolidation (b)	2016 Restated
10. Interest and similar income	12,865	-18	1	12,848
20. Interest and similar expense	-4,250	-	-	-4,250
30. Interest margin	**8,615**	**-18**	**1**	**8,598**
40. Fee and commission income	8,465	-	189	8,654
50. Fee and commission expense	-1,730	-	-145	-1,875
60. Net fee and commission income	**6,735**	**-**	**44**	**6,779**
70. Dividend and similar income	461	-	-	461
80. Profits (Losses) on trading	527	-	-	527
90. Fair value adjustments in hedge accounting	-34	-	-	-34
100. Profits (Losses) on disposal or repurchase of	990	-	-	990
a) loans	*-34*	-	-	*-34*
b) financial assets available for sale	*990*	-	-	*990*
c) investments held to maturity	-	-	-	-
d) financial liabilities	*34*	-	-	*34*
110. Profits (Losses) on financial assets and liabilities designated at fair value	1,051	-	-	1,051
120. Net interest and other banking income	**18,345**	**-18**	**45**	**18,372**
130. Net losses / recoveries on impairment	-3,288	-	-	-3,288
a) loans	*-3,026*	-	-	*-3,026*
b) financial assets available for sale	*-314*	-	-	*-314*
c) investments held to maturity	-	-	-	-
d) other financial activities	*52*	-	-	*52*
140. Net income from banking activities	**15,057**	**-18**	**45**	**15,084**
150. Net insurance premiums	8,433	-	-	8,433
160. Other net insurance income (expense)	-10,508	-	-	-10,508
170. Net income from banking and insurance activities	**12,982**	**-18**	**45**	**13,009**
180. Administrative expenses	-9,505	-	-25	-9,530
a) personnel expenses	*-5,494*	-	*-15*	*-5,509*
b) other administrative expenses	*-4,011*	-	*-10*	*-4,021*
190. Net provisions for risks and charges	-241	-	-	-241
200. Net adjustments to / recoveries on property and equipment	-354	-	-3	-357
210. Net adjustments to / recoveries on intangible assets	-577	-	-	-577
220. Other operating expenses (income)	430	-	1	431
230. Operating expenses	**-10,247**	**-**	**-27**	**-10,274**
240. Profits (Losses) on investments in associates and companies subject to joint control	125	-	-	125
250. Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-
260. Goodwill impairment	-	-	-	-
270. Profits (Losses) on disposal of investments	356	-	-	356
280. Income (Loss) before tax from continuing operations	**3,216**	**-18**	**18**	**3,216**
290. Taxes on income from continuing operations	-1,003	7	-6	-1,002
300. Income (Loss) after tax from continuing operations	**2,213**	**-11**	**12**	**2,214**
310. Income (Loss) after tax from discontinued operations	987	-	-	987
320. Net income (loss)	**3,200**	**-11**	**12**	**3,201**
330. Minority interests	-89	11	-12	-90
340. Parent Company's net income (loss)	**3,111**	**-**	**-**	**3,111**

(*) Figures originally published in the Annual Report 2016.

(a) Profit and loss results for the period ended 31 December 2016 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

(b) Profit and loss results for the period ended 31 December 2016 of Banca 5 (formerly Banca ITB), included in the scope of consolidation at the end of December 2016.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		31.12.2017 Consolidated figure net of the assets acquired	31.12.2016 Restated	Changes amount	Changes %
10.	Cash and cash equivalents	9,353	8,686	667	7.7
20.	Financial assets held for trading	39,518	43,613	-4,095	-9.4
30.	Financial assets designated at fair value through profit and loss	75,269	63,865	11,404	17.9
40.	Financial assets available for sale	142,341	146,692	-4,351	-3.0
50.	Investments held to maturity	1,174	1,241	-67	-5.4
60.	Due from banks	72,462	53,146	19,316	36.3
70.	Loans to customers	410,746	364,713	46,033	12.6
80.	Hedging derivatives	4,217	6,234	-2,017	-32.4
90.	Fair value change of financial assets in hedged portfolios (+/-)	-204	321	-525	
100.	Investments in associates and companies subject to joint control	678	1,167	-489	-41.9
110.	Technical insurance reserves reassured with third parties	16	17	-1	-5.9
120.	Property and equipment	6,678	4,905	1,773	36.1
130.	Intangible assets	7,741	7,389	352	4.8
	of which				
	- goodwill	*4,056*	*4,056*	*-*	*-*
140.	Tax assets	16,887	14,442	2,445	16.9
	a) current	*3,688*	*3,313*	*375*	*11.3*
	b) deferred	*13,199*	*11,129*	*2,070*	*18.6*
	- of which convertible into tax credit (Law no. 214/2011)	*8,746*	*8,491*	*255*	*3.0*
150.	Non-current assets held for sale and discontinued operations	627	478	149	31.2
160.	Other assets	9,358	8,229	1,129	13.7
Total Assets		**796,861**	**725,138**	**71,723**	**9.9**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2017 Consolidated figure net of the liabilities acquired	31.12.2016 Restated	Changes amount	%
10.	Due to banks	99,990	72,641	27,349	37.6
20.	Due to customers	323,443	291,883	31,560	10.8
30.	Securities issued	94,239	94,783	-544	-0.6
40.	Financial liabilities held for trading	41,285	44,790	-3,505	-7.8
50.	Financial liabilities designated at fair value through profit and loss	68,169	57,187	10,982	19.2
60.	Hedging derivatives	7,489	9,028	-1,539	-17.0
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	478	773	-295	-38.2
80.	Tax liabilities	2,509	2,038	471	23.1
	a) current	*364*	*497*	*-133*	*-26.8*
	b) deferred	*2,145*	*1,541*	*604*	*39.2*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	264	300	-36	-12.0
100.	Other liabilities	12,574	11,953	621	5.2
110.	Employee termination indemnities	1,410	1,398	12	0.9
120.	Allowances for risks and charges	5,481	3,426	2,055	60.0
	a) post employment benefits	*1,104*	*1,025*	*79*	*7.7*
	b) other allowances	*4,377*	*2,401*	*1,976*	*82.3*
130.	Technical reserves	82,926	85,619	-2,693	-3.1
140.	Valuation reserves	-789	-1,854	-1,065	-57.4
150.	Redeemable shares	-	-	-	
160.	Equity instruments	4,103	2,117	1,986	93.8
170.	Reserves	10,921	9,528	1,393	14.6
180.	Share premium reserve	26,006	27,349	-1,343	-4.9
190.	Share capital	8,732	8,732	-	-
200.	Treasury shares (-)	-84	-72	12	16.7
210.	Minority interests (+/-)	399	408	-9	-2.2
220.	Net income (loss)	7,316	3,111	4,205	
Total Liabilities and Shareholders' Equity		**796,861**	**725,138**	**71,723**	**9.9**

Restated consolidated income statement

(millions of euro)

	2017 Consolidated figure net of operations acquired	2016 Restated	Changes amount	%
10. Interest and similar income	12,398	12,848	-450	-3.5
20. Interest and similar expense	-3,871	-4,250	-379	-8.9
30. Interest margin	**8,527**	**8,598**	**-71**	**-0.8**
40. Fee and commission income	9,544	8,654	890	10.3
50. Fee and commission expense	-2,116	-1,875	241	12.9
60. Net fee and commission income	**7,428**	**6,779**	**649**	**9.6**
70. Dividend and similar income	344	461	-117	-25.4
80. Profits (Losses) on trading	511	527	-16	-3.0
90. Fair value adjustments in hedge accounting	-15	-34	-19	-55.9
100. Profits (Losses) on disposal or repurchase of	818	990	-172	-17.4
a) loans	*-8*	*-34*	*-26*	*-76.5*
b) financial assets available for sale	*860*	*990*	*-130*	*-13.1*
c) investments held to maturity	*1*	*-*	*1*	
d) financial liabilities	*-35*	*34*	*-69*	
110. Profits (Losses) on financial assets and liabilities designated at fair value	1,258	1,051	207	19.7
120. Net interest and other banking income	**18,871**	**18,372**	**499**	**2.7**
130. Net losses / recoveries on impairment	-3,162	-3,288	-126	-3.8
a) loans	*-2,717*	*-3,026*	*-309*	*-10.2*
b) financial assets available for sale	*-509*	*-314*	*195*	*62.1*
c) investments held to maturity	*-*	*-*	*-*	
d) other financial activities	*64*	*52*	*12*	*23.1*
140. Net income from banking activities	**15,709**	**15,084**	**625**	**4.1**
150. Net insurance premiums	6,817	8,433	-1,616	-19.2
160. Other net insurance income (expense)	-9,012	-10,508	-1,496	-14.2
170. Net income from banking and insurance activities	**13,514**	**13,009**	**505**	**3.9**
180. Administrative expenses	-11,052	-9,530	1,522	16.0
a) personnel expenses	*-7,177*	*-5,509*	*1,668*	*30.3*
b) other administrative expenses	*-3,875*	*-4,021*	*-146*	*-3.6*
190. Net provisions for risks and charges	-893	-241	652	
200. Net adjustments to / recoveries on property and equipment	-347	-357	-10	-2.8
210. Net adjustments to / recoveries on intangible assets	-532	-577	-45	-7.8
220. Other operating expenses (income)	5,902	431	5,471	
230. Operating expenses	**-6,922**	**-10,274**	**-3,352**	**-32.6**
240. Profits (Losses) on investments in associates and companies subject to joint contr	1,150	125	1,025	
250. Valuation differences on property, equipment and intangible assets measured at fair value	-30	-	30	
260. Goodwill impairment	-	-	-	
270. Profits (Losses) on disposal of investments	106	356	-250	-70.2
280. Income (Loss) before tax from continuing operations	**7,818**	**3,216**	**4,602**	
290. Taxes on income from continuing operations	-464	-1,002	-538	**-53.7**
300. Income (Loss) after tax from continuing operations	**7,354**	**2,214**	**5,140**	
310. Income (Loss) after tax from discontinued operations	-	987	-987	
320. Net income (loss)	**7,354**	**3,201**	**4,153**	
330. Minority interests	-38	-90	-52	-57.8
340. Parent Company's net income (loss)	**7,316**	**3,111**	**4,205**	

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Captions of the reclassified consolidated balance sheet - Assets	Captions of the consolidated balance sheet - Assets	31.12.2017 Consolidated figure (including the Aggregate Set)	31.12.2016 Restated
Financial assets held for trading		39,518	43,613
	Caption 20 - Financial assets held for trading	*39,518*	*43,613*
Financial assets designated at fair value through profit and loss		75,269	63,865
	Caption 30 - Financial assets designated at fair value through profit and loss	*75,269*	*63,865*
Financial assets available for sale		142,341	146,692
	Caption 40 - Financial assets available for sale	*142,341*	*146,692*
Investments held to maturity		1,174	1,241
	Caption 50 - Investments held to maturity	*1,174*	*1,241*
Due from banks		72,462	53,146
	Caption 60 - Due from banks	*72,462*	*53,146*
Loans to customers		410,746	364,713
	Caption 70 - Loans to customers	*410,746*	*364,713*
Investments in associates and companies subject to joint control		678	1,167
	Caption 100 - Investments in associates and companies subject to joint control	*678*	*1,167*
Property, equipment and intangible assets		14,419	12,294
	Caption 120 - Property and equipment	*6,678*	*4,905*
	+ Caption 130 - Intangible assets	*7,741*	*7,389*
Tax assets		16,887	14,442
	Caption 140 - Tax assets	*16,887*	*14,442*
Non-current assets held for sale and discontinued operations		627	478
	Caption 150 - Non-current assets held for sale and discontinued operations	*627*	*478*
Other assets		22,740	23,487
	Caption 10 - Cash and cash equivalents	*9,353*	*8,686*
	+ Caption 160 - Other assets	*9,358*	*8,229*
	+ Caption 110 - Technical insurance reserves reassured with third parties	*16*	*17*
	+ Caption 80 - Hedging derivatives	*4,217*	*6,234*
	+ Caption 90 - Fair value change of financial assets in hedged portfolios	*-204*	*321*
Total Assets	**Total Assets**	**796,861**	**725,138**

(millions of euro)

Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity	Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity	31.12.2017 Consolidated figure (including the Aggregate Set)	31.12.2016 Restated
Due to banks		99,990	72,641
	Caption 10 - Due to banks	*99,990*	*72,641*
Due to customers and securities issued		417,682	386,666
	Caption 20 - Due to customers	*323,443*	*291,883*
	+ Caption 30 - Securities issued	*94,239*	*94,783*
Financial liabilities held for trading		41,285	44,790
	Caption 40 - Financial liabilities held for trading	*41,285*	*44,790*
Financial liabilities designated at fair value through profit and loss		68,169	57,187
	Caption 50 - Financial liabilities designated at fair value through profit and loss	*68,169*	*57,187*
Tax liabilities		2,509	2,038
	Caption 80 - Tax liabilities	*2,509*	*2,038*
Liabilities associated with non-current assets held for sale and discontinued operations		264	300
	Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations	*264*	*300*
Other liabilities		20,541	21,754
	Caption 100 - Other liabilities	*12,574*	*11,953*
	+ Caption 60 - Hedging derivatives	*7,489*	*9,028*
	+ Caption 70 - Fair value change of financial liabilities in hedged portfolios	*478*	*773*
Technical reserves		82,926	85,619
	Caption 130 - Technical reserves	*82,926*	*85,619*
Allowances for specific purpose		6,891	4,824
	Caption 110 - Employee termination indemnities	*1,410*	*1,398*
	Caption 120 - Allowances for risks and charges	*5,481*	*3,426*
Share capital		8,732	8,732
	Caption 190 - Share capital	*8,732*	*8,732*
Reserves (net of treasury shares)		36,843	36,805
	Caption 170 - Reserves	*10,921*	*9,528*
	Caption 180 - Share premium reserve	*26,006*	*27,349*
	– Caption 200 - Treasury shares	*-84*	*-72*
Valuation reserves		-789	-1,854
	Caption 140 - Valuation reserves	*-789*	*-1,854*
Equity instruments		4,103	2,117
	Caption 160 - Equity instruments	*4,103*	*2,117*
Minority interests		399	408
	Caption 210 - Minority interests	*399*	*408*
Net income (loss)		7,316	3,111
	Caption 220 - Net income (loss)	*7,316*	*3,111*
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**796,861**	**725,138**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	2017 Consolidated figure (including the Aggregate Set)	2016 Restated
Net interest income		**7,264**	**7,294**
Caption 30	*Interest margin*	*8,527*	*8,598*
- Caption 30 (partial)	*Contribution of insurance business*	*-1,904*	*-1,953*
- Caption 30 (partial)	*Interest margin (Effect of purchase price allocation)*	*-10*	*7*
+ Caption 80 (partial)	*Components of the profits (losses) on trading relating to net interest*	*2*	*-2*
+ Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans (Time value loans)*	*691*	*700*
+ Caption 180 a) (partial)	*Personnel expenses (Time value employee termination indemnities and other)*	*-42*	*-55*
+ Caption 190 (partial)	*Net provisions for risks and charges (Time value allowances for risks and charges)*	*-*	*-1*
Net fee and commission income		**7,843**	**7,331**
Caption 60	*Net fee and commission income*	*7,428*	*6,779*
- Caption 60 (partial)	*Contribution of insurance business*	*455*	*544*
- Caption 60 (partial)	*Components of the net fee and commission income relating to profits (losses) on tradin*	*6*	*38*
+ Caption 180 b) (partial)	*Other administrative expenses (Recovery of other expenses)*	*-46*	*-30*
Income from insurance business		**933**	**995**
Caption 150	*Net insurance premiums*	*6,817*	*8,433*
Caption 160	*Other net insurance income (expense)*	*-9,012*	*-10,508*
+ Caption 30 (partial)	*Contribution of insurance business*	*1,904*	*1,953*
+ Caption 60 (partial)	*Contribution of insurance business*	*-455*	*-544*
+ Caption 70 (partial)	*Contribution of insurance business*	*227*	*238*
+ Caption 80 (partial)	*Contribution of insurance business*	*1,460*	*1,469*
- Caption 220 (partial)	*Contribution of insurance business*	*-2*	*-*
- Caption 160 (partial)	*Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS*	*-6*	*-46*
Profits (Losses) on trading		**1,311**	**1,190**
Caption 80	*Profits (Losses) on trading*	*511*	*527*
Caption 90	*Fair value adjustments in hedge accounting*	*-15*	*-34*
Caption 100 b)	*Profits (Losses) on disposal or repurchase of financial assets available for sale*	*860*	*990*
Caption 100 d)	*Profits (Losses) on disposal or repurchase of financial liabilities*	*-35*	*34*
Caption 110	*Profits (Losses) on financial assets and liabilities designated at fair value*	*1,258*	*1,051*
+ Caption 60 (partial)	*Components of the net fee and commission income relating to profits (losses) on tradin*	*-6*	*-38*
+ Caption 70 (partial)	*Dividend and similar income on shares available for sale and held for trading*	*79*	*223*
- Caption 80 (partial)	*Components of the profits (losses) on trading relating to net interest*	*-2*	*2*
- Caption 80 (partial)	*Contribution of insurance business*	*-1,460*	*-1,469*
- Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe transaction)*	*-*	*-87*
- Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Effect of purchase price allocation)*	*-3*	*-*
- Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Levies and other charges concerning the banking industry)*	*127*	*-*
+ Caption 180 b) (partial)	*Other administrative expenses (storage costs)*	*-3*	*-9*
Other operating income (expenses)		**92**	**165**
Caption 70	*Dividend and similar income*	*344*	*461*
Caption 220	*Other operating expenses (income)*	*5,902*	*431*
- Caption 70 (partial)	*Contribution of insurance business*	*-227*	*-238*
- Caption 70 (partial)	*Dividend and similar income on shares available for sale and held for trading*	*-79*	*-223*
- Caption 220 (partial)	*Other operating expenses (income) (Public contribution for Venetian banks operation - Charges for Integration)*	*-1,285*	*-*
- Caption 220 (partial)	*Other operating expenses (income) (Public contribution for Venetian banks operation)*	*-3,500*	*-*
- Caption 220 (partial)	*Other operating expenses (income) (Venetian banks operation - Effect of purchase price allocation)*	*-363*	*-*
- Caption 220 (partial)	*Other operating expenses (income) (Recovery of expenses)*	*-8*	*-8*
- Caption 220 (partial)	*Other operating expenses (income) (Recovery of indirect taxes)*	*-746*	*-701*
- Caption 220 (partial)	*Other operating expenses (income) (Impairment losses on repurchased property and equipment)*	*11*	*32*
- Caption 220 (partial)	*Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)*	*-14*	*-4*
- Caption 220 (partial)	*Other operating expenses (income) (US sanction)*	*-*	*225*
- Caption 220 (partial)	*Other operating expenses (income) (IMI/SIR dispute)*	*-*	*-13*
- Caption 220 (partial)	*Other operating expenses (income) (other operations)*	*3*	*-*
+ Caption 240 (partial)	*Profits (losses) on investments in associates and companies subject to joint control (carried at equity)*	*54*	*203*
Operating income		**17,443**	**16,975**
Personnel expenses		**-5,670**	**-5,323**
Caption 180 a)	*Personnel expenses*	*-7,177*	*-5,509*
- Caption 180 a) (partial)	*Personnel expenses (Charges for integration and exit incentives)*	*1,465*	*131*
- Caption 180 a) (partial)	*Personnel expenses (Time value employee termination indemnities and other)*	*42*	*55*

(millions of euro)

Captions of the reclassified consolidated income statement	Captions of the consolidated income statement	2017 Consolidated figure (including the Aggregate Set)	2016 Restated
Other administrative expenses		**-2,730**	**-2,630**
Caption 180 b)	Other administrative expenses	-3,875	-4,021
- Caption 180 b) (partial)	Other administrative expenses (Charges for integration)	52	65
- Caption 180 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	290	578
- Caption 180 b) (partial)	Other administrative expenses (storage costs)	3	9
- Caption 180 b) (partial)	Other administrative expenses (Recovery of other expenses)	46	30
+ Caption 220 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	746	701
+ Caption 220 (partial)	Other operating expenses (income) (Recovery of expenses)	8	8
Adjustments to property, equipment and intangible assets		**-810**	**-749**
Caption 200	Net adjustments to/recoveries on property and equipment	-347	-357
Caption 210	Net adjustments to/recoveries on intangible assets	-532	-577
- Caption 200 (partial)	Net adjustments to/recoveries on property and equipment (Contribution of insurance business)	2	-
- Caption 200 (partial)	Net adjustments to/recoveries on property and equipment (Charges for integration)	11	8
- Caption 210 (partial)	Net adjustments to/recoveries on intangible assets (Charges for integration)	29	7
- Caption 200 (partial)	Net adjustments to/recoveries on property and equipment (Impairment)	-	22
- Caption 210 (partial)	Net adjustments to/recoveries on intangible assets (Impairment)	-	-
- Caption 200 (partial)	Adjustments to / recoveries on property and equipment (Effect of purchase price allocai	-2	-7
- Caption 210 (partial)	Adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	29	155
Operating costs		**-9,210**	**-8,702**
Operating margin		**8,233**	**8,273**
Net adjustments to loans		**-3,304**	**-3,708**
Caption 100 a)	Profits (Losses) on disposal or repurchase of loans	-8	-34
Caption 130 a)	Net losses/recoveries on impairment of loans	-2,717	-3,026
Caption 130 d)	Net losses/recoveries on impairment of other financial activities	64	52
- Caption 130 a)	Net losses/recoveries on impairment of loans (Charges concerning the banking industry)	48	-
- Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-691	-700
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)	-	-
Net provisions and net impairment losses on other assets		**-218**	**-422**
Caption 130 b)	Net losses/recoveries on impairment of financial assets available for sale	-509	-314
Caption 130 c)	Net losses/recoveries on impairment of investments held to maturity	-	-
Caption 190	Net provisions for risks and charges	-893	-241
Caption 250	Valuation differences on property, equipment and intangible assets measured at fair va	-30	-
- Caption 250 (partial)	Valuation differences on property, equipment and intangible assets measured at fair value (Effect of purchase price allocation)	6	-
- Caption 130 b) (partial)	Net losses/recoveries on impairment of financial assets available for sale (Charges concerning the banking industry)	488	182
+ Caption 160 (partial)	Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS	6	46
- Caption 190 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-	1
- Caption 190 (partial)	Net provisions for risks and charges (Public contribution for Venetian banks operation - Charges for integration)	739	2
- Caption 190 (partial)	Net provisions for risks and charges (Charges concerning the banking industry)		60
+ Caption 200 (partial)	Net adjustments to/recoveries on property and equipment (Impairment)	-	-22
- Caption 200 (partial)	Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)	-	9
+ Caption 210 (partial)	Net adjustments to/recoveries on intangible assets (Impairment)	-	-
+ Caption 220 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-11	-32
+ Caption 240 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-14	-113
Other income (expenses)		**4,746**	**355**
Caption 100 c)	Profits (Losses) on disposal or repurchase of investments held to maturity	1	-
Caption 240	Profits (Losses) on investments in associates and companies subject to joint control	1,150	125
Caption 270	Profits (Losses) on disposal of investments	106	356
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe transaction)	-	87
+ Caption 220 (partial)	Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)	14	4
+ Caption 220 (partial)	Other operating expenses (income) (US sanction)	-	-225
+ Caption 220 (partial)	Other operating expenses (income) (IMI/SIR dispute)	-	13
+ Caption 220 (partial)	Other operating expenses (income) (other operations)	-18	-
- Caption 240 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	-54	-203
- Caption 240 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	14	113
+ Caption 220 (partial)	Other operating expenses (income) (Public contribution for Venetian banks operation)	3,500	-
- Caption 270 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	33	2
+ Caption 310	Income (Loss) after tax from discontinued operations (partial) - Visa Europe transaction	-	83

(millions of euro)

Captions of the reclassified consolidated income statement		Captions of the consolidated income statement	2017 Consolidated figure (including the Aggregate Set)	2016 Restated
Income (Loss) from discontinued operations			**-**	**952**
	Caption 310	*Income (Loss) after tax from discontinued operations*	-	987
	+ Caption 290 (partial)	*Taxes on income from continuing operations (discontinued operations)*	-	42
	- Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Visa Europe transaction)*	-	-83
	- Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Taxes on Visa Europe transaction)*	-	6
Gross income (loss)			**9,457**	**5,450**
Taxes on income			**-1,481**	**-1,428**
	Caption 290	*Taxes on income from continuing operations*	-464	-1,002
	- Caption 290 (partial)	*Taxes on income from continuing operations (discontinued operations)*	-	-42
	- Caption 290 (partial)	*Taxes on income from continuing operations (Charges for integration)*	-33	-63
	- Caption 290 (partial)	*Taxes on income from continuing operations (Public contribution for Venetian banks operation - Charges for integration - Tax effect)*	-678	-
	- Caption 290 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	-2	-54
	- Caption 290 (partial)	*Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)*		
	- Caption 290 (partial)	*Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)*	-88	-181
	- Caption 290 (partial)	*Taxes on income from continuing operations (net losses/recoveries on impairment of loans)*	-203	-80
	+ Caption 310 (partial)	*Income (Loss) after tax from discontinued operations (Taxes on Visa Europe transaction)*	-13	-
Charges (net of tax) for integration and exit incentives			**-300**	**-150**
	+ Caption 180 a) (partial)	*Personnel expenses (Charges for integration and exit incentives)*	-1,465	-131
	+ Caption 180 b) (partial)	*Other administrative expenses (Charges for integration)*	-52	-65
	+ Caption 190 (partial)	*Net provisions for risks and charges (Public contribution for Venetian banks operation - Charges for integration)*	-739	-2
	+ Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment - Charges for integration)*	-11	-8
	+ Caption 210 (partial)	*Net adjustments to/recoveries on intangible assets (Impairment - Charges for integration)*	-29	-7
	+ Caption 220 (partial)	*Other operating expenses (income) (Public contribution for Venetian banks operation - Charges for integration)*	1,285	-
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Public contribution for Venetian banks operation - Charges for integration - Tax effect)*	678	-
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Charges for integration)*	33	63
Effect of purchase price allocation (net of tax)			**327**	**-112**
	+ Caption 30 (partial)	*Interest margin (Effect of purchase price allocation)*	10	-7
	+ Caption 200 (partial)	*Adjustments to / recoveries on property and equipment (Effect of purchase price allocation)*	2	7
	+ Caption 200 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)*	-	-9
	+ Caption 210 (partial)	*Adjustments to/recoveries on intangible assets (Effect of purchase price allocation)*	-29	-155
	+ Caption 100 a) (partial)	*Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)*	-	-
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Effect of purchase price allocation)*	3	-
	+ Caption 220 (partial)	*Other operating expenses (income) (Venetian banks operation - Effect of purchase price allocation)*	378	-
	+ Caption 250 (partial)	*Valuation differences on property, equipment and intangible assets measured at fair value (Effect of purchase price allocation)*	-6	-
	+ Caption 270 (partial)	*Profits (Losses) on disposal of investments (Effect of purchase price allocation)*	-33	-2
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	2	54
Levies and other charges concerning the banking industry (net of tax)			**-649**	**-559**
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Levies and other charges concerning the banking industry)*	-127	-
	+ Caption 130 a)	*Net losses/recoveries on impairment of loans (Charges concerning the banking industry)*	-48	-
	+ Caption 130 b) (partial)	*Net losses/recoveries on impairment of financial assets available for sale (Charges concerning the banking industry)*	-488	-182
	+ Caption 180 b) (partial)	*Other administrative expenses (Resolution fund and deposit guarantee scheme)*	-290	-578
	+ Caption 190 (partial)	*Net provisions for risks and charges (Charges concerning the banking industry)*	-	-60
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)*	88	181
	+ Caption 290 (partial)	*Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)*	203	80
	+ Caption 290 (partial)	*Taxes on income from continuing operations (net losses/recoveries on impairment of loans)*	13	-
Impairment (net of tax) of goodwill and other intangible assets			**-**	**-**
	Caption 260	*Goodwill impairment*	-	-
Minority interests			**-38**	**-90**
	Caption 330	*Minority interests*	-38	-90
Net income (loss)	**Caption 340**	**Parent Company's net income (loss)**	**7,316**	**3,111**

Other consolidated attachments

List of the IAS/IFRS endorsed by the European Commission as at 31 December 2017

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 (*)
IFRS 2	Share-based Payment	1126/2008 mod. 1261/2008 - 495/2009 - 243/2010 - 244/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2067/2016 (*)
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 (*)
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
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 (*)
IFRS 8	Operating Segments	1126/2008 mod. 1274/2008 - 243/2010 - 632/2010 - 475/2012 - 28/2015
IFRS 9	Financial Instruments	2067/2016 (*)
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
IFRS 12	Disclosure of Interests in Other Entities	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016
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 (*)
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 (*)
IAS 10	Events after the Reporting Period	1126/2008 mod. 1274/2008 - 70/2009 - 1142/2009 - 1255/2012 - 2067/2016 (*)
IAS 11	Construction Contracts	1126/2008 mod. 1260/2008 - 1274/2008 - 1905/2016 (*)
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
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 17	Leases	1126/2008 mod. 243/2010 - 1255/2012 - 2113/2015
IAS 18	Revenue	1126/2008 mod. 69/2009 - 1254/2012 - 1255/2012 - 1905/2016 (*)
IAS 19	Employee Benefits	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 29/2015 - 2343/2015
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 (*)
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 (*)
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 (*)
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 (*)
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 (*)
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 (*)
IAS 40	Investment Property	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 1361/2014 - 2113/2015 - 1905/2016 (*)
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 2018.

(**) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 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 4	Determining whether an Arrangement contains a Lease	1126/2008 mod. 254/2009 - 1255/2012
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 9	Reassessment of Embedded Derivatives	1126/2008 mod. 495/2009 - 1171/2009 - 243/2010 - 1254/2012 - 2067/2016 (*)
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 (*)
IFRIC 13	Customer Loyalty Programmes	1262/2008 mod. 149/2011 - 1255/2012 - 1905/2016 (*)
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 15	Agreements for the Construction of Real Estate	636/2009 - 1905/2016 (*)
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 18	Transfers of Assets from Customers	1164/2009 - 1905/2016 (*)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010 mod. 1255/2012 - 2067/2016 (*)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012
IFRIC 21	Levies	634/2014
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 15	Operating Leases - Incentives	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 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1126/2008 - 1905/2016 (*) - 2067/2016 (*)
SIC 29	Service Concession Arrangements: Disclosures	1126/2008 mod. 1274/2008 - 254/2009
SIC 31	Revenue - Barter Transactions Involving Advertising Services	1126/2008 - 1905/2016 (*)
SIC 32	Intangible Assets - Web Site Costs	1126/2008 mod. 1274/2008 - 1905/2016 (*)

(*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2018.

Report and Parent Company's financial statements

Report on operations

Intesa Sanpaolo – Financial highlights and alternative performance measures

income statement figures (millions of euro)	2017 (Figure net of the Aggregate Set)	2017 (Figure of the Aggregate Set)	2016	Changes (Net of the Aggregate Set) amount	Changes (Net of the Aggregate Set) %
Net interest income	2,986	133	2,890	96	3.3
Net fee and commission income	2,851	95	2,790	61	2.2
Profits (losses) on trading	356	-30	133	223	
Operating income	8,219	203	7,664	555	7.2
Operating costs	-4,547	-398	-4,470	77	1.7
Operating margin	3,672	-195	3,194	478	15.0
Net adjustments to loans	-1,819	-40	-1,998	-179	-9.0
Income (Loss) after tax from discontinued operations	-		1,090	-1,090	
Net income (loss)	4,841	41	1,680	3,161	

2017 (Figure net of the Aggregate Set)

2017 (Figure of the Aggregate Set)

2016

Balance sheet figures (millions of euro)	31.12.2017	31.12.2016	Changes (Net of the Aggregate Set) amount	%
Loans to customers	232,693	200,586	1,874	0.9
Total assets	509,377	447,729	13,711	3.1
Direct customer deposits	253,580	232,143	-10,237	-4.4
Indirect customer deposits:	208,322	182,946	11,343	6.2
of which: Assets under management	124,363	116,010	7,550	6.5
Shareholders' equity	48,472	43,408	5,064	11.7

Operating structure	**2017**	**2016**	**Changes amount**
Number of employees	**39,887**	**33,341**	**6,546**
Italy	38,970	32,698	6,272
Abroad	917	643	274
Number of branches	**2,840**	**2,273**	**567**
Italy	2,736	2,163	573
Abroad	104	110	-6

Figures restated on a consistent basis. The figures as at 31.12.2017 include the personnel of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca (6,053 employees in Italy). The figures for comparison have not been restated.

31.12.2017
(Figure including the Aggregate Set)

31.12.2016

Profitability ratios (%)

	31.12.2017	31.12.2016
Cost / Income [a]	55.3	58.3
Net income / Shareholders' equity (ROE) [b]	3.2	4.4
Net income / Total assets (ROA) [c]	0.3	0.4

Risk ratios (%)

	31.12.2017	31.12.2016
Net bad loans / Loans to customers	2.8	3.8
Cumulated adjustments on bad loans / Gross bad loans to customers	64.1	61.1

Capital ratios (%)

	31.12.2017	31.12.2016
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	18.7	18.2
TIER 1 Capital / Risk-weighted assets	21.4	20.0
Total owns funds / Risk-weighted assets	25.0	24.4
Risk-weighted assets (millions of euro)	206,507	199,175

Figures restated on a consistent basis. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

[a] For 2017, the figure is net of the Aggregate Set.

[b] Ratio of net income to shareholders' equity at the end of the period. Net income for 2017 does not take account of the government contribution to cover the impacts on the ratios of the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period. In 2017 the previously mentioned government contribution is included. The figure for 2016 was recalculated on a like-for-like basis.

[c] Ratio between net income and total assets.

31.12.2017 (Figure including the Aggregate Set where not specified otherwise)

31.12.2016

The Parent Company Intesa Sanpaolo

Introduction

Regarding the content of the Report on operations of the Intesa Sanpaolo S.p.A. separate financial statements 2017, reference is made to the Report of the consolidated financial statements.

General aspects

The reclassified income statement and balance sheet of the Parent Company Intesa Sanpaolo as at and for the year ended 31 December 2017 are presented below.
A condensed reclassified income statement has been prepared to give a more immediate understanding of results.
To enable consistent comparison, the figures for the previous year are restated, where necessary, to retroactively reflect the effects of the corporate operations in 2016 and 2017.
The income statement for 2017 reflects the effects of the acquisition, starting from the third quarter, of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca (the Aggregate Set), as described in detail in the Consolidated Report on Operations.
Considering the particular case in question, no adjustments were made to the historic data in the reclassified income statement in order to retroactively reflect the effects of the acquisition. Consequently, unless otherwise indicated, the comments refer to income components net of the effects of the acquired segregated scope. However, in order to improve the reader's understanding, the main amounts referring to the acquired scope and the figure including said amounts are highlighted in the income statement table.
In this regard, it should be noted that, in relation to the migration of data regarding the relationships of the former Banca Popolare di Vicenza and Veneto Banca, completed in early December, separate accounting records are no longer available for such relationships.
Accordingly, the related contributions to the income statement for December have also been determined on the basis of management accounting records.
Restatements in the income statement involved:

– the merger of Cassa di Risparmio dell'Umbria S.p.A. on 21 November 2016, with accounting and tax effects from 1 January 2016.
– the incorporation of Accedo S.p.A. (formerly Intesa Sanpaolo Personal Finance S.p.A.) on 27 February 2017, with accounting and tax effects from 1 January 2017.

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

– dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
– differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
– Fair value adjustments in hedge accounting (caption 90) have been reallocated to Profits (Losses) on trading;
– Profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reallocated to Profits (Losses) on trading;
– Profits (Losses) on financial assets and liabilities designated at fair value are recorded in Profits (Losses) on trading;
– the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
– Profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
– Net impairment losses on other financial activities, related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
– the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
– Net impairment losses on financial assets available for sale, held to maturity, on investments, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Net impairment losses on other assets, which consequently includes – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;
– realised profits (losses) on investments held to maturity, on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans.
– Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;

- the effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments to and any impairment losses on financial assets and liabilities and property, equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
- levies and other charges aimed at maintaining the stability of the banking 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)

	2017 (a)	Of which: figure of the Aggregate Set (b)	Figure net of the Aggregate Set (c) = (a) - (b)	2016 (d)	Changes amount (e) = (c) - (d)	Changes % (e) / (d)
Net interest income	3,119	133	2,986	2,890	96	3.3
Net fee and commission income	2,946	95	2,851	2,790	61	2.2
Profits (Losses) on trading	326	-30	356	133	223	
Other operating income (expenses)	2,031	5	2,026	1,851	175	9.5
Operating income	**8,422**	**203**	**8,219**	**7,664**	**555**	**7.2**
Personnel expenses	-2,800	-258	-2,542	-2,490	52	2.1
Other administrative expenses	-2,014	-121	-1,893	-1,854	39	2.1
Adjustments to property, equipment and intangibles assets	-131	-19	-112	-126	-14	-11.1
Operating costs	**-4,945**	**-398**	**-4,547**	**-4,470**	**77**	**1.7**
Operating margin	**3,477**	**-195**	**3,672**	**3,194**	**478**	**15.0**
Net adjustments to loans	-1,859	-40	-1,819	-1,998	-179	-9.0
Net provisions and net impairment losses on other assets	-145	-	-145	-204	-59	-28.9
Other income (expenses)	4,034	-	4,034	139	3,895	
Income (Loss) from discontinued operations	-	-	-	1,090	-1,090	
Gross Income (Loss)	**5,507**	**-235**	**5,742**	**2,221**	**3,521**	
Taxes on income	6	74	-68	158	-226	
Charges (net of tax) for integration and exit incentives	-243	-164	-79	-83	-4	-4.8
Effect of purchase price allocation (net of tax)	368	375	-7	1	-8	
Levies and other charges concerning the banking industry (net of tax)	-497	-9	-488	-366	122	33.3
Impairment (net of tax) of goodwill, other intangible assets and controlling interests	-259	-	-259	-251	8	3.2
Net income (loss)	**4,882**	**41**	**4,841**	**1,680**	**3,161**	

Figures restated on a consistent basis. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

The consolidated income statement for the year posted net income of 4.88 billion euro compared to 1.68 billion in 2016. Excluding the economic effects of the segregated scope, amounting to 41 million euro, net income amounted to 4,841 million euro.

Gross income rose significantly as it includes 3,500 million euro from the public contribution recorded in June 2017 connected with the acquisition of the Aggregate Set. Net of that component, slight growth was due to the positive evolution of operating income (+9.9%) and other income, the decrease in adjustments to loans and other assets and provisions, offset by the increase in operating costs. In the previous year, there was also income from discontinued operations, which were absent in the current year.

Net interest income, amounting to 2,986 million euro (3,119 million euro including the segregated scope), was up 3.3%. Considering the mitigating effects of hedging derivatives, there was a significant decrease in the costs of funding represented by securities (306 million euro) and a positive trend in net transactions with banks (88 million euro), in addition to a benefit deriving from the reduction in the time value on allowances for risks and charges and personnel funds (6 million euro). Conversely, customer dealing declined (-186 million euro), as did the contribution by financial instruments classified to the AFS category (-52 million euro) and financial assets held for trading (-28 million euro). Furthermore, costs increased on other net interest, an aggregate which also comprises the income (loss) on transactions with negative rates, which was impacted by the profitability generated by the TLTRO II deposit entered into with the Bank of Italy net of the cost of the balance of the compulsory reserve, which fell from a positive contribution of 5 million euro in 2016 to a negative contribution of 33 million euro in 2017.
Hedging derivative business generated income of 264 million euro (251 million euro including the Aggregate Set), down (-55.3%) from 591 million euro in 2016.

Net fee and commission income amounted to 2,851 million euro (2,946 million euro including the Aggregate Set acquired), up from 2,790 million euro in the previous year. The growth regarded management, dealing and consultancy (+176 million euro, 13%), and, specifically, the services of securities placement (+141 million euro) and distribution of insurance products (+38 million euro) and, to a lesser extent, commercial banking activities (+8 million euro), in which commissions on guarantees given decreased, more than offset by the increase in fee income on current accounts. Conversely, other net fee and commission income was down (-123 million euro, 42%), mainly on loans and transactions in credit derivatives, in addition to other residual categories.

Profits on trading amounted to 326 million euro at the end of 2017 (of which losses of 30 million euro pertaining to the segregated scope), compared to 133 million euro in profits in 2016.
The positive result for the year was driven by profits on disposal of securities classified as available for sale and financial liabilities, including the dividends collected, of a total of 294 million euro, of which 150 million euro on the disposal of debt securities, essentially government securities, 133 million on the disposal of equities and 32 million euro of dividends. The aggregate also includes losses on the early discharge of own liabilities of 21 million euro.

Profits on transactions in interest rates and credit derivatives for managing counterparty risk amounted to 54 million euro, comprised of profits of 69 million euro on debt securities and derivatives held for trading, of 2 million euro in Fair Value Option trading, which were offset by losses of 17 million euro on hedging activities.
Negative results were also recorded on transactions in currencies of 48 million euro and on transactions in commodities derivatives of 2 million euro, partly offset by profits on transactions in equities such as hedge funds of 16 million euro, and on transactions in structured credit products of 12 million euro.

Other operating income amounted to 2,026 million euro (2,031 million euro including the contribution of the Aggregate Set acquired) compared to 1,851 million euro in the previous year. The aggregate includes dividends from investees of 1,889 million euro (1,845 million euro as at 31 December 2016), with the remainder comprised of other income.
In terms of dividends, the increase mainly regarded the distribution of profits by Banca IMI, Eurizon Capital Sgr, Fideuram Intesa Sanpaolo Private Banking, Imi Investimenti, Banco di Napoli and Cassa di Risparmio del Veneto, in addition to other minor companies. Vice versa, smaller contributions compared to the previous year were mainly received from Intesa Sanpaolo Vita, Bank of Alexandria, Intesa Sanpaolo Holding International and Bank of Qingdao.
Other income, amounting to 137 million euro and up by over 11%, derives mainly from recoveries for services rendered to Group companies and rental income, net of amortisation of leasehold improvement and other net charges.

Operating costs amounted to 4,547 million euro (4,945 million euro including the segregated scope), up 1.7% on 2016, due to the increase in personnel expenses from 2,490 million euro to 2,542 million euro (+2.1%) and in other administrative expenses, which rose from 1,854 to 1,893 million euro (+2.1%), while depreciation and amortisation of property, equipment and intangible assets decreased from 126 to 112 million euro (-11.3%).

The performance of operating income and costs illustrated above resulted in an operating margin of 3,477 million euro (3,672 million euro including the contribution of the segregated scope). On a like-for-like basis, the comparison with the 3,194 million euro in the previous year shows an increase of 15%.

Net adjustments to loans totalled 1,859 million euro, (1,819 million euro excluding the Aggregate Set), down 139 million euro on 2016, as a result of a decrease in net adjustments to performing loans of 315 million euro, partially offset by higher allocations on non-performing loans of 176 million euro. In further detail, adjustments to non-performing loans during the period, totalling 2,273 million euro, consist of 66% adjustments to bad loans, 28% loans classified as unlikely to pay and 6% to past due loans.

Net provisions and net impairment losses on other assets amount to 145 million euro (204 million euro in 2016) and include 93 million euro in provisions intended to cover probable risks arising from revocatory actions, compensation suits, legal disputes and other issues, 36 million euro in impairment losses on non-controlling investments and assets available for sale and the remaining 17 million euro for the impairment losses on the revaluation at fair value of property and equipment.

Other income, amounting to 4,034 million euro (139 million euro in 2016) includes the previously mentioned public contribution related to the acquisition of a portion of assets and liabilities of Banca Popolare di Vicenza and Veneto Banca of 3,500 million euro, in addition to the positive effects of the revaluation of stakes held in Bank of Qingdao and Nuovo Trasporto Viaggiatori, amounting to around 336 million euro and 87 million euro, respectively, reclassified under assets available for sale, as the conditions for continuing to record them under equity investments no longer applied, and profits on disposal of a stake in Nuovo Trasporto Viaggiatori of 18 million euro.

Gross income amounted to 5,507 million euro (5,742 million euro excluding the contribution of the segregated scope), compared to 2,221 million euro in 2016.

Income tax reported an estimated allowance of 68 million euro (+6 million euro including the Aggregate Set), compared a net positive effect of 158 million euro in 2016.
Income tax was impacted by the changed relevance for tax purposes of the components of the income statement, which give rise to the difference compared to the nominal tax rates (IRES tax 27.5% and IRAP tax 5.56%). Income tax for the year was specifically impacted by the presence of the contribution collected as part of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca to cover the impacts on capital ratios (3.5 billion euro) not recognised for tax purposes (IRES and IRAP tax). In both periods, a considerable difference compared to nominal tax rates depends on the tax regime for dividends.

Charges for integration and exit incentives, net of the tax effect, amounted to 243 million euro, and include IT expenses and professional service fees attributable to integration projects, in addition to additional charges for exit incentive plans deriving from agreements entered into in previous years. The aggregate includes integration and rationalisation charges in relation to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza e Veneto Banca. These regard, inter alia, use of the solidarity allowance mechanism in relation to the exit, on a voluntary basis, of personnel of the Group resulting from the acquisition, actions to be taken to safeguard jobs, the closure of branches and other costs connected with integration. Against those charges, the state contribution was recorded in the same aggregate, as well as the tax effects relating to its use.

The economic effects of purchase price allocation, net of the tax effect, amounted to +368 million euro. The aggregate includes 355 million euro in badwill recorded following the purchase price allocation envisaged by IFRS 3 on the assets and liabilities acquired from the Venetian Banks.

The caption levies and other charges concerning the banking industry amounted to -497 million euro, net of taxes of 239 million euro and includes the charges connected to the participation in the Atlante Fund, established to tackle the banking crisis, charges connected with investment in the Voluntary Scheme of the Interbank Deposit Guarantee Fund, as well as the ordinary contribution to the European resolution fund and the contributions to the deposit guarantee scheme.

The value adjustments of goodwill and controlling stakes of 259 million euro refer to the impairment losses recognised on investments held, primarily in Intesa Sanpaolo Provis, Cassa di Risparmio in Bologna, Intesa Reoco, Pravex Bank, Risanamento and other minor investments.

Reclassified balance sheet

The balance sheet as at 31 December 2017 includes the acquisition, effective from 26 June 2017, of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca.
Considering the particular case in question, no adjustments were made to the historic data in the reclassified balance sheet in order to retroactively reflect the effects of the acquisition.
In relation to the migration to Intesa Sanpaolo's systems of data regarding the relationships of the former Banca Popolare di Vicenza and Veneto Banca, completed in early December, separate accounting information about such relationships is no longer presented in the Report on operations. Accordingly, the figures as at 31 December 2017 include the contribution of the Aggregate Set.
In the interest of greater comprehensibility, the absolute changes attributable to the acquired set – represented by the amounts as at 25 June 2017 of the assets and liabilities and legal relationships acquired – are presented in the reclassified balance sheet and the detail tables, along with absolute and percent changes in balance sheet figures, net of such amounts, to enable a consistent comparison.
Breakdowns of restatements, aggregations and reclassifications will be provided in separate tables included in the attachments to the consolidated financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.
Aggregations of captions refer to:

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

Again, to provide a more effective presentation of the composition of aggregates, derivatives recorded in Financial assets/liabilities held for trading and Due from/Due to banks are presented on a net basis in the tables and in the relative comments.
Loans to customers include the loan granted by Intesa Sanpaolo to the banks in the compulsory administrative liquidation procedure totalling 6.4 billion euro (3.2 billion euro to Banca Popolare di Vicenza in compulsory administrative liquidation and 3.2 billion to Veneto Banca in compulsory administrative liquidation) with a maximum term of five years, a fixed interest rate of 1% per annum, guaranteed by the state. This amount finances the imbalance between assets acquired and liabilities acquired from Banca Popolare di Vicenza and Veneto Banca and also includes the receivable due from the investees from the compulsory administrative liquidation procedures assigned to the Parent Company.
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The balance sheet was restated only regarding the incorporation of Accedo S.p.A., while no adjustments were made to the historical figures as at 31 December 2016.

(millions of euro)

Assets	31.12.2017 Iincluding the Aggregate Set (a)	31.12.2016 (b)	Changes (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)	%
Financial assets held for trading	18,264	19,577	-1,313	2,097	-3,410	-17.4
Financial assets designated at fair value through profit and loss	322	371	-49	2	-51	-13.7
Financial assets available for sale	36,912	38,983	-2,071	5,709	-7,780	-20.0
Investments held to maturity	335	335	-	-	-	-
Due from banks	157,440	126,634	30,806	5,981	24,825	19.6
Loans to customers	232,693	200,586	32,107	30,233	1,874	0.9
Equity investments	30,558	30,453	105	583	-478	-1.6
Property, equipment and intangible assets	6,854	5,137	1,717	240	1,477	28.8
Tax assets	13,013	10,707	2,306	1,863	443	4.1
Non-current assets held for sale and discontinued operations	266	1	265	307	-42	-
Other assets	12,720	14,945	-2,225	922	-3,147	-21.1
Total Assets	**509,377**	**447,729**	**61,648**	**47,937**	**13,711**	**3.1**

Liabilities and Shareholders' Equity	31.12.2017 Iincluding the Aggregate Set (a)	31.12.2016	Changes (c) = (a) - (b)	Figure of the Aggregate Set (d)	Net of the Aggregate Set (e) = (a-d) - (b)	%
Due to banks	173,710	139,036	34,674	11,504	23,170	16.7
Due to customers and securities issued	253,580	232,143	21,437	31,674	-10,237	-4.4
Financial liabilities held for trading	14,580	16,670	-2,090	1,564	-3,654	-21.9
Financial liabilities designated at fair value through profit and loss	9	8	1	-	1	12.5
Tax liabilities	1,285	811	474	105	369	45.5
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-
Other liabilities	13,073	12,906	167	2,993	-2,826	-21.9
Allowances for specific purpose	4,668	2,747	1,921	97	1,824	66.4
Share capital	8,732	8,732	-	-	-	-
Reserves	29,981	31,304	-1,323	-	-1,323	-4.2
Valuation reserves	774	-425	1,199	-	1,199	
Equity instruments	4,103	2,117	1,986	-	1,986	93.8
Net income (loss)	4,882	1,680	3,202	-	3,202	
Total Liabilities and Shareholders' Equity	**509,377**	**447,729**	**61,648**	**47,937**	**13,711**	**3.1**

Figures restated on a consistent basis. The figures concerning the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca have not been restated.

Figures under (d) relate to the values of the Venetian Banks as at the date of acquisition, adjusted to take the results of the due diligence into account.

At 31 December 2017 loans to customers totalled roughly 233 billion euro, up by 0.9% compared to the end of 2016, net of the Aggregate Set acquired.

As to loan quality, net non-performing loans, excluding those represented by securities, decreased to 13.8 billion euro compared to 15.5 billion euro as at 31 December 2016.
The performance of the individual components shows:

– a decrease in bad positions of 15.5% (from 7,620 million euro to 6,435 million euro);
– a reduction in loans classified as "unlikely to pay", which fell from 7,616 million euro to 7,098 million euro, equal to 6.8%;
– a decrease in past due loans, which amounted to 228 million euro compared to 240 million euro at the end of 2016.

Performing loans, excluding those represented by securities and intragroup loans, of approximately 21.7 billion euro, amounted to roughly 198 billion euro, compared to 163 billion euro at the end of 2016, thus increasing by 4 billion euro net of the Aggregate Set acquired (+2.3% on a like-for-like basis). Coverage stands at 0.30%.

Direct deposits amounted to 254 billion euro, down 4.4% compared to 31 December 2016 on a like-for-like basis, a reduction divided between non-securities funding (roughly 19 billion euro) and securities funding (the remainder of 16 billion euro).

Financial assets held for trading, which include financial and credit derivatives, debt securities and equities held for trading, came to a total of 3.1 billion euro, net of liabilities of over 14 billion euro (3.7 billion feuro gross of the Aggregate Set acquired), essentially stable compared to 31 December 2016.

Financial assets available for sale amounted to approximately 37 billion euro (31.2 billion euro net of the segregated scope). Such assets, which consist of equity investments and private equity interests of slightly more than 3 billion euro, and debt securities of 34 billion euro, were down by almost 8 billion euro, primarily attributable to debt securities.

Equity investments, which amounted to approximately 30 billion euro, include controlling interests in subsidiaries, associates and companies subject to joint control, and remained essentially unchanged on the previous year.

Shareholders' equity was approximately 48.5 billion euro, including the net income for the year of 4.9 billion euro and the improvement in valuation reserves of around 1.2 billion euro compared to the end of 2016. The increases specifically related to the recognition of the revaluation at present values of the property and equipment held for operating and investment purposes and valuable art assets, which resulted in the posting of positive reserves of 1.1 billion euro and, to a lesser extent, to the cash flow hedge reserve, which improved from -1,075 million euro at 31 December 2016 to -862 million euro (with an improvement of 213 million euro, essentially due to interest rate performance). Reserves on assets available for sale decreased to 13 million euro compared to 104 million euro at the end of 2016, divided into reserves on debt securities of -94 million euro, on equities of +39 million euro and on units of UCI of +68 million euro, while reserves relating to actuarial losses amounted to -460 million euro, worsening by 11 million euro compared to 31 December 2016. Legally-required revaluation reserves totalled 995 million euro, unchanged on the end of the previous year.
As regards the composition of the aggregate, it is also important to note that in 2017, Intesa Sanpaolo increased its Additional Tier 1 capital instruments, through new issues of 2 billion euro, targeted at the international markets.
Own funds, calculated including the public contribution for the acquisition of certain assets and liabilities, and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca of 3.5 billion euro, came to 52 billion euro, higher than in the previous period (+3.1 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 18.7% according to the transitional rules in effect for 2017.

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.

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 Law 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 as at 31 December 2017, 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 Consolidated Executive Summary;
- information regarding obligations pursuant to art. 15 of the Consob Market Regulation (formerly art. 36), 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 these financial statements.

Forecast for 2018

In 2018 Intesa Sanpaolo expects a growth in net income (excluding the component relating to the public cash contribution of 3.5 billion euro from net income for 2017), due to the increase in revenues, ongoing cost management and the drop in the cost of risk. The dividend policy for 2018 envisages a commitment to distributing an amount of cash dividends corresponding to a payout ratio of 85% of consolidated net income.

The Board of Directors

23 February 2018

Proposals to the Shareholders' Meeting

Distinguished Shareholders.

Pursuant to Art. 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 2017 and the proposal for allocation of net income for the year, subject to reclassification of the net amount of the differences in merger, exchange transaction and demerger, currently stated under Other Reserves, as a decrease of Extraordinary Reserve.
Indeed, during 2017, Intesa Sanpaolo recorded into specific shareholders' equity reserves the differences in merger deriving from the merger through incorporation of the subsidiary Accedo SpA.
The cancellation of shares of the incorporated company resulted in positive merger differences, recognised under Other Reserves, for an amount of 17,102.89 euro. It should be noted that, pursuant to Art. 172, paragraph 5, of the Consolidated Law on Income Taxes, Reserves qualifying for deferred taxation applicable to the merger surplus will be reconstituted for the same amount.

Pursuant to Art. 6, paragraph 1, letter a) of Legislative Decree 38/2005, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2017, such amount was 1,005,138.65 euro.

Income for 2017 of Intesa Sanpaolo, which amounted to 4,882,289,325.60 euro, included the 3.5 billion euro public contribution assigned by the Italian government to offset the impact on the Bank's capital ratios of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca. The contribution will ensure a phased-in Common Equity Tier 1 Ratio of 12.5% to the risk-weighted assets (RWA) of the Aggregate Set.

Given the above, it is proposed to allocate the net income of 4,882,289,325.60 euro as follows:

	(euro)
Net income for the year	4,882,289,325.60
Assignment of a dividend of 0.091 euro (determined pursuant to Art. 29 of the Articles of Association) for each of the 932,490,561 savings shares, for a total disbursement of	84,856,641.05
Assignment of a dividend of 0.080 euro for each of the 15,859,786,585 ordinary shares outstanding, for a total disbursement of	1,268,782,926.80
for a total disbursement for dividends of	1,353,639,567.85
Assignment to the Allowance for charitable, social and cultural contributions	11,000,000.00
Assignment to the Extraordinary reserve of the residual net income	3,517,649,757.75

Taking into account that the consolidated net income relating to 2017 is equal to 7,316 million euro and considering the allocation to Extraordinary Reserve of the public contribution of 3.5 billion euro, we hereby propose to resolve on a partial distribution of the Share Premium Reserve of 0.123 euro for each of the 16,792,277,146 shares constituting the ordinary and savings share capital, pursuant to Art. 30.3 of the Company's Articles of Association, for a total amount of 2,065,450,088.96 euro.
As a consequence, the total dividend amounts to 3,419,089,656.81 euro.
This assignment of reserves shall be subject to the same tax regime as the distribution of dividends.

The proposed dividend and the anticipated distribution of part of the Share Premium Reserve makes it possible to remunerate shareholders consistently with the sustainable profitability of the Group, while ensuring the capital adequacy of the Bank and the Banking Group. This is as a result of the Basel 3 series of Rules, as well as the provisions issued by the European Central Bank. If this proposal is approved ,the consolidated capital requirements would show a Common Equity Tier 1 ratio of 13.3% and a Total Capital Ratio of 17.9%, while the capital requirements of Intesa Sanpaolo S.p.A. would be even higher.
The aforesaid capital ratios exceed the requirements of EU Bodies and the Supervisory Authority.

We propose that the above distributions be made payable, in compliance with legal provisions, as of 23 May 2018, with detachment of the coupon on 21 May 2018.

Please note that dividends not distributed in respect of any treasury shares held by the Bank at the record date shall be allocated to the Extraordinary Reserve.

If the proposals formulated obtain your approval, the resulting shareholders' equity of Intesa Sanpaolo S.p.A. will be as indicated in the table below.

(millions of euro)

Shareholders' equity	Annual report 2017	Change due to the Shareholders' Meeting resolutions	Share capital and reserves after the Shareholders' Meeting resolutions
Share capital			
- ordinary	*8,247*	*-*	*8,247*
- savings	*485*	*-*	*485*
Total share capital	**8,732**	**-**	**8,732**
Share premium reserve	26,164	-2,065	24,099
Reserves	3,843	3,518	7,361
Valuation reserves	774	-	774
Equity instruments	4,103	-	4,103
Treasury shares	-26	-	-26
Total reserves	**34,858**	**1,453**	**36,311**
TOTAL	**43,590**	**1,453**	**45,043**

The Board of Directors

Torino, 23 February 2018

Parent Company's financial statements

Financial statements

Balance sheet

(euro)

Assets		31.12.2017	31.12.2016	Changes amount	%
10.	Cash and cash equivalents	5,749,702,612	6,213,061,883	-463,359,271	-7.5
20.	Financial assets held for trading	18,264,452,315	19,577,097,879	-1,312,645,564	-6.7
30.	Financial assets designated at fair value through profit and loss	322,287,851	371,284,919	-48,997,068	-13.2
40.	Financial assets available for sale	36,911,639,839	38,982,566,972	-2,070,927,133	-5.3
50.	Investments held to maturity	334,879,246	334,833,432	45,814	-
60.	Due from banks	157,439,934,737	126,634,511,488	30,805,423,249	24.3
70.	Loans to customers	232,692,765,694	200,548,518,866	32,144,246,828	16.0
80.	Hedging derivatives	3,822,813,304	5,720,102,749	-1,897,289,445	-33.2
90.	Fair value change of financial assets in hedged portfolios (+/-)	-130,633,072	160,047,319	-290,680,391	
100.	Equity investments	30,558,013,553	30,589,126,130	-31,112,577	-0.1
110.	Property and equipment	4,399,954,385	2,758,072,076	1,641,882,309	59.5
120.	Intangible assets	2,454,495,926	2,378,906,198	75,589,728	3.2
	of which				
	- goodwill	*858,532,215*	*858,532,215*	*-*	*-*
130.	Tax assets	13,012,846,576	10,588,545,954	2,424,300,622	22.9
	a) current	*2,950,336,388*	*2,562,704,416*	*387,631,972*	*15.1*
	b) deferred	*10,062,510,188*	*8,025,841,538*	*2,036,668,650*	*25.4*
	- of which convertible into tax credit (Law no. 214/2011)	*7,172,434,760*	*6,758,409,444*	*414,025,316*	*6.1*
140.	Non-current assets held for sale and discontinued operations	265,849,446	1,365,205	264,484,241	
150.	Other assets	3,278,434,392	2,834,453,572	443,980,820	15.7
Total Assets		**509,377,436,804**	**447,692,494,642**	**61,684,942,162**	**13.8**

Balance sheet

(euro)

Liabilities and Shareholders' Equity		31.12.2017	31.12.2016	Changes amount	%
10.	Due to banks	173,709,711,661	139,035,582,228	34,674,129,433	24.9
20.	Due to customers	170,914,110,169	147,364,280,391	23,549,829,778	16.0
30.	Securities issued	82,665,715,208	84,823,937,105	-2,158,221,897	-2.5
40.	Financial liabilities held for trading	14,579,631,354	16,669,826,899	-2,090,195,545	-12.5
50.	Financial liabilities designated at fair value through profit and loss	9,133,072	7,966,878	1,166,194	14.6
60.	Hedging derivatives	5,555,327,525	6,517,246,619	-961,919,094	-14.8
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	323,857,059	528,416,248	-204,559,189	-38.7
80.	Tax liabilities	1,284,667,901	811,518,875	473,149,026	58.3
	a) current	*102,626,726*	*189,891,442*	*-87,264,716*	*-46.0*
	b) deferred	*1,182,041,175*	*621,627,433*	*560,413,742*	*90.2*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
100.	Other liabilities	7,194,999,999	5,761,906,598	1,433,093,401	24.9
110.	Employee termination indemnities	767,146,054	736,374,747	30,771,307	4.2
120.	Allowances for risks and charges	3,900,901,688	1,947,847,258	1,953,054,430	
	a) post employment benefits	*883,579,918*	*835,550,285*	*48,029,633*	*5.7*
	b) other allowances	*3,017,321,770*	*1,112,296,973*	*1,905,024,797*	
130.	Valuation reserves	773,748,333	-425,109,781	1,198,858,114	
140.	Redeemable shares	-	-	-	-
150.	Equity instruments	4,102,750,714	2,117,321,664	1,985,429,050	93.8
160.	Reserves	3,843,194,689	3,816,072,856	27,121,833	0.7
170.	Share premium reserve	26,164,131,214	27,507,513,386	-1,343,382,172	-4.9
180.	Share capital	8,731,984,116	8,731,984,116	-	-
190.	Treasury shares (-)	-25,863,278	-19,708,272	6,155,006	31.2
200.	Net income (loss)	4,882,289,326	1,759,516,827	3,122,772,499	
Total Liabilities and Shareholders' Equity		**509,377,436,804**	**447,692,494,642**	**61,684,942,162**	**13.8**

Income statement

(euro)

		2017	2016	Changes amount	%
10.	Interest and similar income	6,458,141,888	6,580,673,834	-122,531,946	-1.9
20.	Interest and similar expense	-3,647,250,788	-4,066,869,038	-419,618,250	-10.3
30.	**Interest margin**	**2,810,891,100**	**2,513,804,796**	**297,086,304**	**11.8**
40.	Fee and commission income	3,793,854,801	3,482,123,330	311,731,471	9.0
50.	Fee and commission expense	-825,520,418	-653,990,646	171,529,772	26.2
60.	**Net fee and commission income**	**2,968,334,383**	**2,828,132,684**	**140,201,699**	**5.0**
70.	Dividend and similar income	1,888,660,731	1,845,156,349	43,504,382	2.4
80.	Profits (Losses) on trading	46,821,374	-106,060,586	152,881,960	
90.	Fair value adjustments in hedge accounting	-17,328,451	-25,210,954	-7,882,503	-31.3
100.	Profits (Losses) on disposal or repurchase of	181,248,529	129,989,209	51,259,320	39.4
	a) loans	*-10,886,814*	*-52,084,805*	*-41,197,991*	*-79.1*
	b) financial assets available for sale	*212,407,293*	*208,575,050*	*3,832,243*	*1.8*
	c) investments held to maturity	*-*	*-*	*-*	*-*
	d) financial liabilities	*-20,271,950*	*-26,501,036*	*-6,229,086*	*-23.5*
110.	Profits (Losses) on financial assets and liabilities designated at fair value	2,366,331	12,975,097	-10,608,766	-81.8
120.	**Net interest and other banking income**	**7,880,993,997**	**7,198,786,595**	**682,207,402**	**9.5**
130.	Net losses / recoveries on impairment	-2,017,498,209	-1,788,042,361	229,455,848	12.8
	a) loans	*-1,599,745,798*	*-1,586,917,634*	*12,828,164*	*0.8*
	b) financial assets available for sale	*-476,221,727*	*-231,780,004*	*244,441,723*	
	c) investments held to maturity	*46,858*	*66,662*	*-19,804*	*-29.7*
	d) other financial activities	*58,422,458*	*30,588,615*	*27,833,843*	*91.0*
140.	**Net income from banking activities**	**5,863,495,788**	**5,410,744,234**	**452,751,554**	**8.4**
150.	Administrative expenses	-6,384,782,140	-5,115,466,013	*1,269,316,127*	24.8
	a) personnel expenses	*-3,775,235,832*	*-2,576,593,491*	*1,198,642,341*	*46.5*
	b) other administrative expenses	-2,609,546,308	-2,538,872,522	*70,673,786*	2.8
160.	Net provisions for risks and charges	-818,539,821	-107,838,666	710,701,155	
170.	Net adjustments to / recoveries on property and equipment	-123,334,124	-124,302,815	-968,691	-0.8
180.	Net adjustments to / recoveries on intangible assets	-12,895,800	-2,521,643	10,374,157	
190.	Other operating expenses (income)	5,328,341,445	246,791,642	5,081,549,803	
200.	**Operating expenses**	**-2,011,210,440**	**-5,103,337,495**	**-3,092,127,055**	**-60.6**
210.	Profits (Losses) on equity investments	166,969,444	-315,403,030	482,372,474	
220.	Valuation differences on property, equipment and intangible assets measured at fair value	-16,560,861	-	16,560,861	-
230.	Goodwill impairment	-	-	-	-
240.	Profits (Losses) on disposal of investments	77,195,893	324,620,741	-247,424,848	-76.2
250.	**Income (Loss) before tax from continuing operations**	**4,079,889,824**	**316,624,450**	**3,763,265,374**	
260.	Taxes on income from continuing operations	802,399,502	368,110,138	434,289,364	
270.	**Income (Loss) after tax from continuing operations**	**4,882,289,326**	**684,734,588**	**4,197,554,738**	
280.	Income (Loss) after tax from discontinued operations	-	1,074,782,239	-1,074,782,239	
290.	**Net income (loss)**	**4,882,289,326**	**1,759,516,827**	**3,122,772,499**	

Statement of comprehensive income

(euro)

		2017	2016	Changes amount	Changes %
10.	**NET INCOME (LOSS)**	**4,882,289,326**	**1,759,516,827**	**3,122,772,499**	
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**1,076,866,779**	**-130,460,553**	**1,207,327,332**	
20.	Property and equipment	1,088,260,652	-	1,088,260,652	
30.	Intangible assets	-	-	-	
40.	Defined benefit plans	-11,393,873	-130,460,553	-119,066,680	-91.3
50.	Non-current assets held for sale	-	-	-	
60.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**121,706,205**	**-37,896,228**	**159,602,433**	
70.	Hedges of foreign investments	-	-	-	
80.	Foreign exchange differences	-	-	-	
90.	Cash flow hedges	212,935,555	-11,094,442	224,029,997	
100.	Financial assets available for sale	-91,229,350	-26,801,786	64,427,564	
110.	Non-current assets held for sale	-	-	-	
120.	Share of valuation reserves connected with investments carried at equity	-	-	-	
130.	**Total other comprehensive income (net of tax)**	**1,198,572,984**	**-168,356,781**	**1,366,929,765**	
140.	**TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)**	**6,080,862,310**	**1,591,160,046**	**4,489,702,264**	

Statement of changes in shareholders' equity as at 31 December 2017

(euro)

	31.12.2017									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	savings shares		retained earnings	other					
AMOUNTS AS AT 1.1.2017	8,247,089,025	484,895,091	27,507,513,386	3,237,874,582	578,198,274	-425,109,781	2,117,321,664	-19,708,272	1,759,516,827	43,487,590,796
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR										
Reserves				103,616,271					-103,616,271	-
Dividends and other allocations									-1,655,900,556	-1,655,900,556
CHANGES IN THE PERIOD										
Changes in reserves				-76,494,438	-	285,130				-76,209,308
Operations on shareholders' equity										
Issue of new shares	-							6,377,621		6,377,621
Purchase of treasury shares								-12,532,627		-12,532,627
Extraordinary dividends			-1,343,382,172							-1,343,382,172
Changes in equity instruments							1,985,429,050			1,985,429,050
Derivatives on treasury shares										-
Stock options										-
Total comprehensive income for the period						1,198,572,984			4,882,289,326	6,080,862,310
SHAREHOLDERS' EQUITY AS AT 31.12.2017	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

Statement of changes in shareholders' equity as at 31 December 2016

(euro)

	31.12.2016									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	savings shares		retained earnings	other					
AMOUNTS AS AT 1.1.2016	8,246,979,407	484,895,091	27,507,513,386	2,998,336,065	578,198,274	-258,215,809	877,201,768	-17,013,442	2,778,285,075	43,196,179,815
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR										
Reserves				407,138,390					-407,138,390	-
Dividends and other allocations									-2,371,146,685	-2,371,146,685
CHANGES IN THE PERIOD										
Changes in reserves				-167,599,873	-	1,462,809				-166,137,064
Operations on shareholders' equity										
Issue of new shares	109,618							5,029,808		5,139,426
Purchase of treasury shares								-7,724,638		-7,724,638
Extraordinary dividends										-
Changes in equity instruments							1,240,119,896			1,240,119,896
Derivatives on treasury shares										-
Stock options										-
Total comprehensive income for the period						-168,356,781			1,759,516,827	1,591,160,046
SHAREHOLDERS' EQUITY AS AT 31.12.2016	8,247,089,025	484,895,091	27,507,513,386	3,237,874,582	578,198,274	-425,109,781	2,117,321,664	-19,708,272	1,759,516,827	43,487,590,796

Statement of cash flows

(euro)

	31.12.2017	31.12.2016
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**6,181,677,785**	**2,628,707,428**
- net income (loss) (+/-)	4,882,289,326	1,759,516,827
- gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+)	-140,202,755	479,101,903
- gains/losses on hedging activities (-/+)	17,328,451	25,210,954
- net losses/recoveries on impairment (+/-)	2,002,087,380	2,227,309,344
- adjustments to/net recoveries on property, equipment and intangible assets (+/-)	136,229,924	126,824,458
- net provisions for risks and charges and other costs/revenues (+/-)	1,965,601,577	333,423,031
- taxes, duties and tax credits to be paid/collected(+/-)	-806,418,064	-328,007,174
- net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
- other adjustments (+/-)	-1,875,238,054	-1,994,671,915
2. Cash flow from / used in financial assets	**-61,169,688,544**	**-28,799,639,865**
- financial assets held for trading	1,450,481,988	2,902,784,814
- financial assets designated at fair value through profit and loss	51,363,400	-2,786,821
- financial assets available for sale	2,172,363,170	-9,453,451,950
- due from banks: repayable on demand	-5,073,013,000	-663,349,000
- due from banks: other	-25,732,410,249	-3,932,544,474
- loans to customers	-34,120,959,908	-17,976,116,947
- other assets	82,486,055	325,824,513
3. Cash flow from / used in financial liabilities	**54,426,489,591**	**24,378,841,999**
- due to banks: repayable on demand	4,878,518,000	2,358,482,000
- due to banks: other	29,795,611,433	11,159,951,631
- due to customers	23,549,829,778	23,119,168,450
- securities issued	-2,158,221,896	-14,769,748,765
- financial liabilities held for trading	-2,090,195,544	748,888,164
- financial liabilities designated at fair value through profit and loss	1,166,194	3,531,752
- other liabilities	449,781,626	1,758,568,767
Net cash flow from (used in) operating activities	**-561,521,168**	**-1,792,090,438**
B. INVESTING ACTIVITIES		
1. Cash flow from	**2,618,857,248**	**3,587,241,607**
- sales of equity investments	597,187,161	1,460,503,240
- dividends collected on equity investments	1,856,670,087	1,749,807,251
- sales of investments held to maturity	-	-35,962,884
- sales of property and equipment	165,000,000	412,889,000
- sales of intangible assets	-	5,000
- sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-1,353,158,642**	**-1,856,177,881**
- purchases of equity investments	-1,003,627,300	-1,714,700,366
- purchases of investments held to maturity	-45,814	-
- purchases of property and equipment	-261,000,000	-103,120,710
- purchases of intangibles assets	-88,485,528	-38,356,805
- purchases of subsidiaries and business branches	-	-
Net cash flow from (used in) investing activities	**1,265,698,606**	**1,731,063,726**
C. FINANCING ACTIVITIES		
- issues / purchases of treasury shares	-6,155,006	-2,585,213
- issues / purchases of equity instruments	1,832,818,202	1,157,067,501
- dividend distribution and other	-2,998,151,147	-2,360,446,307
Net cash flow from (used in) financing activities	**-1,171,487,951**	**-1,205,964,019**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**-467,310,513**	**-1,266,990,731**
RECONCILIATION		
Captions		
Cash and cash equivalents at beginning of period	6,213,061,883	7,477,547,444
Net increase (decrease) in cash and cash equivalents	-467,310,513	-1,266,990,731
Cash and cash equivalents: foreign exchange effect	3,951,242	2,505,170
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**5,749,702,612**	**6,213,061,883**

LEGEND: (+) from (–) used in

In line with the amendment to IAS 7, introduced with Regulation 1990 of 6 November 2017, with first application starting from 1 January 2017, provided below is the information requested by paragraph 44 B in order to measure the movements in liabilities arising from financing activities, relating to both changes deriving from cash flows or non-cash changes.

(euro)

"A. Operating activities - 3. Cash flow from / used in financial liabilities"	**31.12.2017**
a) Changes from cash flows from financing activities	11,323,737,315
b) Changes from obtaining or losing control of subsidiaries or other companies	44,742,000,000
c) Fair value changes	-2,089,029,350
d) Other changes	449,781,626
CASH FLOW FROM / USED IN FINANCIAL LIABILITIES	**54,426,489,591**

Notes to the Parent Company's financial statements

Part A – Accounting policies

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

As set forth by Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo's financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The financial statements as at 31 December 2017 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 with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014 and 15 December 2015[20].
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 International Accounting Standards endorsed and in force as at 31 December 2017 (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 2017.

IFRS endorsed as at 31.12.2017 in force since 2017

Regulation endorsement	Title	Effective date
1989/2017	Amendments to IAS 12 Income taxes	01/01/2017 First financial year starting on or after 01/01/2017
1990/2017	Amendments to IAS 7 Statement of Cash Flows	01/01/2017 First financial year starting on or after 01/01/2017

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2017 consist of several limited amendments made to the existing standards, endorsed by the European Commission during 2017[21]. However, those amendments are not particularly significant for Intesa Sanpaolo.

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 2018 - for financial statements reflecting the calendar year - or after this date.

(*) 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.

20 For the sake of completeness, please note that on 22 December 2017, the Bank of Italy published the 5th update of Circular 262. The update, which consists of a complete review of the Circular, will be applied starting from the financial statements as at and for the year ended 31 December 2018.

21 In particular with Regulation 1989/2017, some interpretations are provided regarding the accounting of the deferred tax assets relating to debt instruments measured at fair value, while Regulation 1990/2017 introduced some changes to improve the information on liabilities arising from financing activities disclosed to the users of the financial statements.

IFRS endorsed as at 31.12.2017 applicable subsequent to 31.12.2017

Regulation endorsement	Title	Effective date
1905/2016	IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
2067/2016	IFRS 9 Financial instruments	01/01/2018 First financial year starting on or after 01/01/2018
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
1987/2017	Amendments to IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
1988/2017	Amendments to IFRS 4 Insurance contracts	01/01/2018 First financial year starting on or after 01/01/2018

Regarding the details concerning the contents of the main changes that will be applied starting from 1 January 2018 – with reference in particular to IFRS 15 and the contents of IFRS 9 (and the related project for the implementation, which significantly involves also Structures of the Parent Company) – or from subsequent years, refer to the more thorough illustration provided in the consolidated financial statements.

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

IFRS not endorsed as at 31.12.2017

Standard/ Interpretation	Title	Date of issue
IFRIC 22	Foreign Currency Transactions and Advance Consideration	08/12/2016
IFRS 17	Insurance Contracts	18/05/2017
IFRIC 23	Uncertainty over Income Tax Treatments	07/06/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IFRS 2	Classification and Measurement of Share-based payment Transactions	20/06/2016
IFRS 1	First-time Adoption of International Financial Reporting Standards	08/12/2016
IFRS 12	Disclosure of Interests in Other Entities	08/12/2016
IAS 28	Investments in Associates and Joint Ventures	08/12/2016
IAS 40	Transfers of Investment Property	08/12/2016
IFRS 9	Prepayment Features with Negative Compensation	12/10/2017
IAS 28	Long-term Interest in Associates and Joint Ventures	12/10/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017

Amendment to the accounting standard for properties and valuable art assets

Compared to the previous financial statements, in the financial statements as at 31 December 2017, Intesa Sanpaolo amended the accounting criterion of recognition and measurement adopted for the following classes of property and equipment:
- non-investment properties and valuable art assets (governed by IAS 16 “Property, plant and equipment”);
- properties held for investment (governed by IAS 40 “Investment property”).

More specifically, the amendment in question involved:
- the transition from the cost model to the revaluation model for the measurement after the initial recognition of non-investment properties and valuable art assets;
- the transition from the recognition at cost to the recognition at fair value, for the properties held for investment.

Since its establishment, one of Intesa Sanpaolo’s priorities has been the full enhancement of its *top* valuable art assets and properties, inherited from numerous financial institutions of various Italian regions, which became part of the bank. These

assets, of unique extent and prestige, consist of buildings of great architectural and civil importance and precious works of art. As part of the latter, more than three thousand works of particular importance have formed a nucleus based on the following criteria: i) the historical-critical and artistic worth ii) the state of preservation and iii) the economic importance. These works have been included in the class called "valuable art assets".
Together with the top valuable art assets and properties, Intesa Sanpaolo also inherited sizeable real estate assets, which combine prestigious buildings in main cities with traditional bank branches distributed throughout Italy.
The decision to enhance these artistic and real estate assets is strongly encouraged by some trends that have developed in the last few years:

- for the top valuable art assets and properties, the considerable growth of museum-related activities, for which 2016 was a record year in Italy and whose untapped potential remains important, and the increasing tendency to exchange works among the various museums and foundations, with the number of exhibitions in Italy growing by about 10% a year in recent years;
- for the real estate assets held for operating activities, the gradual abandonment of traditional bank branches by customers, with the use of remote channels growing continuously (in Italy mobile banking users grew from 12% of the population in 2012 to 37% in 2016 and Intesa Sanpaolo already has 6.6 million multi-channel customers and 2.4 million app user customers), and the huge appreciation shown by employees for flexible working methods and opportunities to work from home (more than 7,000 Intesa Sanpaolo employees have already participated in the *Smart Working* programme launched less than two years ago).

In light of these trends and with the aim of fully enhancing both its artistic and real estate assets, Intesa Sanpaolo has defined a ten-year strategy which includes:

- increasing the Group's museum and cultural activities, continuing the path already taken with the creation of *Gallerie d'Italia* and with the cooperation, in Italy and abroad, of museums and foundations, progressively adding conference and reception activities, with the aim of maximising the background value;
- encouraging the evolution from simple and occasional home/office flexible working to a stable and widespread *Smart Working*, with the gradual abandonment of the physical workstations assigned to employees, in favour of distance working and the progressive consolidation of the various structures located in the main cities into business hubs with shared workstations;
- rationalising and consolidating physical branches into centres geared towards customer consultancy activities, leveraging the points of sale of the former Banca dei Tabaccai and the remote channels for the transactional activities.

This strategic evolution was reflected with in detail also in the 2018-2021 Intesa Sanpaolo Business Plan.
Also in preparation of the 2018-2021 Business Plan, Intesa Sanpaolo decided to launch the revaluation for accounting purposes of its valuable art assets and properties (both operating and held for investment purposes), with the purpose of aligning their carrying amount to the current market values thus providing more meaningful information for the users of the financial statements.
It is deemed that in this way, in line with the provisions of IAS 8 concerning the changes of accounting policies, it is possible to provide reliable and more meaningful information on the effects of the company operations and, ultimately, on the overall financial position and results of the bank.
Recognition at the present value of valuable art assets and non-investment properties, according to the "*revaluation model*" envisaged by IAS 16, and of the investment properties, according to the *fair value* method suggested by IAS 40, will actually result in:

- a better alignment of financial disclosure with the future strategies for the management of the artistic and real estate assets of the bank;
- a more straightforward understanding of the effects of the actions envisaged by the business plan on the financial position and results;
- a constant alignment of the accounting values of the substantial property and art assets to the values available on the market.

As already shown, the above-mentioned change, applied starting from these financial statements, resulted in particular in:

- the transition from the cost model to the revaluation model for the measurement after the initial recognition of non-investment properties and valuable art assets;
- the transition from the recognition at cost to the recognition at fair value, for the properties held for investment.

IAS 8 requires, as a general rule, that the voluntary accounting policy changes be represented retrospectively starting from the date furthest back that is feasible.
This means that, based on the general principle, at the time when the change takes place, also the opening balances of the furthest back comparison year and the data of the comparison years must be restated.
However the general rule permits exceptions. In particular, IAS 8, § 17, establishes that for the purpose of measuring property, plant and equipment, regulated by IAS 16, and intangible assets, regulated by IAS 38, the passage from the "cost criterion" to the "revaluation model" must be represented as if it were a normal consistent application of the "revaluation model". This means that the initial application of the "revaluation model" must take place prospectively and not retrospectively as required by the general principle reported in IAS 8.
The change of accounting policy in the context of IAS 16 and IAS 38 as a consequence does not lead to any adjustment of the opening balances and comparison figures, or of the financial statements of the interim years which precede the date of the change.
Instead for investment property, neither IAS 40 nor IAS 8 dictates special provisions with regard to the accounting effects of the policy change (from cost to fair value or vice versa).
It was assumed that the most appropriate criterion to represent the change of the accounting criterion pertaining to investment property must be assimilated to the criterion specifically laid down by IAS 16 and IAS 38 for property, equipment and intangible assets regulated by them.
In light of the above, the revaluation at present values produced, at the time of changing the accounting policy, both equity effects, which are attributable to the positive revaluation portion to be recognised in equity, and economic effects, which are attributable to the negative revaluation component.

Taking into account that the change of the measurement criterion took place at the end of the year, the calculation of the depreciation for the year 2017 was made with the previous cost criterion; as a consequence, the properties, both non-investment properties and those held for investment, were subject to the depreciation until 31 December 2017. Starting from 2018, the properties used in operations, measured under the revaluation model pursuant to IAS 16, will continue to be depreciated over their useful life, while the investment properties under IAS 40 will no longer be subject to depreciation as they are measured at fair value through profit and loss. The valuable art assets, in line with what is currently done, will continue not to be depreciated, since it is deemed that the useful life of a work of art may not be estimated and its value is normally destined to increase over time.

As regards the separate company financial statements, as reported in greater detail in Section 11 – Property and equipment of Part B, the change in question led to the recognition of a revaluation of 1,614 million euro gross of tax (of which 211 million euro, gross of tax, refers to valuable art assets). This value, net of the deferred tax assets carried, equal to 526 million euro, was attributed to a specific valuation reserve as part of shareholders' equity. In addition to this capital gain, a capital loss amounting to 16 million euro was recognised gross of the tax effect.

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 by the directors on operations, 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 Art. 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 accounting principles endorsed by the European Commission and illustrated in Part A.2 of these Notes to the Parent Company's financial statements financial statements, as well as in compliance with the general assumptions set forth by the 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.

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 2016.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2016 financial statements, together with specific reconciliations between the 2016 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 present amounts for the reference year and the previous year are in any case included. 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 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 reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

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

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.

SECTION 3 – SIGNIFICANT EVENTS SUBSEQUENT TO FINANCIAL STATEMENT DATE

No significant subsequent events occurred other than the events described in 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. The group companies participating in the Fiscal Consolidation do not include those acquired from the two Venetian Banks, which will only be able to take part from next year.

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.

Other aspects

KPMG S.p.A. audited Intesa Sanpaolo's financial statements, in execution of the resolution of the Shareholders' Meeting of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

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;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit and 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.

Recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.
On initial recognition, financial assets held for trading are recorded at fair value, without considering transaction costs or revenues directly attributable to the instrument.
Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of derivative are recorded at fair value separately from the host contract, which is recognised at cost.

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, units of UCI and derivative instruments 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.

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, financial assets sold 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, to third parties.

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 designated at fair value through profit and 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 and 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.

Recognition criteria
Initial recognition of the financial asset occurs at settlement date for debt securities and equities 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.
If, in the cases provided for by the accounting standards, recognition occurs following the reclassification from Investments held to maturity or, in rare circumstances, from Financial assets held for trading, the recognition value is the fair value as at the time of transfer.

Measurement criteria
After initial recognition, Financial assets available for sale are measured at fair value, through the registration 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 units 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.

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, financial assets sold 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, to third parties.

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 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.

Recognition criteria
Initial recognition of financial assets occurs at settlement date.
On initial recognition, financial assets classified in this category are recorded at fair value, inclusive of any costs and revenues directly attributable to the asset.
If inclusion in this category occurs following reclassification from Financial assets available for sale or, in rare circumstances, from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

Measurement criteria
After the initial recognition, Investments held to maturity are valued 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.

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, financial assets sold 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, to third parties.

4. Loans

Classification criteria

Loans include loans to customers and due from banks, both disbursed directly and acquired by 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.

Recognition criteria

Initial recognition of a loan occurs at the date of subscription of the contract that usually coincides with the disbursement date. Should this not be the case, a commitment to disburse funds is made along 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.
If, in rare circumstances, the inclusion in this category occurs following reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

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.
There are three different categories of restructured credit exposures:

- renegotiations for "commercial" reasons/practices;
- forborne exposures (as defined in Bank of Italy Circular 272);
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

With respect to the first category, the renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, only when it is due to commercial reasons other than the deterioration in the borrower’s financial situation (and thus does not fall within the scope of forborne exposures, as described below), provided that the interest rate applied is a market rate at the renegotiation date.

According to Bank of Italy regulations, a "forborne exposure" is defined as a debt contract to which "forbearance measures" have been applied. Forbearance measures consist of concessions, in terms of the modification and/or refinancing of the pre-existing debt contract, towards a borrower who is currently experiencing, or about to experience, difficulty in meeting his financial obligations (in other words, the debtor is in financial difficulty). Accordingly, forborne exposures may occur in each of the categories of non-performing loans (bad loans, unlikely to pay, and past due), as well as among performing loans, on the basis of the risk status of the exposure at the reporting date.
Non-performing forborne exposures are those for which there are objective indications of impairment, in addition to forbearance measures.

As an alternative to the scenarios outlined above (renegotiations due to difficulty of the debtor and renegotiations for commercial reasons/practices), the bank and debtor may agree on the discharge of the original debt through:
- novation or assumption by another debtor (assignment with release);
- substantial modification of the nature of the contract involving a debt-equity swap.

Such events, since they entail a substantial modification of the contractual terms, from an accounting standpoint result in the extinguishment of the previous relationship and the ensuing recognition of the new relationship at fair value, with the recognition in the income statement of a gain or loss equal to the difference between the book value of the former loan and the fair value of the assets received.
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 though the relationship has been restructured with a variation of the contractual interest rate and even though 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.

Derecognition criteria
Loans sold are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the loans. Conversely, if a significant part of the risks and rewards relative to the sold loans 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 loans are derecognised where no control over the loans has been maintained. If this is not the case, when control, even partial, is maintained, then the loans continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of loans sold and by variations in the relevant cash flows.
Lastly, loans sold are derecognised if the entity retains the contractual rights to receive the cash flows of the loan, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

5. Financial assets designated at fair value through profit and loss

Classification criteria
IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated 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 Bank has only classified in this category investments with respect to insurance policies and certain debt securities with embedded derivatives or debt securities subject to financial hedging and equity investments held, directly or through funds, in companies involved in the venture capital business.

Recognition criteria
On initial recognition, financial assets are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

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.

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 by variations in the relevant cash flows.
Lastly, financial assets sold 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, to third parties.

6. Hedging transactions

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 and 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.

Recognition criteria
Hedging derivative instruments, 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 (as concerns 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 90. "Fair value change of financial assets in hedged portfolios" or under caption 70. "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 measures 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 macro-hedging relationship is discontinued, the cumulative revaluations/impairment losses carried under caption 90 "Fair value change of financial assets in hedged portfolios" or caption 70. "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.

7. 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.

8. 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.
Lastly, property and equipment also include the goods used in financial lease contracts, even though the ownership remains in the books of the lessor.

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.

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.
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.

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 other comprehensive income and accumulated in the shareholders’ equity under the caption revaluation reserve; instead, in the case where a decrease in a revaluation of the same asset recognised previously in the income statement is reversed, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in other comprehensive income as revaluation excess 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.

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 value 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.

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.

9. Intangible assets

Classification criteria
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;
- customer related intangibles represented, in business combinations, by asset management relations 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, 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 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 should be 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.

10. Other assets
Apart from items awaiting classification and items not attributable to other captions of the balance sheet, other assets include property and other assets deriving from credit collection through the enforcement of guarantees or purchases at auction, in the event the property was acquired during normal operations of the credit business, with the intention to sell in the near future without carrying out any significant refurbishment works.
These assets, pursuant to IAS 2, are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying value 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.

11. 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. Such assets/liabilities are measured at the lower between the carrying amount and their fair value less costs to sell.
The income and charges (net of tax) 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.

12. Current and deferred tax

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents 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 Department; 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 compensated.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by income taxes.
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, evaluations of financial assets available for sale 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 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.

13. Allowances for risks and charges

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 reference date of the financial statements 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 reference date of the financial statements and take 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.

14. 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 bank in the capacity of lessee in financial 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.

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.

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.

15. 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.

Measurement criteria
All financial liabilities held for trading are designated at fair value through profit and 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 sold with the substantial transfer of all the risks and rewards connected to it.

16. Financial liabilities designated at fair value through profit and loss

Classification criteria
Financial liabilities designated at fair value through profit and 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.

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 through profit and loss.

Derecognition criteria
The financial liabilities measured at fair value through profit and loss are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

17. 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 between the functional currency and the foreign currency 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 and 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.

18. Other information

Own shares
Any treasury 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”, therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions 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.

Provisions for guarantees and commitments
Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, determined applying the same criteria set out above with respect to loans, are recorded under Other liabilities, as set out by Bank of Italy instructions.

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 recognised when they are collected or:
– in case of sale of goods or products, when it is probable that the economic benefits will be received and these benefits may be measured reliably;
– in the case of services, when these have been rendered.

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 until the reference date of the financial statements, 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 and 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 in the financial year when their distribution is approved;
– 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 are recognised under interest;
– costs and revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
– 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, unless most of the risks and rewards related to the asset are maintained.

Costs are recorded in the income statement for the periods to which their income relates. If matching can only be attributed generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis.
Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

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.

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.

For some of the types listed above, the main factors subject to estimates by Intesa Sanpaolo 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;
– 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 future cash flow estimates from loans for which no objective evidence of loss has emerged (collective measurement), past time-series and other objective elements observable at the measurement date are used, which enable the latent loss to be estimated for each loan category;
– 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. For the appraisals for the properties, estimates were made of the lease payments, sale prices, discount rates and capitalisation rates, whereas, for the appraisals for the valuable art assets, the estimate of the value was based on the trend in trades in similar works (in terms of technique, measures, and subject) by the same author, or by schools or regional movements that are close in terms of 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 provisions 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).

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 variable 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 variable) over the life of the loan. For financial assets/liabilities with a variable 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.
Loans, investments held to maturity and financial assets available for sale, payables and securities issued are 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 of syndicated loans and brokerage commissions received.
For securities not classified as held for trading, 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 registration 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, also structured assets and liabilities which are not measured at fair value through profit and loss for which the embedded derivative has been separated from the financial instrument are measured at amortised cost.
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 and 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 paragraph relative to measurement criteria of due to and from banks and customers and securities issued, 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 every balance sheet date the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subject to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.
A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.
The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.
With reference to loans to customers and due from banks, positions attributed the status of bad loan, unlikely to pay or past due loan according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.
These 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. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.
Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower’s country of residence.
The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the regulations known as “Basel 3”. In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the

relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages that showed an average period of six months between the first missed payment and the classification as default. The time horizon of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.
The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the scenario available in the fourth quarter (used in ICAAP) and actual PD. Cyclical coefficients are updated annually and submitted to the Chief Risk Officer for approval.
With reference to assets available for sale, 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: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.
Within the first category, the following indicators are considered significant: 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. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the latter amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.
The amount of the impairment is calculated with reference to the fair value of the financial asset.
For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.

Impairment of equity investments
At each balance sheet date the investments in associates or 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 the relevant chapter 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 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 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 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.
In order to test its real-estate assets for signs of impairment, the Bank conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.
For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value 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.
Intangible assets recognised following a business combination and in application of IFRS 3 are subject to an impairment test at each balance sheet date to assess whether there is objective evidence of an impairment loss.
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 the chapter A.4. - Information on fair value, and note that, in the case of shares listed on active markets, fair value is represented by stock exchange quotations at acquisition date or, should that not be available, the last quotation 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 and IAS 39.
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, 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

A.3.1. Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

The following table shows financial instrument reclassifications mainly carried out in 2008. No reclassifications were made in 2017.

(millions of euro)

Type of financial instrument	Previous portfolio	New portfolio	Book value at 31.12.2017	Fair value at 31.12.2017	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	Financial assets held for trading	Loans	156	141	16	1	-2	2
Debt securities	Financial assets available for sale	Loans	3,076	2,554	44	66	-68	62
Total			**3,232**	**2,695**	**60**	**67**	**-70**	**64**

The income components related to net decreases attributable to the risk profile being hedged of reclassified assets amount to 70 million euro.

Had the Bank not reclassified the above financial assets, positive income components would have been recognised for an amount of 60 million euro (before tax), instead of positive income components of 70 million euro, generating a positive effect of 130 million euro (before tax), broken down as follows:
- write-off of the negative income components recognised during the year following the 70 million euro transfer, relating to fair value decreases following hedges;
- reversal of the positive income components which would have been recognised had no transfer taken place, totalling 60 million euro. Of this amount, 17 million euro refers to recoveries of reclassified securities, 70 million euro to fair value decreases following hedges and 112 million euro to the increase in Valuation reserves.

Moreover, had no reclassification taken place, other negative income components amounting to 3 million euro would have not been recognised. Indeed, this amount is mainly related to the amortised cost of the reclassified securities.
Overall, starting from the respective reclassification dates, reclassified assets as at 31 December 2017 would have been written down by 527 million euro, of which 5 million to be recognised in the income statement (negative components for 2008: 373 million euro, positive components for 2009: 13 million euro, positive components for 2010: 57 million euro, negative components for 2011: 10 million euro, positive components for 2012: 139 million euro, positive components for 2013: 78 million euro, positive components for 2014: 48 million euro, positive components for 2015: 11 million euro, negative components for 2016: 6 million euro and negative components for 2017: 18 million euro) and 522 million euro to be recognised in the Valuation reserve in Shareholders' equity (against 634 million euro as at 31 December 2016 with a positive net variation of 112 million euro had no transfer occurred).
As at 31 December 2017, the reclassifications performed by the Bank to reflect the amendments to IAS 39 in October 2008 with respect to financial instrument reclassification, amount to a nominal 2,879 million euro. Of this amount:
- 2,278 million euro was reclassified by 1 November 2008 and therefore taking as reference the value of these assets as at 1 July 2008 if already present as at that date in the portfolio, or with reference to the purchase price if this took place after 1 July 2008, or at nominal value for loans issued after that date;
- 601 million euro was reclassified after 1 November 2008 and therefore on the basis of fair value as at the date of reclassification; the latter figure refers to reclassifications carried out in 2009 concerning unfunded trading instruments (derivatives) transformed into funded instruments (securities), while maintaining the same risk profile to which the Bank is exposed.

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

No disclosure is required since, as already indicated, no portfolio transfers were carried out in 2017.

A.3.3 Transfer of financial assets held for trading

The financial crisis which marked 2008 was classed by the IASB as a rare circumstance. Consequently, Intesa Sanpaolo has identified certain securities - mainly consisting of bonds not quoted on active markets originally classified under trading assets which due to present and prospective market conditions could no longer be managed actively. These assets were kept in portfolio and reclassified to the loan category. From the time of the reclassification they are measured at amortised cost. With respect to the trading book, the reclassifications mainly involved structured credit products.

A.3.4 Effective interest rate and expected future cash flows from reclassified assets

The effective interest rate attributable to the reclassified securities portfolio is equal to 2.74% and estimated cash flows at the date financial assets were reclassified amount to 2,879 million euro.

A.4 – INFORMATION ON FAIR VALUE

General principles on fair value

In accordance with international financial reporting standards (IFRS13), the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
– in the principal active market for the asset or liability;
– 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. A Bank considers the principal market of a financial asset or liability to be the market in which the Bank generally operates.

A 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 internal policies and despite being quoted on regulated markets, adequate research is carried out in order to verify the significance of 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 principles on prudent valuation

In accordance with the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), prudent valuation means the calculation of specific additional valuation adjustments (AVA) for the financial instruments measured at fair value, aimed at intercepting various sources of valuation uncertainty to ensure 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

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 contained in the trading book.

If there is no active market, the fair value is determined using measurement 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 measurement 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 measurement 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 measurement technique used to measure fair value or the risk relating to the inputs of the measurement 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 reflects 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 measurement techniques rather than the measurement techniques themselves.
The document “Fair Value Hierarchy Rules” defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the 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. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations are available on an active market (for example, exchange traded futures and options)[22] and hedge funds whose Net Asset Value (NAV) is made available, according to the frequency established in the subscription contract, and the checklist, which is the summary document of significant information on underlying assets of the fund, does not identify any critical issues in terms of liquidity risk or counterparty risk.
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 valuation.
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

[22] Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be classified as level 1, but only for foreign branches and international banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.

similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABS for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed 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;
- loans measured through the discounting of future cash flows.

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:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- funds, shareholding and other equity instruments measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

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

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide – a document prepared and updated by the Financial and Market Risks Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the 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. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Valuation of financial instruments and Model Risk Management

The valuation of financial instruments entails the following phases:
- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means. In particular:
  - reference categories are established for the various types of market parameters;
  - the reference requirements governing the identification of official revaluation sources are set;
  - the fixing conditions of official figures are established;
  - the data certification conditions are established;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement. The validation process is particularly important when a new financial instrument is introduced to the operations, or when it is considered necessary to update the pricing models for already managed products. In both cases, the validation consists of adapting an existing pricing model or developing new pricing models. In all cases, the models used for the pricing are subject to an internal

certification process that involves the various competent structures or independent companies, in highly complex or particularly critical cases;

periodic monitoring of the consistency of the valuation models over time: the monitoring consists in checking the adherence to the market of the valuation model in order to promptly discover any gaps and start the necessary verifications and interventions.

Model Risk Management

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

Model Validation

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 approach's ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models in operation 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 and sufficiently liquid. For interest rate derivatives, 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. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against 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.

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

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.
In addition to the adjustments relating to the above mentioned factors, also other types of adjustments ("Mark-to-Market Adjustment") relating to other factors that may influence the valuation are included. These factors essentially involve:
- high and/or complex risk profile;
- illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities[23] are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).
Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.
Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and "quanto" correlation (connected to pay offs and index-linking expressed in different currencies).
The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

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), on the valuation models used.

- Valuation model for non-contributed 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 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 relatively 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 there is an embedded option, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlying assets. This component is calculated on the basis of the type of option and its maturity.

  Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Bank 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.

[23] Securities are considered liquid if they have a maturity of more than 6 months, and at least five contributors of bid and ask prices can be identified that meet the conditions established in the Fair Value Policy, with a bid-ask spread within a set limit.

//· Valuation models for interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA.
The Bank introduced the Credit and Debt Value Adjustment (CVA/DVA) in the past, and has implemented the Funding Value Adjustment (FVA) with effect from 31 March 2016. Accordingly, 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 liquidity and counterparty risk.

a. For CSA transactions with characteristics that reduce counterparty and liquidity 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 liquidity 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 (see point above), and several additional valuation components related to the counterparty and liquidity risk premium, referred to jointly as XVA.
   – An initial assessment component, called Bilateral Credit Value Adjustment (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.
   – A second assessment component, the so-called Funding Value Adjustment (FVA), takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

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 on the basis of the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor 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, 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	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.

III· Valuation model for structured credit products

Regarding 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/consensus platforms, 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. The results of these analyses are subject to backtesting with actual sales prices.

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 CLO HY loans that may influence the waterfall. For this asset class, the process of determining fair value also involves stress of the main unobservable variables and a credit analysis aimed at identifying any weaknesses of the individual assets securing the CLOs that results in a revision of the input parameters.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.
The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.
For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.
The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.
For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the

Expected Default Frequency from Moody's - KMV.
In order to incorporate high market dislocation and intense market illiquidity phenomena in the valuations, a series of corrections have been prepared for the valuations referred to the main input parameters; in particular:
– stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for REITS underlying securities);
– stress of asset value correlation: inter and intra correlations have been increased and decreased by 15% or 25% depending on the type of product;
– stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 25%;
– stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets were 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 ABS/CDO 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. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are measured at level 3 when no reliable and verifiable quotes are available from the Financial and Market Risks Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

IV. Valuation of equities with relative and absolute models

Financial instruments for which fair value is determined using level 2 inputs also 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 at constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions. Equities to which the above "relative" models are not applied are measured using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

V. The valuation model for 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 funds managed through a Managed Account Platform (MAP), which ensures full daily transparency of the instruments underlying the funds, and the funds not managed via MAP.

For the funds managed via MAP, the Fair Value corresponds to the Net Asset Value (NAV) provided by the Fund Administrator. It is not deemed necessary to apply the fair value adjustments described below to the NAV, since:
– the counterparty risk is mitigated by the fact that the MAP is subject to limited recourse clauses and non-petition provisions, through which each fund managed in the MAP achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the units managed via MAP;
– the liquidity risk is managed via a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary;
– due diligence was carried out, which ascertained that the methods to value the instruments in which the fund invests used by the Fund Administrator are consistent with the requirements of the Intesa Sanpaolo Group for the type of instruments considered.

If these conditions are not met, a possible adjustment to the fair value is assessed.
The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For the funds not managed via the MAP, the fair value is calculated by applying to the NAV provided by the Fund Administrator a deduction deriving from a measurement process aimed at taking into account the effect of any idiosyncratic risks, which may be reclassified mainly into the two following types:
– counterparty 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.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company’s financial reports.

VI· Other level 2 and 3 valuation models

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

The prudent value of financial instruments

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.
- 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.

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	Discounting Cash Flows	Credit Spread	-6	79	%	18	-249
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-5	2
OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties	bCVA	Loss Given Default Rate (LGD)	0	100	%	4,273	-11,812
OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties	bCVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	50	-64
OTC derivatives - Equity option	Modello di Black - Scholes	Historical volatility - Euro Class S.p.a.	27.98	76.60	%	396	-86

A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by Intesa Sanpaolo 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 fair value the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
Held for trading and available for sale securities	Credit spread	-1	1 bp
Held for trading and available for sale securities	Recovery rate	-0.2	-1%
OTC derivatives - Equity	Historical volatility for the underlying Euro Class S.p.a.	-99	10%

A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo carried out level changes based on 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 reference date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reference 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 reference date, some of the significant parameters used in determining fair value are not directly observable on the market.

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 **equity instruments** recognised among assets available for sale, 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.

A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.

In calculating the bCVA, Intesa Sanpaolo considers the net positions in derivatives of each counterparty (see paragraph A4.1 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".

Methodological process used to measure the fair value of real estate and valuable art assets

Fair value measurement of real estate assets

As described in detail in the first section relating to accounting policies, in 2017 the Bank opted not to use the cost method to measure real estate assets but instead to use the revaluation method (for owner-occupied property accounted for in accordance with IAS 16) and the fair value method (for investment property accounted for in accordance with IAS 40).

The fair value measurement of real estate assets is based on valuations prepared by qualified independent firms.

In terms of the method used, the "Market Value" is determined for all properties, except for the tower block headquarters in Turin. According to the standards that property surveyors generally use as a reference resource[24], the Market Value is: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". The Market Value, as defined above, is substantially equivalent to the fair value as defined in the international accounting standards.

[24] Standards contained in the "RICS Valuation – Global Standards 2017" (also known as the "Red Book") of the Royal Institution of Chartered Surveyors of the United Kingdom.

Solely for the tower block in Turin (ISP's New Headquarters, with 38 floors above ground and 6 basement levels), the "Investment Value" is estimated instead of the "Market Value" in view of the building's constructional and functional features and the fact that it is largely used in operations. The standards cited above define "investment value" as: "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives".
In fact, the investment value reflects the highest and best use of the asset.

In application terms, the valuations use the Discounted Cash Flow method for all properties included in the portfolio. In the aforesaid method, the valuation parameters used (primarily, lease rentals, selling prices, discount rates and capitalisation rates) are estimated in accordance with industry best practice and based on market investigations conducted in relation to real estate similar to that being valued.

Fair value measurement of valuable art assets

The decision to use the revaluation method instead of the cost method has also concerned the bank's valuable art assets.
In this case also, the fair value measurement is based on valuations prepared by qualified independent firms.
Valuable art assets are valued by estimating the "commercial value or current market value (fair value)" of the individual works of art in each category, deriving such value "from the trend in prices paid for similar works (in terms of technique, size, subject matter) by the same artist or by the school or regional movement that is closest in terms of style and poetry"
Market information is extrapolated from specialist international databases. These are "online databases like 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, Dorotheum, Pandolfini, Wannenes, Il Ponte". The market information extrapolated from these databases is used as objective parameters to be compared with the market as a whole, in an analysis that also monitors art galleries and antique dealers, private dealers and art fairs.
In addition to the analysis of trends in the reference markets, further appraisals are conducted to determine the most important qualitative and quantitative factors of a work of art, including: i) present condition; ii) historical importance of the artist; iii) critical acclaim/historical-artistic importance of the work of art; iv) illustrious provenance; iv) declaration of interest.

Quantitative information

A.4.5. Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level

(millions of euro)

Assets / liabilities at fair value	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,519	14,499	246	3,478	15,733	366
of which: equity	-	-	-	-	-	-
of which: UCIs	*177*	-	*93*	*150*	*82*	*120*
2. Financial assets designated at fair value through profit or loss	-	153	169	-	201	170
of which: equity	-	-	-	-	-	-
of which: UCIs	-	-	*105*	-	-	*107*
3. Financial assets available for sale	33,468	2,370	1,074	35,180	2,377	1,426
of which: equity	*501*	*1,575*	*483*	*189*	*1,850*	*566*
of which: UCIs	*14*	-	*583*	*12*	-	*849*
4. Hedging derivatives	-	3,809	14	-	5,700	20
5. Property and equipment	-	-	4,237	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**36,987**	**20,831**	**5,740**	**38,658**	**24,011**	**1,982**
1. Financial liabilities held for trading	554	13,921	105	657	15,879	134
2. Financial liabilities designated at fair value through profit or loss	-	9	-	-	8	-
3. Hedging derivatives	-	5,550	5	-	6,513	4
Total	**554**	**19,480**	**110**	**657**	**22,400**	**138**

During 2017, 159 million euro of financial assets held for trading (book values as at 31 December 2017) and 21 million euro of financial assets available for sale were transferred from level 1 to level 2 , and 25 million euro of financial assets held for trading was transferred from level 2 to level 1.
The transfers relate to units of UCI and debt securities. In the case of the former the cause was the lack of an active market on 31 December 2017 as defined by IFRS 13, and in the latter case, the cause was the existence of an active market as defined by IFRS 13.

As at 31 December 2017, 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 176 million euro in positive fair value and a reduction of 18 million euro in negative fair value.

The aggregation of "Property and equipment" of 4,237 million euro relates to the fair value measurement of owner-occupied properties, investment properties and valuable art assets. Specifically, the revaluation recorded with respect to the purchase price net of depreciation and write-down amounts to 1,598 million euro.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**366**	**170**	**1,426**	**20**	**-**	**-**
2. Increases	**43**	**1**	**1,204**	**-**	**4,237**	**-**
2.1 Purchases	4	-	679	-	-	-
2.2 Gains recognised in:	28	1	240	-	-	-
2.2.1 Income statement	*28*	*1*	*104*	-	-	-
- of which capital gains	*17*	*1*	*1*	-	-	-
2.2.2 Shareholders' equity	*X*	*X*	*136*	-	-	-
2.3 Transfers from other levels	11	-	5	-	-	-
2.4 Other increases	-	-	280	-	4,237	-
3. Decreases	**-163**	**-2**	**-1,556**	**-6**	**-**	**-**
3.1 Sales	-76	-	-398	-	-	-
3.2 Reimbursements	-1	-	-2	-	-	-
3.3 Losses recognised in:	-50	-2	-771	-6	-	-
3.3.1 Income statement	*-50*	*-2*	*-639*	*-6*	-	-
- of which capital losses	*-44*	*-2*	*-570*	-	-	-
3.3.2 Shareholders' equity	*X*	*X*	*-132*	-	-	-
3.4 Transfers to other levels	-20	-	-130	-	-	-
3.5 Other decreases	-16	-	-255	-	-	-
4. Final amount	**246**	**169**	**1,074**	**14**	**4,237**	**-**

"Transfers to other levels" of "Financial assets held for trading" are mainly due to derivative contracts with a positive fair value. For derivative contracts, transfers between levels are mainly due to the variation in the counterparty risk, considering that derivatives with deteriorated counterparties and positive fair value are classified in level 3 of the fair value hierarchy, and to the presence of contracts measured through parameters which cannot be observed on the market, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

"Transfers to other levels" of "Financial assets available for sale" are mainly due to reclassification from level 3 to level 2 of the fair value of equities measured through parameters which can be observed on the market, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

"Other increases" of property and equipment represents the value of property and equipment as at 31 December 2017; as of that date, the transfer was finalised from the cost model to the revaluation model (non-investment properties) and from cost to fair value (investment properties).

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 through profit or loss	Hedging derivatives
1. Initial amount	**134**	**-**	**4**
2. Increases	**6**	**-**	**1**
2.1 Issues	-	-	-
2.2 Losses recognised in:	2	-	1
2.2.1 Income statement	*2*	*-*	*1*
- of which capital losses	*2*	*-*	*-*
2.2.2 Shareholders' equity	*X*	*X*	*-*
2.3 Trasfers from other levels	4	-	-
2.4 Other increases	-	-	-
3. Decreases	**-35**	**-**	**-**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-32	-	-
3.3.1 Income statement	*-32*	*-*	*-*
- of which capital gains	*-15*	*-*	*-*
3.3.2 Shareholders' equity	*X*	*X*	*-*
3.4 Trasfers to other levels	-1	-	-
3.5 Other decreases	-2	-	-
4. Final amount	**105**	**-**	**5**

“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	31.12.2017				31.12.2016			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Investments held to maturity	335	44	268	-	335	46	268	-
2. Due from banks	157,440	15	139,781	17,798	126,634	-	113,193	13,483
3. Loans to customers	232,693	1,304	156,027	77,176	200,549	1,383	150,654	53,957
4. Investment property	-	-	-	-	3	-	-	9
5. Non-current assets held for sale and discontinued operatic	266	-	260	6	1	-	-	4
Total	**390,734**	**1,363**	**296,336**	**94,980**	**327,522**	**1,429**	**264,115**	**67,453**
1. Due to banks	173,710	-	111,155	63,301	139,036	-	84,846	54,517
2. Due to customers	170,914	-	161,189	9,758	147,364	-	138,049	9,431
3. Securities issued	82,666	51,343	33,984	59	84,824	42,404	43,760	14
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**427,290**	**51,343**	**306,328**	**73,118**	**371,224**	**42,404**	**266,655**	**63,962**

Financial assets and liabilities

For assets and liabilities not measured at fair value (securities held to maturity, 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 debt securities classified under held to maturity and 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 less than 12 months and residual maturity equal to or less 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.

Non-financial assets

For the estimate of the fair value of investment and non-investment properties reference is made to a value determined, mainly via independent expert opinions, considering transactions at current prices in an active market for similar real estate properties, in the same location and conditions as well as subject to similar conditions in terms of rentals and other contracts.
For the determination of the fair value of valuable art assets, reference is made to the value determined by the appraisal of a specialist valuation company, presumed from the knowledge of the national and international art market, constantly monitoring art galleries, trade shows and online databases. In relation to the criteria used to determine the value, reference is made, for each individual asset, to the state of preservation, the firm attribution, the historical importance of the artist/author, the critical/historical-artistic importance of the asset, the illustrious origin, the declaration of interest by the Ministry of for Cultural Heritage and Activities and Tourism.

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

Under IAS 39, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.
The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.
Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).
This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's 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 above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
In 2017 no significant amounts to be deferred to income statement were identified which are not attributable to risk factors or commercial margins.
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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)

	31.12.2017	31.12.2016
a) Cash	1,762	1,566
b) On demand deposits with Central Banks	3,988	4,647
TOTAL	**5,750**	**6,213**

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	3,342	1,287	4	3,328	1,413	30
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	*3,342*	*1,287*	*4*	*3,328*	*1,413*	*30*
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	177	-	93	150	82	120
4. Loans	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**3,519**	**1,287**	**97**	**3,478**	**1,495**	**150**
B. Derivatives						
1. Financial derivatives	-	13,073	149	-	14,157	209
1.1 trading	-	*13,066*	*149*	-	*14,149*	*209*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	*7*	-	-	*8*	-
2. Credit derivatives	-	139	-	-	81	7
2.1 trading	-	*139*	-	-	*81*	*7*
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**13,212**	**149**	**-**	**14,238**	**216**
TOTAL (A+B)	**3,519**	**14,499**	**246**	**3,478**	**15,733**	**366**

Debt securities include the securities connected with securitisation transactions for a total amount of 326 million euro relating to senior issues.

2.2. Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

	31.12.2017	31.12.2016
A) CASH ASSETS		
1. Debt securities	**4,633**	**4,771**
a) Governments and Central Banks	2,397	1,980
b) Other public entities	356	525
c) Banks	991	1,443
d) Other issuers	889	823
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers	-	-
- insurance companies	-	-
- financial institutions	-	-
- non-financial companies	-	-
- other	-	-
3. Quotas of UCI	**270**	**352**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
Total A	**4,903**	**5,123**
B) DERIVATIVES		
a) Banks	9,719	10,859
b) Customers	3,642	3,595
Total B	**13,361**	**14,454**
TOTAL (A+B)	**18,264**	**19,577**

Amounts referring to "Units of UCI" mainly regard hedge fund positions.

SECTION 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 30

3.1 Financial assets designated at fair value through profit and loss: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	138	64	-	188	63
1.1 structured securities	-	-	-	-	-	-
1.2 other debt securities	-	*138*	*64*	-	*188*	*63*
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	-	-	105	-	-	107
4. Loans	-	15	-	-	13	-
4.1 structured	-	*12*	-	-	*9*	-
4.2 other	-	*3*	-	-	*4*	-
Total	**-**	**153**	**169**	**-**	**201**	**170**
Cost	**-**	**157**	**157**	**-**	**196**	**158**

In this category the Bank has classified debt securities with embedded derivatives, debt securities subject to financial hedging, equity investments held, directly or through funds, in companies involved in the venture capital business and loans connected to the LECOIP for the employment agreements, terminated early, of its employees and those of Group companies, which the Bank manages based on fair value.

On the basis of the debt securities and the loans included in the aggregate, no hedges were arranged and no credit derivatives or similar instruments exist to mitigate the relevant credit risk. The total fair value change attributable to the credit risk changes occurred in the period was a positive 9.6 million euro, while the amount of the annual change was insignificant.

3.2 Financial assets designated at fair value through profit and loss: borrower/issuer breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Debt securities	**202**	**251**
a) Governments and Central Banks	1	1
b) Other public entities	-	-
c) Banks	201	250
d) Other issuers	-	-
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers	-	-
- insurance companies	-	-
- financial institutions	-	-
- non-financial companies	-	-
- other	-	-
3. Quotas of UCI	**105**	**107**
4. Loans	**15**	**13**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	12	9
d) Other counterparties	3	4
TOTAL	**322**	**371**

SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40

4.1 Financial assets available for sale: breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	32,953	747	5	34,979	507	8
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*32,953*	*747*	*5*	*34,979*	*507*	*8*
2. Equities	501	1,575	483	189	1,850	566
2.1 Measured at fair value	*501*	*1,575*	*478*	*189*	*1,850*	*560*
2.2 Measured at cost	-	-	*5*	-	-	*6*
3. Quotas of UCI	14	-	583	12	-	849
4. Loans	-	48	3	-	20	3
TOTAL	**33,468**	**2,370**	**1,074**	**35,180**	**2,377**	**1,426**

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and capitalisation certificates.

Financial assets available for sale (sub-caption 2.1 - level 2) includes 1,242 million euro referring to the stakes issued by the Bank of Italy in application of Law Decree no. 133 of 30 November 2013, converted into Law no. 5 of 29 January 2014, following the amendments to the Statute approved by the Shareholders' Meeting of the Bank of Italy on 23 December 2013, entering into force on 31 December 2013.
The stake in the Bank of Italy was reclassified to fair value level 2, as the recognition was based on the direct transaction method.
For the valuation of the above-mentioned stake, the related checks made and further information, reference is made to the contents of Section 4 – Part B of the Notes to the consolidated financial statements.
Debt securities include the securities connected with securitisation transactions for a total amount of 16 million euro, of which 12 million euro is senior, 2 million euro is mezzanine and 2 million euro is junior.

With reference to the equities measured at cost, investments mainly refer to non-financial companies featuring individual immaterial amounts.

4.2 Financial assets available for sale: borrower/issuer breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Debt securities	**33,705**	**35,494**
a) Governments and Central Banks	31,774	33,977
b) Other public entities	157	94
c) Banks	1,291	836
d) Other issuers	483	587
2. Equities	**2,559**	**2,605**
a) Banks	1,747	1,740
b) Other issuers	812	865
- insurance companies	*6*	*6*
- financial institutions	*131*	*168*
- non-financial companies	*675*	*691*
- other	*-*	*-*
3. Quotas of UCI	**597**	**861**
4. Loans	**51**	**23**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	3	2
d) Other counterparties	48	21
TOTAL	**36,912**	**38,983**

The aggregate includes positions resulting from the conversion of loans for 124 million euro in equities issued by non-financial companies, 15 million euro in equities issued by financial companies and 2 million euro in units of UCI.
Equities include instruments issued by borrowers classified as bad or unlikely to pay with a total carrying amount of 19 million euro; such positions were subject to cumulated write downs for 1 million euro, essentially in previous years.

4.3 Financial assets available for sale: assets with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Financial assets with specific fair value hedges	**25,573**	**23,018**
a) Interest rate risk	25,523	22,967
b) Price risk	-	-
c) Foreign exchange risk	-	-
d) Credit risk	-	-
e) Various risks	50	51
2. Financial assets with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**25,573**	**23,018**

Impairment tests for financial assets available for sale

As required under IAS/IFRS, financial assets available for sale are subjected to impairment testing 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.
For further details on the criteria for impairment testing of financial assets available for sale, reference should be made to Part A - Accounting policies of the Notes to the consolidated and Parent Company's financial statements and to Part B – Information on the consolidated balance sheet – Assets of the Notes to the consolidated financial statements.

SECTION 5 - INVESTMENTS HELD TO MATURITY - CAPTION 50

5.1 Investments held to maturity: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	335	44	268	-	335	46	268	-
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	*335*	*44*	*268*	-	*335*	*46*	*268*	-
2. Loans	-	-	-	-	-	-	-	-
TOTAL	**335**	**44**	**268**	**-**	**335**	**46**	**268**	**-**

5.2 Investments held to maturity: borrowers/issuers

(millions of euro)

	31.12.2017	31.12.2016
1. Debt securities	**335**	**335**
a) Governments and Central Banks	335	335
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
TOTAL	**335**	**335**
TOTAL FAIR VALUE	**-**	**-**

5.3 Investments held to maturity with specific hedges

As at 31 December 2017, no investments held to maturity with specific hedges were recorded.

SECTION 6 – DUE FROM BANKS – CAPTION 60

6.1 Due from banks: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value Level 1	Level 2	Level 3	Book value	Fair value Level 1	Level 2	Level 3
A. Due from Central Banks	**34,305**	**-**	**34,305**	**-**	**22,890**	**-**	**22,890**	**-**
1. Time deposits	7				-			
2. Compulsory reserve	34,298				22,890			
3. Repurchase agreements	-				-			
4. Other	-				-			
B. Due from banks	**123,135**	**15**	**105,476**	**17,798**	**103,744**	**-**	**90,303**	**13,483**
1. Loans	120,690	-	103,247	17,591	101,096	-	87,949	13,232
1.1 Current accounts and deposits	*11,824*				*7,568*			
1.2 Time deposits	*71,361*				*62,354*			
1.3 Other loans	*37,505*				*31,174*			
- Reverse repurchase agreements	*9,206*				*3,278*			
- Financial leases	-				-			
- Other	*28,299*				*27,896*			
2. Debt securities	2,445	15	2,229	207	2,648	-	2,354	251
2.1 Structured	-				-			
2.2 Other	*2,445*				*2,648*			
TOTAL	**157,440**	**15**	**139,781**	**17,798**	**126,634**	**-**	**113,193**	**13,483**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

There were no non-performing assets due from banks either as at 31 December 2017 or as at 31 December 2016.

6.2 Due from banks with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Due from banks with specific fair value hedges	**165**	**348**
a) Interest rate risk	128	306
b) Foreign exchange risk	-	-
c) Credit risk	-	-
d) Various risks	37	42
2. Due from banks with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**165**	**348**

6.3 Financial leases

Intesa Sanpaolo has no financial leases with banks.

SECTION 7 – LOANS TO CUSTOMERS – CAPTION 70

7.1 Loans to customers: breakdown

(millions of euro)

	31.12.2017						31.12.2016					
	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	**205,466**	**317**	**13,201**	**-**	**146,439**	**75,708**	**171,462**	**403**	**14,928**	**-**	**142,003**	**51,817**
1. Current accounts	10,295	8	1,942				8,770	10	2,153			
2. Reverse repurchase agreements	15,872	-	-				17,241	-	-			
3. Mortgages	107,622	308	9,012				90,488	392	10,271			
4. Credit card loans, personal loans and transfer of one fifth of salaries	10,212	-	233				8,305	-	197			
5. Finance leases	12	-	-				-	-	-			
6. Factoring	51	-	-				48	-	-			
7. Other loans	61,402	1	2,014				46,610	1	2,307			
Debt securities	**13,668**	**-**	**41**	**1,304**	**9,588**	**1,468**	**13,715**	**-**	**41**	**1,383**	**8,651**	**2,140**
8. Structured securities	*10*	-	-				*7*	-	-			
9. Other debt securities	*13,658*	-	*41*				*13,708*	-	*41*			
TOTAL	**219,134**	**317**	**13,242**	**1,304**	**156,027**	**77,176**	**185,177**	**403**	**14,969**	**1,383**	**150,654**	**53,957**

The fair value is indicated only where required by specific instructions from the Bank of Italy.

Loans to customers include loans disbursed on public funds under administration for which the Bank holds the risk in the amount of 42 million euro.

Debt securities include the securities connected with securitisation transactions for a total amount of 515 million euro, of which 462 million euro is senior, 35 million euro is mezzanine and 18 million euro is junior.

7.2 Loans to customers: borrower/issuer breakdown

(millions of euro)

	31.12.2017			31.12.2016		
	Performing	Non-performing		Performing	Non-performing	
		purchased	other		purchased	other
1. Debt securities	**13,668**	**-**	**41**	**13,715**	**-**	**41**
a) Governments	1,842	-	-	2,025	-	-
b) Other public entities	4,280	-	27	4,610	-	27
c) Other issuers	7,546	-	14	7,080	-	14
- non-financial companies	*1,122*	-	*14*	*1,099*	-	*13*
- financial institutions	*6,373*	-	-	*5,930*	-	*1*
- insurance companies	*51*	-	-	*51*	-	-
- other	-	-	-	-	-	-
2. Loans	**205,466**	**317**	**13,201**	**171,462**	**403**	**14,928**
a) Governments	4,627	-	4	4,603	-	7
b) Other public entities	6,893	-	208	7,589	-	213
c) Other counterparties	193,946	317	12,989	159,270	403	14,708
- non-financial companies	*90,639*	*303*	*10,597*	*73,398*	*399*	*12,237*
- financial institutions	*37,320*	*2*	*354*	*35,525*	*2*	*334*
- insurance companies	*902*	-	-	*920*	-	-
- other	*65,085*	*12*	*2,038*	*49,427*	*2*	*2,137*
TOTAL	**219,134**	**317**	**13,242**	**185,177**	**403**	**14,969**

7.3 Loans to customers with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Loans to customers with specific fair value hedges	**9,456**	**13,434**
a) Interest rate risk	8,945	12,832
b) Foreign exchange risk	-	-
c) Credit risk	-	-
d) Various risks	511	602
2. Loans to customers with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**9,456**	**13,434**

As illustrated in Part A – Accounting policies and Part E – Information on risks and relative hedging policies, loans to customers are hedged via specific fair value hedges of the interest rate risk as well as via the stabilisation of the interest flows (cash flow hedges) of floating rate funding, to the extent that this is used to finance fixed rate loans, and via macro fair value hedges.

7.4 Financial leases

(millions of euro)

Time bands	31.12.2017						
	Non-performing loans	**Loans for assets to be leased**	Minimum lease payments			Gross investment	
			Capital	*of which guaranteed residual value*	Interest		*of which unguaranteed residual value*
Up to 3 months	-	-	1	-	-	1	-
Between 3 and 12 months	-	-	3	-	-	3	-
Between 1 and 5 years	-	-	7	-	-	7	-
Over 5 years	-	-	1	-	-	1	-
Unspecified maturity	-	-	-	-	-	-	-
Total, gross	**-**	**-**	**12**	**-**	**-**	**12**	**-**
Adjustments	-	-	-	-	-	-	-
- individual	-	-	-	-	-	-	-
- collective	-	-	-	-	-	-	-
Total, net	**-**	**-**	**12**	**-**	**-**	**12**	**-**

SECTION 8 - HEDGING DERIVATIVES – CAPTION 80

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.
Only derivatives traded on regulated markets are considered quoted derivatives.

8.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2017			Notional value 31.12.2017	Fair value 31.12.2016			Notional value 31.12.2016
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A) Financial derivatives	**-**	**3,809**	**14**	**121,929**	**-**	**5,700**	**20**	**126,131**
1) fair value	-	3,809	14	121,929	-	5,700	20	125,931
2) cash flows	-	-	-	-	-	-	-	200
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**3,809**	**14**	**121,929**	**-**	**5,700**	**20**	**126,131**

8.2 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	Specific	Generic	
	interest rate risk	foreign exchange risk	credit risk	price risk	various risks				
1. Financial assets available for sale	38	-	-	-	-	X	-	X	X
2. Loans	53	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	195	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**91**	**-**	**-**	**-**	**-**	**195**	**-**	**-**	**-**
1. Financial liabilities	3,015	-	-	X	266	X	-	X	X
2. Portfolio	X	X	X	X	X	254	X	-	X
Total liabilities	**3,015**	**-**	**-**	**-**	**266**	**254**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	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 9 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 90

9.1 Fair value change of financial assets in hedged portfolios: breakdown by hedged portfolios

(millions of euro)

	31.12.2017	31.12.2016
1. Positive fair value change	**4**	**160**
1.1. of specific portfolios	4	160
a) loans	*4*	*160*
b) assets available for sale	-	-
1.2. overall	-	-
2. Negative fair value change	**-135**	**-**
2.1. of specific portfolios	-135	-
a) loans	*-135*	-
b) assets available for sale	-	-
2.2. overall	-	-
TOTAL	**-131**	**160**

The balance of the changes in value of assets subject to macrohedging (MCH) against interest rate risk is recorded in this caption. For the application the Bank took advantage of the options envisaged after the definition of the IAS 39 carve out.

9.2 Assets hedged by macrohedging of interest rate risk

(millions of euro)

Hedged assets	31.12.2017	31.12.2016
1. Loans	32,557	27,362
2. Assets available for sale	-	-
3. Portfolio	-	-
TOTAL	**32,557**	**27,362**

The table shows assets subject to macrohedging of interest rate risk.
Additional information on fair value hedging is available in Part E – Information on risks and relative hedging policies of the Notes to the consolidated financial statements.

SECTION 10 – EQUITY INVESTMENTS – CAPTION 100

10.1 Equity investments: information on equity interests

		Registered office	Place of business	% held	Votes available %
A. WHOLLY-OWNED SUBSIDIARIES					
1	08 GENNAIO S.r.l. IN DISSOLUTION AND LIQUIDATION	Milano	Milano	100.00	100.00
2	ASSOCIAZIONE STUDI E RICERCHE PER IL MEZZOGIORNO (a)	Napoli	Napoli	33.33	33.33
3	BANCA 5 S.p.A.	Milano	Milano	100.00	100.00
4	BANCA APULIA S.p.A.	San Severo	San Severo	70.41	69.47
5	BANCA IMI S.p.A.	Milano	Milano	100.00	100.00
6	BANCA INTESA JOINT-STOCK COMPANY (a)	Mosca	Mosca	46.98	46.98
7	BANCA NUOVA S.p.A.	Palermo	Palermo	100.00	100.00
8	BANCA PROSSIMA S.p.A. (b)	Milano	Milano	80.16	80.16
9	BANCO DI NAPOLI S.p.A.	Napoli	Napoli	100.00	100.00
10	BANK OF ALEXANDRIA (c)	Il Cairo	Il Cairo	80.00	70.25
11	BANKA INTESA SANPAOLO D.D. (d)	Koper	Koper	48.07	48.07
12	CASSA DEI RISPARMI DI FORLI E DELLA ROMAGNA S.p.A.	Forlì	Forlì	84.01	84.01
13	CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.p.A.	Gorizia	Udine	100.00	100.00
14	CASSA DI RISPARMIO DEL VENETO S.p.A.	Padova	Padova	100.00	100.00
15	CASSA DI RISPARMIO DI FIRENZE S.p.A.	Firenze	Firenze	100.00	100.00
16	CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA S.p.A. (a)	Pistoia	Pistoia	25.02	25.02
17	CASSA DI RISPARMIO IN BOLOGNA S.p.A.	Bologna	Bologna	100.00	100.00
18	CIB BANK LTD	Budapest	Budapest	100.00	100.00
19	CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Roma	Roma	62.50	62.50
20	EURIZON CAPITAL SGR S.p.A.	Milano	Milano	100.00	100.00
21	FIDEURAM - INTESA SANPAOLO PRIVATE BANKING S.p.A.	Torino	Roma	100.00	100.00
22	FIDEURAM VITA S.p.A.	Roma	Roma	80.01	80.01
23	FONDO DI RIGENERAZIONE URBANA SICILIA S.r.l.	Palermo	Torino	100.00	100.00
24	FONDO SARDEGNA ENERGIA S.r.l.	Cagliari	Cagliari	100.00	100.00
25	IMI INVESTIMENTI S.p.A.	Bologna	Bologna	100.00	100.00
26	IMMIT - IMMOBILI ITALIANI S.r.l.	Torino	Torino	100.00	100.00
27	IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.r.l.	Milano	Milano	100.00	100.00
28	INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	Tirana	100.00	100.00
29	INTESA SANPAOLO BANK IRELAND PLC	Dublino	Dublino	100.00	100.00
30	INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	San Paolo	San Paolo	99.90	99.90
31	INTESA SANPAOLO CASA S.p.A.	Milano	Milano	100.00	100.00
32	INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.r.l.	Milano	Milano	100.00	100.00
33	INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Milano	Milano	67.01	67.01
34	INTESA SANPAOLO FORVALUE S.p.A.	Milano	Milano	100.00	100.00
35	INTESA SANPAOLO FUNDING LLC	Wilmington - Delaware	New York	100.00	100.00
36	INTESA SANPAOLO GROUP SERVICES SOCIETA' CONSORTILE PER AZIONI	Torino	Torino	99.91	99.91
37	INTESA SANPAOLO HIGHLINE S.r.l.	Torino	Torino	100.00	100.00
38	INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	Lussemburgo	Lussemburgo	100.00	100.00
39	INTESA SANPAOLO PROVIS S.p.A.	Milano	Milano	100.00	100.00
40	INTESA SANPAOLO RE.O.CO. S.p.A.	Milano	Milano	100.00	100.00
41	INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Bucarest	Bucarest	91.47	91.47
42	INTESA SANPAOLO SEC S.A.	Lussemburgo	Lussemburgo	100.00	100.00
43	INTESA SANPAOLO SECURITISATION VEHICLE S.r.l.	Milano	Milano	100.00	100.00
44	INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA	San Paolo	San Paolo	99.93	99.93
45	INTESA SANPAOLO SMART CARE S.r.l.	Torino	Torino	51.01	51.01
46	INTESA SANPAOLO VITA S.p.A.	Torino	Milano	99.99	99.99
47	INTESA SEC. 3 S.r.l.	Milano	Milano	60.00	60.00
48	INTESA SEC. NPL S.p.A.	Milano	Milano	60.00	60.00
49	INTESA SEC. S.p.A.	Milano	Milano	100.00	100.00
50	ISP CB IPOTECARIO S.r.l.	Milano	Milano	60.00	60.00
51	ISP CB PUBBLICO S.r.l.	Milano	Milano	60.00	60.00
52	ISP OBG S.r.l.	Milano	Milano	60.00	60.00
53	MEDIOCREDITO ITALIANO S.p.A.	Milano	Milano	100.00	100.00
54	NEVA FINVENTURES S.p.A.	Torino	Torino	100.00	100.00
55	NEWCO RICERCA E INNOVAZIONE S.r.l.	Torino	Torino	100.00	100.00
56	OOO INTESA REALTY RUSSIA	Mosca	Mosca	100.00	100.00

		Registered office	Place of business	% held	Votes available %
57	PRAVEX BANK PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK	Kiev	Kiev	100.00	100.00
58	PRIVATE EQUITY INTERNATIONAL S.A.	Lussemburgo	Lussemburgo	85.80	90.90
59	QINGDAO YICAI WEALTH MANAGEMENT CO. LTD.	Qingdao	Qingdao	55.00	55.00
60	RISANAMENTO S.p.A. (e)	Milano	Milano	48.88	48.88
61	SEC SERVIZI - SOCIETA' CONSORTILE PER AZIONI	Padova	Padova	73.61	73.61
62	SERVIZI BANCARI - S.c.p.a.	Vicenza	Vicenza	95.95	95.95
63	VENETO BANKA DD	Zagabria	Zagabria	100.00	100.00
64	VENETO BANKA SH.A.	Tirana	Tirana	100.00	100.00
B. COMPANY SUBJECT TO JOINT CONTROL					
1	AUGUSTO S.r.l.	Milano	Milano	5.00	5.00
2	COLOMBO S.r.l.	Milano	Milano	5.00	5.00
3	DIOCLEZIANO S.r.l.	Milano	Milano	5.00	5.00
4	MANUCOR S.p.A.	Milano	Sessa Aurunca	72.75	45.50
5	TANGENZIALE ESTERNA S.p.A.	Milano	Milano	2.58	2.58
6	TANGENZIALI ESTERNE DI MILANO S.p.A.	Milano	Milano	17.53	17.53
C. COMPANY SUBJECT TO SIGNIFICANT INFLUENCE					
1	ADRIANO LEASE SEC S.r.l. (f)	Conegliano	Conegliano	5.00	5.00
2	AUTOSTRADA PEDEMONTANA LOMBARDA S.p.A.	Assago	Assago	17.37	17.37
3	AUTOSTRADE LOMBARDE S.p.A.	Brescia	Brescia	42.45	42.45
4	BANCOMAT S.p.A.	Roma	Roma	20.28	20.28
5	BERICA 5 RESIDENTIAL MBS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
6	BERICA 6 RESIDENTIAL MBS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
7	BERICA 8 RESIDENTIAL MBS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
8	BERICA 9 RESIDENTIAL MBS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
9	BERICA 10 RESIDENTIAL MBS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
10	BERICA ABS S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
11	BERICA ABS 2 S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
12	BERICA ABS 3 S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
13	BERICA RESIDENTIAL MBS 1 S.r.l. (f)	Vicenza	Vicenza	5.00	5.00
14	BRERA SEC S.r.l. (f)	Conegliano	Conegliano	5.00	5.00
15	CASSA DI RISPARMIO DI FERMO S.p.A.	Fermo	Fermo	33.33	33.33
16	CLARIS FINANCE 2005 S.r.l. (f)	Roma	Roma	5.00	5.00
17	CLASS DIGITAL SERVICE S.r.l.	Milano	Milano	31.25	31.25
18	COMPAGNIA AEREA ITALIANA S.p.A.	Fiumicino	Fiumicino	27.49	27.49
19	CONSORZIO BANCARIO SIR S.p.A. (IN LIQUIDATION)	Roma	Roma	38.49	38.49
20	DESTINATION ITALIA S.p.A.	Milano	Milano	38.00	38.00
21	EQUITER S.p.A.	Torino	Torino	33.68	33.68
22	EUROMILANO S.p.A.	Milano	Milano	43.43	43.43
23	EUROPROGETTI & FINANZA S.p.A. IN LIQUIDATION	Roma	Roma	15.97	15.97
24	EUSEBI HOLDINGS B.V.	Amsterdam	Amsterdam	47.00	47.00
25	EXPERIENTIA GLOBAL S.A.	Losanna	Losanna	11.11	11.11
26	FENICE S.r.l.	Milano	Milano	9.08	9.08
27	FOCUS INVESTMENTS S.p.A.	Milano	Milano	8.33	25.00
28	IMPIANTI S.r.l. IN LIQUIDATION	Milano	Milano	27.95	27.95
29	ITALCONSULT S.p.A.	Roma	Roma	10.00	10.00
30	LEONARDO TECHNOLOGY S.r.l.	Milano	Milano	26.60	26.60
31	MARKETWALL S.r.l.	Milano	Milano	33.00	33.00
32	PIETRA S.r.l.	Milano	Milano	22.22	22.22
33	PORTOCITTA' S.r.l.	Trieste	Trieste	12.50	12.50

	Registered office	Place of business	% held	Votes available %
34 RAINBOW	Verona	Verona	2.47	0.00
35 RCN FINANZIARIA S.p.A.	Mantova	Mantova	23.96	23.96
36 SICILY INVESTMENTS S.a.r.l.	Lussemburgo	Lussemburgo	25.20	25.20
37 SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.p.A.	Brescia	Brescia	0.05	0.05
38 SOLAR EXPRESS S.r.l.	Firenze	Firenze	40.00	40.00
39 TRINACRIA CAPITAL S.a.r.l.	Lussemburgo	Lussemburgo	25.20	25.20
40 UMBRIA EXPORT SOCIETA' CONSORTILE A RESPONSABILITA' LIMITATA	Perugia	Perugia	33.87	33.87
41 VARESE INVESTIMENTI S.p.A.	Varese	Varese	40.00	40.00

(a) Company included among significant equity investments as, in total, the Group holds a controlling share.

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

(c) 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.

(d) Minority shareholders are subject to a legal commitment to purchase the remaining 0,93% of share capital.

(e) Company not subject to the management and coordination activities pursuant to art. 2497 et seq. of the Italian Civil Code.

(f) Intesa Sanpaolo holds 5% of the share capital; these are vehicles used for securitisation transactions within the Group.

The illustration of the reasons determining whether a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

Though the stake in Joint Stock Commercial Bank Eximbank (Moldova), 100%-owned, deriving from the acquisition of certain assets and liabilities of Veneto Banca in compulsory administrative liquidation, was included in the Aggregate Set transferred to Intesa Sanpaolo, it was not included in the scope of consolidation as at 31 December 2017, since a local legislative provision is being approved, aimed at the transfer of the Moldovan bank's non-performing loans to compulsory administrative liquidation procedure. Without this operation, it will not be possible to register the change of ownership that would allow Intesa Sanpaolo to exercise the shareholder prerogatives and therefore the control over the company.

Equity investments include relations with borrowers classified as bad or unlikely to pay, with a total carrying amount of 105 million euro; such positions were subject to cumulated write downs for 347 million euro, of which 5 million euro recognized during the year.

10.2 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.

10.3 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.

10.4 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.

10.5 Equity investments: annual changes

(millions of euro)

	31.12.2017	31.12.2016
A. Initial amount	**30,589**	**28,582**
B. Increases	**1,510**	**4,052**
B.1 purchases	1,025	1,610
of which business combinations	*476*	*217*
B.2 write-backs	1	-
B.3 revaluations	422	-
B.4 other changes	62	2,442
C. Decreases	**-1,541**	**-2,045**
C.1 sales	-327	-425
C.2 impairment losses	-290	-316
C.3 other changes	-924	-1,304
D. Final amount	**30,558**	**30,589**
E. Total revaluations	**26**	**26**
F. Total impairment losses	**-13,390**	**-13,164**

Subcaption B.1 "Purchases" primarily includes the following transactions:
- subscription to additional Tier 1 equity instruments issued by Banca Imi S.p.A. for 200 million euro;
- subscription to a share capital increase of Intesa Sanpaolo Provis S.p.A. for 100 million euro;
- purchase of shares of Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. for 87 million euro;
- subscription to a share capital increase of Central European International Bank for 48 million euro;
- transformation and subscription of share capital of In.fra. Investire nelle Infrastrutture s.r.l. for 39 million euro;
- subscription to a share capital increase of Pravex Bank Joint Stock Commercial Bank for 33 million euro;
- subscription to a share capital increase of Neva Finventures S.p.A., for 20 million euro;

Subcaption B.4 "Other changes" essentially refers to the following transactions:
- increase in value of the equity investment in Banka Intesa Sanpaolo D.D. for 13 million euro, equal to the difference between the higher transfer value and the carrying value, in application of the new standard OPI 1 Revised;

Subcaption C.1 "Purchases" primarily includes the following transactions:
- partial sale of Banka Intesa for a total value of 144 million euro;
- sale of Accedo S.p.A. for a total value of 136 million euro;
- sale of Nuovo Trasporto Viaggiatori for a total value of 24 million euro;

Subcaption C.3 "Other changes" mainly includes the following transactions:
- reclassification of Bank of Qingdao Co. Ltd. among financial assets available for sale for 551 million euro;
- cancellation and reimbursement of share capital of In.fra. Investire nelle Infrastrutture s.r.l. for 150 million euro;
- reclassification of the capital contribution of Central European International Bank for 117 million euro;
- reclassification of Nuovo Trasporto Viaggiatori S.p.A. among financial assets available for sale for 99 million euro;

Equity investments include financial assets and liabilities of Banca Popolare di Vicenza and Veneto Banca for 476 million euro.

10.6 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.

10.7 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.

10.8 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.

10.9 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 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 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 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.
With regard to investments in associates or companies subject to joint control, impairment testing led to the need to adjust the values of certain companies. The main write-downs concerned the investments in
Autostrade Lombarde (15 million euro) and Autostrada Pedemontana Lombarda (7 million euro).
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 investments in the Parent Company's 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 2017 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 write-downs, aligning the carrying amount of the investment to the proportional share of equity of the subsidiaries. The main write-downs refer to Intesa Sanpaolo Provis for 134 million euro, and Cassa di Risparmio in Bologna for 96 million euro.

SECTION 11 – PROPERTY AND EQUIPMENT – CAPTION 110

11.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

	31.12.2017	31.12.2016
1. Property and equipment owned	**163**	**2,746**
a) land	-	1,037
b) buildings	-	1,490
c) furniture	102	164
d) electronic equipment	53	51
e) other	8	4
2. Property and equipment acquired under finance lease	**-**	**9**
a) land	-	4
b) buildings	-	5
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**163**	**2,755**

11.2 Investment property: breakdown of assets measured at cost

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**9**
a) land	-	-	-	-	*1*	-	-	*4*
b) buildings	-	-	-	-	*2*	-	-	*5*
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**9**

11.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**4,143**	**-**	**-**	**-**
a) land	-	-	*1,746*	-	-	-
b) buildings	-	-	*2,135*	-	-	-
c) valuable art assets	-	-	*262*	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**15**	**-**	**-**	**-**
a) land	-	-	*4*	-	-	-
b) buildings	-	-	*11*	-	-	-
c) valuable art assets	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**4,158**	**-**	**-**	**-**

11.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

	31.12.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**79**	**-**	**-**	**-**
a) land	-	-	*28*	-	-	-
b) buildings	-	-	*51*	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
TOTAL	**-**	**-**	**79**	**-**	**-**	**-**

11.5 Property and equipment used in operations: annual changes

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**1,062**	**2,634**	**1,064**	**1,349**	**-**	**33**	**6,142**
A.1 Total net adjustments	-21	-1,139	-900	-1,298	-	-29	-3,387
A.2 Net initial carrying amount	**1,041**	**1,495**	**164**	**51**	**-**	**4**	**2,755**
B. Increases	**804**	**916**	**20**	**27**	**270**	**6**	**2,043**
B.1 Purchases	35	151	20	27	-	6	239
of which business combinations	*35*	*151*	*8*	*19*	*-*	*5*	*218*
B.2 Capitalised improvement costs	-	20	-	-	-	-	20
B.3 Write-backs	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	763	645	-	-	211	-	1,619
a) shareholders' equity	*757*	*628*	*-*	*-*	*211*	*-*	*1,596*
b) income statement	*6*	*17*	*-*	*-*	*-*	*-*	*23*
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	-	-	-	-	-
B.7 Other changes	6	100	-	-	59	-	165
C. Decreases	**-95**	**-265**	**-82**	**-25**	**-8**	**-2**	**-477**
C.1 Sales	-23	-142	-	-	-	-	-165
of which business combinations	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.2 Depreciation	-	-72	-23	-25	-	-2	-122
C.3 Impairment losses recognised in	-	-	-	-	-	-	-
a) shareholders' equity	*-*	*-*	*-*	*-*	*-*	*-*	*-*
b) income statement	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Negative fair value differences recognised in	-23	-4	-	-	-8	-	-35
a) shareholders' equity	*-*	*-*	*-*	*-*	*-*	*-*	*-*
b) income statement	*-23*	*-4*	*-*	*-*	*-8*	*-*	*-35*
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfers to	-30	-39	-	-	-	-	-69
a) investment property	*-28*	*-35*	*-*	*-*	*-*	*-*	*-63*
b) non-current assets held for sale and discontinued operations	*-2*	*-4*	*-*	*-*	*-*	*-*	*-6*
C.7 Other changes	-19	-8	-59	-	-	-	-86
D. Net final carrying amount	**1,750**	**2,146**	**102**	**53**	**262**	**8**	**4,321**
D.1 Total net adjustments	-	-	1,026	1,588	-	51	2,665
D.2 Gross final carrying amount	**1,750**	**2,146**	**1,128**	**1,641**	**262**	**59**	**6,986**
E. Measurement at cost	**1,011**	**1,500**	**-**	**-**	**59**	**-**	**2,570**

Total net adjustments (A1 and D1) include the amounts relating to depreciation.
Subcaption E - Measurement at cost only includes property and equipment measured at fair value (Land, Buildings and Valuable Art Assets), as per instructions issued by the Bank of Italy.

11.6 Investment property: annual changes

(millions of euro)

	TOTAL	
	Land	Buildings
A. Gross initial carrying amount	**1**	**6**
A.1 Total net adjustments	-	-4
A.2 Net initial carrying amount	**1**	**2**
B. Increases	**29**	**56**
B.1 Purchases	1	1
of which business combinations	*1*	*1*
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	18
B.4 Write-backs	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	28	35
B.7 Other changes	-	2
C. Decreases	**-2**	**-7**
C.1 Sales	-	-
of which business combinations	-	-
C.2 Depreciation	-	-1
C.3 Negative fair value differences	-1	-3
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-1	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	*-1*	-
C.7 Other changes	-	-3
D. Final carrying amount	**28**	**51**
E. Fair value measurement	-	-

11.7 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2017 amounted to 5 million euro.

SECTION 12 – INTANGIBLE ASSETS - CAPTION 120

12.1 Intangible assets: breakdown by type of asset

(millions of euro)

	31.12.2017		31.12.2016	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**859**	**X**	**859**
A.2 Other intangible assets	**88**	**1,507**	**13**	**1,507**
A.2.1 Assets measured at cost	88	1,507	13	1,507
a) Internally generated intangible assets	*1*	-	-	-
b) Other assets	*87*	*1,507*	*13*	*1,507*
A.2.2 Assets measured at fair value	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**88**	**2,366**	**13**	**2,366**

Other intangible assets and goodwill 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.

12.2 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	**6,203**	**8**	**-**	**1,487**	**2,009**	**9,707**
A.1 Total net adjustments	-5,344	-8	-	-1,474	-502	-7,328
A.2 Net initial carrying amount	**859**	**-**	**-**	**13**	**1,507**	**2,379**
B. Increases	**-**	**1**	**-**	**87**	**-**	**88**
B.1 Purchases	-	1	-	87	-	88
of which business combinations	*-*	*1*	*-*	*87*	*-*	*88*
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	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	**-**	**-**	**-**	**-13**	**-**	**-13**
C.1 Sales	-	-	-	-	-	-
of which business combinations	*-*	*-*	*-*	*-*	*-*	*-*
C.2 Impairment losses	-	-	-	-13	-	-13
- Amortisation	X	-	-	-13	-	-13
- 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	**859**	**1**	**-**	**87**	**1,507**	**2,454**
D.1 Total net adjustments	5,344	12	-	1,589	502	7,447
E. Gross final carrying amount	**6,203**	**13**	**-**	**1,676**	**2,009**	**9,901**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

12.3 Intangible assets: other information

There were no commitments to purchase intangible assets as at 31 December 2017.

Information on intangible assets and goodwill

Intangible assets and goodwill recognised to the Intesa Sanpaolo balance sheet derive mainly from the merger between Banca Intesa and Sanpaolo IMI completed on 1 January 2007.
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 2017.

(millions of euro)

	Financial statements as at 31.12.2016	Acquisition of the Venetian Banks	Amortisation	Financial statements as at 31.12.2017
BANCA DEI TERRITORI				
- Intangible asset management - distribution	-	70	-3	67
- Intangible assets insurance - distribution	14	-	-2	12
- Intangible core deposits	-	-	-	-
- Intangible brand name	1,507	-	-	1,507
- Goodwill	859	-	-	859
CORPORATE AND INVESTMENT BANKING				
- Intangible brand name	-	-	-	-
- Goodwill	-	-	-	-
TOTAL	**2,380**	**70**	**-5**	**2,445**
- Intangible asset management - distribution	-	70	-3	67
- Intangible assets insurance - distribution	14	-	-2	12
- Intangible core deposits	-	-	-	-
- Intangible brand name	1,507	-	-	1,507
- Goodwill	859	-	-	859

Intangible assets recognised include intangible assets linked to customers, represented by the measurement of asset management and insurance portfolio accounts (for the value components attributable to distribution).
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 "180 Net adjustments to/recoveries on intangible assets") for a total of 5 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 2017 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 2017.

Impairment testing of intangibles

Insurance portfolio

For the 2017 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 was equal to 2 million euro gross of the tax effect, slightly above 14% of the value of the asset recognised at the end of 2016.
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 2017 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

Nell'ambito dell'operazione di acquisizione di determinate attività e passività di Banca Popolare di Vicenza e Veneto Banca in LCA è stata valorizzata l'attività immateriale legata alla raccolta amministrata e gestita (Asset Under Management, AUM) riveniente dall'Insieme Aggregato acquisito.
For the purpose of the impairment test as at 31 December 2017, the intangible asset in question was not subject to specific analyses of indicators of impairment, taking account of the recent valuation and the fact 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 customer assets of the specific CGU.
Per maggiori dettagli si rimanda alla Parte B – Informazioni sullo stato patrimoniale – Attivo del Bilancio consolidato.

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 2017 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.
In the Intesa Sanpaolo Group, the CGUs which in the long-term benefit from the synergies of the business combinations performed and which to various extents have recognised goodwill values are:

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

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 financial statements – Assets.
More specifically, goodwill recognised to Intesa Sanpaolo financial statements has been entirely allocated to the Banca dei Territori 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, controlling investments 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 of the consolidated financial statements.
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 13 – TAX ASSETS AND LIABILITIES – CAPTION 130 OF ASSETS AND CAPTION 80 OF LIABILITIES

13.1 Deferred tax assets: breakdown

(millions of euro)

	31.12.2017		31.12.2016	
Corresponding caption in income statement	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
A. Temporary deductible differences				
years	1,841	208	1,688	186
of which pertaining to countries of foreign branches	*4*	-	*9*	-
Provisions for future charges	567	82	355	51
Higher tax value of equity investments, securities and other assets	212	66	111	20
Extraordinary charges for incentive-driven exit plans	247	48	32	6
Goodwill, trademarks and other intangible assets	3,976	781	4,050	844
Other	1,674	64	50	10
of which pertaining to countries of foreign branches	*4*	-	-	-
B. Taxable temporary differences				
Costs deducted off balance sheet	-	-	-	-
Capital gains in instalments	-	-	-	-
Lower tax value of equity investments, securities and other assets	298	44	94	17
Other	5	-	41	3
TOTAL	**8,214**	**1,205**	**6,151**	**1,097**
Corresponding caption in Shareholders' equity	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
Cash flow hedge	355	71	442	89
Recognition of actuarial gains/losses	175	-	170	-
Assets available for sale	38	5	68	9
Property and equipment	-	-	-	-
TOTAL	**568**	**76**	**680**	**98**
Total deferred tax assets	**8,782**	**1,281**	**6,831**	**1,195**

13.2 Deferred tax liabilities: breakdown

(millions of euro)

	31.12.2017		31.12.2016	
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	335	61	275	50
Lower tax value of securities and other assets	198	19	214	24
of which pertaining to countries of foreign branches	-	-	-	-
Other	6	-	2	-
B. Temporary deductible differences				
Adjustment to/Impairment of loans deductible in future years	-	-	-	-
Higher tax value of securities and other assets	-	-	-	-
Other	-	-	-	-
TOTAL	**539**	**80**	**491**	**74**
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	-	-	-	-
Assets available for sale	30	7	38	18
Property and equipment	444	82	-	-
TOTAL	**474**	**89**	**38**	**18**
Total deferred tax liabilities	**1,013**	**169**	**529**	**92**

13.3 Changes in deferred tax assets (through profit and loss)

(millions of euro)

	31.12.2017	31.12.2016
1. Initial amount	**7,248**	**7,108**
2. Increases	**3,264**	**620**
2.1 Deferred tax assets recognised in the period	1,100	225
a) related to previous years	*5*	*18*
b) due to changes in accounting criteria	*5*	*-*
c) writebacks	*-*	*-*
d) other	*1,090*	*207*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	199	174
2.4 Business combinations	1,965	221
3. Decreases	**-1,093**	**-480**
3.1 Deferred tax assets eliminated in the period	-699	-323
a) reversals	*-679*	*-315*
b) write-offs due to expired recoverability	*-*	*-*
c) changes in accounting criteria	*-*	*-*
d) other	*-20*	*-8*
3.2 Tax rate reductions	-	-
3.3 Other decreases	-394	-157
a) changes into tax credits pursuant to Law no. 214/2011	*-46*	*-*
b) other	*-348*	*-157*
3.4 Business combinations	-	-
4. Final amount	**9,419**	**7,248**

Other increases refer to write-off of netting against deferred tax liabilities, applied as at 31 December 2016, amounting to 155 million euro.
"Other decreases – other" as at 31 December 2017 include 347 million euro attributable to the netting against deferred tax liabilities for the year.

13.3.1 Changes in deferred tax assets eligible for transformation into tax credits (through profit or loss) (Law 214/2011)

(millions of euro)

	31.12.2017	31.12.2016
1. Initial amount	**6,758**	**6,729**
2. Increases	**827**	**245**
3. Decreases	**-413**	**-216**
3.1 Reversals	-366	-216
3.2 Changes into tax credits	-46	-
a) from losses for the year	*-*	*-*
b) from fiscal losses	*-46*	*-*
3.3 Other decreases	-1	-
4. Final amount	**7,172**	**6,758**

13.4 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

	31.12.2017	31.12.2016
1. Initial amount	**565**	**499**
2. Increases	**428**	**244**
2.1 Deferred tax liabilities recognised in the period	79	86
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*79*	*86*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	155	157
2.4 Business combinations	194	1
3. Decreases	**-374**	**-178**
3.1 Deferred tax liabilities eliminated in the period	-24	-23
a) reversals	*-13*	*-7*
b) due to changes in accounting criteria	-	-
c) other	*-11*	*-16*
3.2 Tax rate reductions	-	-
3.3 Other decreases	-350	-155
3.4 Business combinations	-	-
4. Final amount	**619**	**565**

Other increases refer to write-off of netting against deferred tax assets performed as at 31 December 2016, amounting to 155 million euro.
Other decreases as at 31 December 2017 include 347 million euro attributable to the netting against deferred tax assets for the year.

13.5 Changes in deferred tax assets (recorded in equity)

(millions of euro)

	31.12.2017	31.12.2016
1. Initial amount	**778**	**853**
2. Increases	**139**	**209**
2.1 Deferred tax assets recognised in the period	139	167
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*139*	*167*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	42
2.4 Business combinations	-	-
3. Decreases	**-273**	**-284**
3.1 Deferred tax assets eliminated in the period	-272	-104
a) reversals	*-272*	*-102*
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) other	-	*-2*
3.2 Tax rate reductions	-	-
3.3 Other decreases	-1	-180
3.4 Business combinations	-	-
4. Final amount	**644**	**778**

13.6 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

	31.12.2017	31.12.2016
1. Initial amount	**56**	**160**
2. Increases	**753**	**56**
2.1 Deferred tax liabilities recognised in the period	753	47
a) related to previous years	-	-
b) due to changes in accounting criteria	*527*	-
c) other	*226*	*47*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	9
2.4 Business combinations	-	-
3. Decreases	**-246**	**-160**
3.1 Deferred tax liabilities eliminated in the period	-246	-35
a) reversals	*-246*	*-35*
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-125
3.4 Business combinations	-	-
4. Final amount	**563**	**56**

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 showed a taxable base that was more than sufficient and adequate to allow recovery of the deferred taxes carried in the financial statements as at 31 December 2017.

13.7 Other information

There is no other information to be provided in addition to that already contained in this Section.

SECTION 14 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 140 OF ASSETS AND CAPTION 90 OF LIABILITIES

14.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

	31.12.2017 Total book value	31.12.2016 Total book value
A. Non-current assets held for sale		
A.1 Financial assets	260	-
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	6	1
A.4 Intangible assets	-	-
A.5 Other	-	-
Total A	**266**	**1**
of which cost	***6***	***-***
of which Fair value Level 1	***-***	***-***
of which Fair value Level 2	***260***	***-***
of which Fair value Level 3	***-***	***4***
B. Discontinued operations		
B.1 Financial assets held for trading	-	-
B.2 Financial assets designated at fair value through profit and loss	-	-
B.3 Financial assets available for sale	-	-
B.4 Investments held to maturity	-	-
B.5 Due from banks	-	-
B.6 Loans to customers	-	-
B.7 Investments in associates and companies subject to joint control	-	-
B.8 Property and equipment	-	-
B.9 Intangible assets	-	-
B.10 Other	-	-
Total B	**-**	**-**
of which cost	***-***	***-***
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	-	-
C.2 Securities	-	-
C.3 Other	-	-
Total C	**-**	**-**
of which cost	***-***	***-***
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 Due to banks	-	-
D.2 Due to customers	-	-
D.3 Securities issued	-	-
D.4 Financial liabilities held for trading	-	-
D.5 Financial liabilities designated at fair value through profit and loss	-	-
D.6 Allowances	-	-
D.7 Other	-	-
Total D	**-**	**-**
of which cost	***-***	***-***
of which Fair value Level 1	***-***	***-***
of which Fair value Level 2	***-***	***-***
of which Fair value Level 3	***-***	***-***

Discontinued financial assets are attributable to the business combinations described in Part G of the Notes to Parent Company's financial statements and refer to high risk loans already reclassified in the financial statements as bad loans, which shall be transferred to the Banks in compulsory administrative liquidation (with customised guarantee from the State) during the next timeframes envisaged by contract, and whose book value was determined based on the contractual indications, which set out a consideration equal to their gross value net of provisions at the execution date and of 50% of the adjustments which, based on the IAS/IFRSs, Intesa Sanpaolo should have carried out if the obligation to repurchase the related loan from the Banks in compulsory administrative liquidation had not existed

14.2 Other information

There is no other information to be provided.

14.3 Information on companies subject to significant influence not carried at shareholders' equity

This caption is not present.

SECTION 15 – OTHER ASSETS – CAPTION 150

15.1 Other assets: breakdown

(millions of euro)

	TOTAL
Amounts to be credited and items under processing	830
Amounts to be debited - deriving from securities transactions	3
Bank cheques drawn on third parties to be settled	151
Transit items	26
Checks and other instruments held	53
Leasehold improvements	42
Due from Group companies on fiscal consolidation	283
Other	1,890
TOTAL 31.12.2017	**3,278**
TOTAL 31.12.2016	**2,834**

LIABILITIES

SECTION 1 – DUE TO BANKS – CAPTION 10

1.1 Due to banks: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Due to Central Banks	**64,369**	**45,574**
2. Due to banks	**109,341**	**93,462**
2.1 Current accounts and deposits	24,866	18,187
2,2 Time deposits	74,275	68,132
2.3 Loans	8,718	6,065
2.3.1 Repurchase agreements	*5,529*	*2,008*
2.3.2 Other	*3,189*	*4,057*
2.4 Debts for commitments to repurchase own equity instruments	-	-
2.5 Other debts	1,482	1,078
TOTAL (book value)	**173,710**	**139,036**
Fair value - Level 1	-	-
Fair value - Level 2	111,155	84,846
Fair value - Level 3	63,301	54,517
TOTAL (Fair value)	**174,456**	**139,363**

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 C.2.
With regard to long term repurchase agreements, reference should be made to the information reported under Table 1.1 of Section 1 - Liabilities of the Notes to the consolidated financial statements.

1.2 Breakdown of caption 10 Due to banks: subordinated debts

As at 31 December 2016 Intesa Sanpaolo had no subordinated debts to banks.

1.3 Breakdown of caption 10 Due to banks: structured debts

As at 31 December 2016 Intesa Sanpaolo has structured debts totalling 217 million euro.

1.4 Due to banks with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Due to banks with specific fair value hedges	**43,983**	**38,482**
a) Interest rate risk	43,792	38,275
b) Foreign exchange risk	-	-
c) Various risks	191	207
2. Due to banks with specific cash flow hedges	**-**	**-**
a) Interest rate risk	-	-
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**43,983**	**38,482**

1.5 Financial lease payables

1.5.1 Financial lease payables: breakdown by time interval

(millions of euro)

	31.12.2017	31.12.2016
Finance lease payables		
a) within 1 year	1	3
b) between 1 and 5 years	3	3
c) over 5 years	-	-
TOTAL	**4**	**6**

SECTION 2 – DUE TO CUSTOMERS – CAPTION 20

2.1 Due to customers: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Current accounts and deposits	142,789	122,824
2. Time deposits	12,605	12,147
3. Loans	9,371	10,079
3.1 Repurchase agreements	*6,950*	*7,028*
3.2 Other	*2,421*	*3,051*
4. Debts for commitments to repurchase own equity instruments	-	-
5. Other debts	6,149	2,314
TOTAL (book value)	**170,914**	**147,364**
Fair value - Livello 1	-	-
Fair value - Livello 2	161,189	138,049
Fair value - Livello 3	9,758	9,431
TOTAL (Fair value)	**170,947**	**147,480**

Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E.
Loans - Other include 236 million euro regarding the exposure on the sale of loans related to the Sec 3 securitisation, 9 million euro regarding the K-Equity securitisation and 3,008 million euro regarding the securitisations deriving from the acquisition of the Aggregate Set of the former Veneto Banca and the former Banca Popolare di Vicenza. For additional details, see Part E - Section C of the Notes.

2.2 Breakdown of caption 20 Due to customers: subordinated debts

As at 31 December 2016 Intesa Sanpaolo had no subordinated debts to customers.

2.3 Breakdown of caption 20 Due to customers: structured debts

As at 31 December 2016 Intesa Sanpaolo had no structured debts to customers.

2.4 Due to customers with specific hedges

As at 31 December 2016 Intesa Sanpaolo had no debts to customers with specific hedges.

2.5 Financial lease payables

2.5.1 Financial lease payables: breakdown by time interval

As at 31 December 2017 Intesa Sanpaolo has no financial leases with customers amounting to 1 million euro.

SECTION 3 – SECURITIES ISSUED - CAPTION 30

3.1 Securities issued: breakdown

(millions of euro)

	31.12.2017				31.12.2016			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	79,497	51,343	30,815	59	83,243	42,404	42,179	14
1.1 structured	*1,009*	*209*	*744*	*59*	*1,018*	*-*	*974*	*14*
1.2 other	*78,488*	*51,134*	*30,071*	*-*	*82,225*	*42,404*	*41,205*	*-*
2. other	3,169	-	3,169	-	1,581	-	1,581	-
2.1 structured	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
2.2 other	*3,169*	*-*	*3,169*	*-*	*1,581*	*-*	*1,581*	*-*
TOTAL	**82,666**	**51,343**	**33,984**	**59**	**84,824**	**42,404**	**43,760**	**14**

Embedded derivatives that, as at their issue date, have satisfied the conditions set forth by IAS 39 for separation from the host contract as at 31 December 2017, have a net negative fair value of 135 million euro, compared to a net negative fair value as at 31 December 2016 amounting to 159 million euro.
The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

3.2 Breakdown of caption 30 Securities issued: subordinated securities

Securities issued includes subordinated securities amounting to 13,506 million euro.

3.3 Breakdown of caption 30 Securities issued: securities with specific hedges

(millions of euro)

	31.12.2017	31.12.2016
1. Securities with specific fair value hedges	**44,129**	**59,077**
a) Interest rate risk	43,496	58,219
b) Foreign exchange risk	-	-
c) Various risks	633	858
2. Securities with specific cash flow hedges	**53**	**54**
a) Interest rate risk	53	54
b) Foreign exchange risk	-	-
c) Other	-	-
TOTAL	**44,182**	**59,131**

SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 40

4.1 Financial liabilities held for trading: breakdown

(millions of euro)

	31.12.2017					31.12.2016				
	Nominal or notional value	Fair value			Fair value (*)	Nominal or notional value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. CASH LIABILITIES										
1. Due to banks	**586**	**554**	**-**	**-**	**554**	**666**	**657**	**-**	**-**	**657**
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	**586**	**554**	**-**	**-**	**554**	**666**	**657**	**-**	**-**	**657**
B. DERIVATIVES										
1. Financial derivatives	**X**	**-**	**13,699**	**105**	**X**	**X**	**-**	**15,778**	**114**	**X**
1.1 Trading	X	-	13,556	1	X	X	-	15,597	-	X
1.2 Fair value option	X	-	11	-	X	X	-	37	-	X
1.3 Other	X	-	132	104	X	X	-	144	114	X
2. Credit derivatives	**X**	**-**	**222**	**-**	**X**	**X**	**-**	**101**	**20**	**X**
2.1 Trading	X	-	222	-	X	X	-	101	20	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**13,921**	**105**	**X**	**X**	**-**	**15,879**	**134**	**X**
TOTAL (A+B)	**X**	**554**	**13,921**	**105**	**X**	**X**	**657**	**15,879**	**134**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

A.1 Due to banks and A.2 Due to customers consist entirely of short selling.

4.2 Breakdown of caption 40 Financial liabilities held for trading: subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities held for trading.

4.3 Breakdown of caption 40 Financial liabilities held for trading: structured debts

Intesa Sanpaolo has no structured debts classified under Financial liabilities held for trading.

SECTION 5 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – CAPTION 50

5.1 Financial liabilities designated at fair value through profit and loss: breakdown

(millions of euro)

	31.12.2017					31.12.2016				
	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	5	-	4	-	5	5	-	3	-	3
1.1 structured	*5*	-	*4*	-	*X*	*5*	-	*3*	-	*X*
1.2 other	-	-	-	-	*X*	-	-	-	-	*X*
2. Due to customers	7	-	5	-	7	6	-	5	-	5
2.1 structured	*7*	-	*5*	-	*X*	*6*	-	*5*	-	*X*
2.2 other	-	-	-	-	*X*	-	-	-	-	*X*
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 structured	-	-	-	-	*X*	-	-	-	-	*X*
3.2 other	-	-	-	-	*X*	-	-	-	-	*X*
TOTAL	**12**	**-**	**9**	**-**	**12**	**11**	**-**	**8**	**-**	**8**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The Bank has classified in this category debts connected to 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.
The amount of relevant annual and total fair value change attributable to the changes in its own credit rating occurred in the year is immaterial.

5.2 Breakdown of caption 50 Financial liabilities designated at fair value: subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities designated at fair value.

SECTION 6 - HEDGING DERIVATIVES – CAPTION 60

6.1. Hedging derivatives: breakdown by type of hedge and hierarchical level

(millions of euro)

	Fair value 31.12.2017			Notional value	Fair value 31.12.2016			Notional value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
A. Financial derivatives	**-**	**5,550**	**5**	**84,898**	**-**	**6,513**	**4**	**89,110**
1. Fair value	-	3,946	5	76,756	-	4,579	4	81,999
2. Cash flows	-	1,604	-	8,142	-	1,934	-	7,111
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**5,550**	**5**	**84,898**	**-**	**6,513**	**4**	**89,110**

6.2. 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	price risk	various risks		Specific	Generic	
1. Financial assets available for sale	413	-	-	-	5	X	-	X	X
2. Loans	2,472	-	-	X	248	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	318	X	6	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**2,885**	**-**	**-**	**-**	**253**	**318**	**-**	**6**	**-**
1. Financial liabilities	398	-	-	X	96	X	6	X	X
2. Portfolio	X	X	X	X	X	-	X	1,592	X
Total liabilities	**398**	**-**	**-**	**-**	**96**	**-**	**6**	**1,592**	**-**
1. Forecast transactions	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 specific fair value hedges of loans disbursed and generic cash flow hedge derivatives of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.
There are also specific fair value hedges of financial liabilities and financial assets available for sale and generic fair value hedges of loans.

SECTION 7 - FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS - CAPTION 70

7.1. Fair value change of financial liabilities in hedged portfolios: breakdown by hedged portfolios

(millions of euro)

Fair value change of financial liabilities in hedged portfolios / Values	31.12.2017	31.12.2016
1. Positive fair value change of financial liabilities	323	528
2. Negative fair value change of financial liabilities	-	-
TOTAL	**323**	**528**

The balance of the changes in value of liabilities subject to macrohedging (MCH) against interest rate risk is recorded in this

caption; for its application the Bank took advantage of the option emerged after the definition of the IAS 39 carve out.

7.2. Financial liabilities hedged by macro-hedging of interest rate risk: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Debts	-	-
2. Portfolio	2,761	5,132
TOTAL	**2,761**	**5,132**

The table shows liabilities hedged by macrohedging of interest risk; the Bank adopted macrohedging only for the hedging of core deposits.

SECTION 8 – TAX LIABILITIES – CAPTION 80

For information on this section, see Section 13 of Assets.

SECTION 9 - LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 90

There are no liabilities associated with non-current assets held for sale and discontinued operations as at the reference date.

SECTION 10 – OTHER LIABILITIES – CAPTION 100

10.1 Other liabilities: breakdown

(millions of euro)

	31.12.2017
Due to suppliers	476
Amounts due to third parties	197
Transit items	15
Adjustments for portfolio items to be settled	-
Amounts to be credited and items under processing	1,285
Personnel charges	81
Due to social security entities	113
Guarantees given and commitments	212
Due to Group companies on fiscal consolidation	310
Due to tax authorities	506
Other	4,000
TOTAL 31.12.2017	**7,195**
TOTAL 31.12.2016	**5,762**

SECTION 11 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 110

11.1 Employee termination indemnities: annual changes

(millions of euro)

	31.12.2017	31.12.2016
A. Initial amount	**736**	**645**
B. Increases	**203**	**228**
B.1 Provisions in the year	9	14
B.2 Other	194	214
of which business combinations	*82*	-
C. Decreases	**-172**	**-137**
C.1 Benefits paid	-50	-23
C.2 Other	-122	-114
of which business combinations	-	-
D. Final amount	**767**	**736**

C.1 refers to benefits paid as at 31 December 2017.

11.2 Other information

There is no information further to that already provided in the previous sections.

SECTION 12 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 120

12.1 Allowances for risks and charges: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Post employment benefits	**884**	**836**
2. Other allowances for risks and charges	**3,017**	**1,112**
2.1 Legal disputes	309	362
2.2 Personnel charges	1,268	316
2.3 Other	1,440	434
TOTAL	**3,901**	**1,948**

The contents of 2. Other allowances for risks and charges are illustrated in point 12.4 below.

12.2 Allowances for risks and charges: annual changes

(millions of euro)

	Post employment benefits	Other allowances	Total
A. Initial amount	**836**	**1,112**	**1,948**
B. Increases	**141**	**2,394**	**2,535**
B.1 Provisions in the year	20	1,958	1,978
B.2 Time value changes	17	1	18
B.3 Changes due to discount rate variations	-	-	-
B.4 Other	104	435	539
of which business combinations	*5*	*80*	*85*
C. Decreases	**-93**	**-489**	**-582**
C.1 Uses in the year	-11	-434	-445
C.2 Changes due to discount rate variations	-	-	-
C.3 Other	-82	-55	-137
of which business combinations	-	-	-
D. Final amount	**884**	**3,017**	**3,901**

Other allowances include net provisions of 818 million euro to caption 160 of the income statement and net provisions to other income statement captions.

12.3 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;
- Pension Fund for the employees of the former Cassa di Risparmio di Prato, which includes the personnel of the former Cariprato who had retired at 1 May 1981 and who, on 1 July 1998, opted to remain in the supplementary section. The Fund guarantees its members a supplement to mandatory general insurance (*assicurazione generale obbligatoria*) of up to 75% of the last salary received;
- Defined benefit plan of the former Cassa di Risparmio di Fabriano e Cupramontana operating pursuant to Art. 2117 of the Italian Civil Code for the retired personnel of this former bank.

External funds include:

- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino", a fund with legal status, full economic independence and independent asset management;
- Supplementary pension fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", an entity with legal status and independent asset management. The Fund 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 that 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. 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.

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	31.12.2017			31.12.2016		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**736**	**152**	**3,452**	**645**	**137**	**3,366**
Current service costs	2	2	27	2	1	32
Recognised past service costs	-	-	-	-	-	-
Interest expense	7	5	58	11	5	73
Actuarial losses due to changes in financial assumptions	3	-	54	48	31	300
Actuarial losses due to changes in demographic assumptions	1	-	5	-	-	36
Actuarial losses based on past experience	1	-	135	-	-	-
Positive exchange differences	-	-	-	-	-	1
Increases - business combinations	82	5	-	65	-	-
Participants' contributions	X	-	-	X	-	-
Actuarial profits due to changes in financial assumptions	-	-3	-	-	-	-
Actuarial profits due to changes in demographic assumptions	-	-	-11	-1	-	-20
Actuarial profits based on past experience	-	-	-37	-11	-	-147
Negative exchange differences	-	-5	-3	-	-20	-
Benefits paid	-50	-3	-185	-23	-2	-191
Decreases - business combinations	-	-	-	-	-	-
Curtailments of the fund	X	-	-	X	-	-
Settlements of the fund	X	-	-	X	-	-33
Other increases	11	-	-	8	-	35
Other decreases	**-26**	**-**	**-**	**-8**	**-**	**-**
Final amount	**767**	**153**	**3,495**	**736**	**152**	**3,452**

Liabilities of the defined benefit obligations pension plan	31.12.2017			31.12.2016		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	767	-	-	736	-	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	153	3,495	-	152	3,452

The actuarial losses recorded for variations in financial assumptions are due to the rate performance. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed, compared to the previous year, an average decline of 0.10% for the various deadlines, resulting in an increase in liabilities.

On the basis of actuarial calculations, the present value of the defined benefit obligations, excluding Employee termination indemnities, was as follows.

Internal plans:
- 148 million euro referred to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 5 million euro referred to the Pension fund for employees of former Cassa di Risparmio di Prato.

External plans:
- 1,964 million euro referred to the Pension fund "Cassa di Previdenza" for employees of Istituto Bancario San Paolo di Torino (1,595 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 536 million euro referred to the Supplementary Pension Fund for employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A" (432 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 610 million euro referred to the Pension fund for employees of Cariplo, entirely contributed by Intesa Sanpaolo S.p.A.;
- 25 million euro referred to defined benefit plans at the New York branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 360 million euro referred to the Pension Fund of Cassa di Risparmio di Firenze (7 million euro pertaining to Intesa Sanpaolo).

3. Information on the fair value of plan assets

(millions of euro)

Plan assets	31.12.2017		31.12.2016	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**110**	**2,612**	**112**	**2,697**
Return on assets net of interest	6	58	10	42
Interest income	3	41	4	56
Positive exchange differences	-	-	-	1
Increases - business combinations	4	-	-	-
Employer contributions	2	-	2	-
Participants' contributions	-	-	-	-
Negative exchange differences	-4	-3	-16	-
Decreases - business combinations	-	-	-	-
Benefits paid	-3	-185	-2	-191
Curtailments of the fund	-	-	-	-
Settlements of the fund	-	-	-	-33
Other changes	-	20	-	40
Final amount	**118**	**2,543**	**110**	**2,612**

The final amount of internal plans was broken down as follows:
- 113 million euro referred to defined benefit plans at the London branch;
- 5 million euro referred to the Pension Fund for employees of former Cassa di Risparmio di Prato.

The final amount of external plans was broken down as follows:
- 989 million euro referred to the Pension Fund for employees of the Istituto Bancario San Paolo di Torino;
- 492 million euro referred to the Supplementary Pension Fund for the employees of Banco di Napoli – Section A;
- 600 million euro referred to the Pension fund for employees of Cariplo;
- 18 million euro referred to defined benefit plans at the New York branch;
- 444 million euro referred to the Pension fund of Cassa di Risparmio di Firenze.

(millions of euro)

	31.12.2017				31.12.2016			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**60**	**51.0**	**446**	**18.0**	**55**	**50.0**	**388**	**15.0**
- of which level-1 fair value	60		421		55		388	
Mutual funds	**-**	**-**	**252**	**10.0**	**-**	**-**	**225**	**9.0**
- of which level-1 fair value	-		244		-		225	
Debt securities	**46**	**39.0**	**1,160**	**46.0**	**46**	**42.0**	**1,264**	**48.0**
- of which level-1 fair value	46		1,160		46		969	
Real estate assets and investments in real estate companies	**7**	**6.0**	**508**	**20.0**	**7**	**6.0**	**545**	**21.0**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**-**	**-**	**2**	**2.0**	**-**	**-**
- of which level-1 fair value	-		-		-		-	
Other assets	**5**	**4.0**	**177**	**6.0**	**-**	**-**	**190**	**7.0**
- of which level-1 fair value	-		-		-		-	
TOTAL	**118**	**100.0**	**2,543**	**100.0**	**110**	**100.0**	**2,612**	**100.0**

(millions of euro)

	31.12.2017				31.12.2016			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**60**	**51.0**	**446**	**18.0**	**55**	**50.0**	**388**	**15.0**
- of which financial companies	60		107		55		55	
- of which non financial companies	-		339		-		333	
Mutual funds	**-**	**-**	**252**	**10.0**	**-**	**-**	**225**	**9.0**
Debt securities	**46**	**39.0**	**1,160**	**46.0**	**46**	**42.0**	**1,264**	**48.0**
Government bonds	46		848		46		920	
- of which investment grade	*46*		*845*		*46*		*912*	
- of which speculative grade	-		*3*		-		*8*	
Financial companies	-		144		-		147	
- of which investment grade	-		*111*		-		*132*	
- of which speculative grade	-		*33*		-		*15*	
Non Financial companies	-		168		-		197	
- of which investment grade	-		*119*		-		*148*	
- of which speculative grade	-		*49*		-		*49*	
Real estate assets and investments in real estate companies	**7**	**6.0**	**508**	**20.0**	**7**	**6.0**	**545**	**21.0**
Insurance business	**-**	**-**	**-**	**-**	**2**	**2.0**	**-**	**-**
Other assets	**5**	**4.0**	**177**	**6.0**	**-**	**-**	**190**	**7.0**
TOTAL ASSETS	**118**	**100.0**	**2,543**	**100.0**	**110**	**100.0**	**2,612**	**100.0**

The difference between net defined benefit liabilities (Table 12.3.2) and the plan assets (Table 12.3.3) is recognised in the post-employment plans.

4. Description of the main actuarial assumptions

Actuarial assumptions	31.12.2017				31.12.2016			
	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate	Discount rate	Expected yield rates	Expected increase in salaries	Annual inflation rate
EMPLOYEE TERMINATION INDEMNITIES	0.9%	X	27.0%	1.5%	1.0%	X	2.7%	1.5%
INTERNAL PLANS	1.4%	0.0%	2.1%	1.7%	2.9%	0.0%	2.4%	2.4%
EXTERNAL PLANS	1.8%	4.0%	2.5%	1.4%	2.0%	3.0%	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	31.12.2017					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	731	802	150	157	3,267	3,752
Rate of wage rises	765	765	155	152	3,593	3,405
Inflation rate	788	744	155	152	3,716	3,292

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 12.3.2. 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 15.24 years for pension funds and 9 years for employee termination indemnities.

Any outflows to be carried out over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the former Banco di Napoli Fund) 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 Complementary Pension Fund for the employees of Banco di Napoli.
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 May 1999. Its transfer to Section A of the Complementary Pension Fund for the employees of Banco di Napoli 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 Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A 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.

12.4 Allowances for risks and charges – Other allowances

(millions of euro)

	31.12.2017	31.12.2016
2. Other allowances		
2.1 legal disputes	309	362
2.2 personnel charges	1,268	316
incentive-driven exit plans	*1,017*	*118*
employee seniority bonuses	*64*	*69*
other personnel expenses	*187*	*129*
2.3 other risks and charges	1,440	434
TOTAL	**3,017**	**1,112**

Other allowances refers to:

- legal disputes: the allowance was set up mainly to cover expected outlay for litigation and other revocatory action;
- personnel charges: the allowance includes charges for incentive-driven exit plans, charges for employee seniority bonuses, calculated on the basis of actuarial assumptions, provisions for annual bonuses and other charges;
- other risks and charges: these refer to provisions to cover charges for integration of the Aggregate Set, tax litigations, frauds and other litigation charges.

SECTION 13 – REDEEMABLE SHARES – CAPTION 140

Not applicable to Intesa Sanpaolo.

SECTION 14 – PARENT COMPANY'S SHAREHOLDERS' EQUITY – CAPTIONS 130, 150, 160, 170, 180, 190 AND 200

14.1 Share capital and Treasury shares: breakdown

As at 31 December 2017 the Bank's portfolio amounts to 10,127,350 ordinary shares fully liberated.
For information on share capital, see point 14.3 below.

14.2 Share capital – Parent Company's number of shares: annual changes

(millions of euro)

	Ordinary	Other
A. Initial number of shares	**15,859,786,585**	**932,490,561**
- fully paid-in	15,859,786,585	932,490,561
- not fully paid-in	-	-
A.1 Treasury shares (-)	**-8,587,277**	**-**
A.2 Shares outstanding: initial number	**15,851,199,308**	**932,490,561**
B. Increases	**2,723,252**	**-**
B.1 New issues	-	-
- for consideration	-	-
business combinations	-	-
conversion of bonds	-	-
exercise of warrants	-	-
other	-	-
- for free	-	-
in favour of employees	-	-
in favour of directors	-	-
other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other	2,723,252	-
C. Decreases	**-4,263,325**	**-**
C.1 Annulment	-	-
C.2 Purchase of treasury shares	-4,263,325	-
C.3 Disposal of companies	-	-
C.4 Other	-	-
D. Shares outstanding: final number	**15,849,659,235**	**932,490,561**
D.1 Treasury shares (+)	10,127,350	-
D.2 Final number of shares	15,859,786,585	932,490,561
- fully paid-in	15,859,786,585	932,490,561
- not paid-in	-	-

14.3 Share capital: other information

The share capital of the Bank as at 31 December 2017 amounted to 8,732 million euro, divided into 15,859,786,585 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting.
Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders.
Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible savings share will be 2% of nominal value higher than for ordinary shares.
In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.
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 generated a reserve of 25,801 million euro as at 31/12/2017, 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.

14.4 Reserves from retained earnings: other information

Reserves amounted to 3,843 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 branches abroad and other reserves set up in the past following specific legal provisions.

Valuation reserves amounted to 774 million euro and included valuation reserves of financial assets available for sale, 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.

(millions of euro)

	Amount as at 31.12.2016	Principal	Portion of net income	Portion of net income subject to a suspended tax regime (a)	Portion available (b)	Uses in the past three years
Shareholders' equity						
– Share capital	8,732	6,211	1,305	1,216	-	-
– Equity instruments	4,103	4,134	-31	-	-	-
– Share premium reserve (c)	26,164	11,661	13,991	512	A, B, C	1,343
– Legal reserve	2,065	520	1,545	-	A(1), B	-
– Extraordinary reserve	1,023	58	965	-	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)	-
– Legal Reserve Branches abroad	15	-	15	-	A, B, C	-
– Reserve for stock option plans	13	-	13	-	A	-
– Oper. reserve under common control	64	-	64	-	A, B, C	-
– FTA tax rate revision reserve on property	25	-	25	-	A, B, C	-
– Lecoip contribution reserve	284	-	284	-	A	-
– Other reserves	-180	-	-183	3	A, B, C	-
Valuation reserves						
– Realuation 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)	8	-	-	8	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)	-
– AFS valuation reserve	13	-	13	-	(4)	-
– Property and equipment and intangible assets valuation reserve	1,088	-	1,088	-	(4)	-
– CFH valuation reserve	-862	-	-862	-	(4)	-
– Defined benefit plans valuation reserve	-460	-	-460	-	(4)	-
– Treasury shares	-26	-26	-	-	-	-
Total Capital and Reserves	**43,590**	22,558	17,772	3,260	(5)	-
Non-distributable portion (d)	7,891	-	-	-	-	-

(a) Restricted reserves for tax purposes pursuant to art. 109, par. 4 of the Combined Tax Regulations as amended by Legislative Decree no. 247/2005 amount to 0.2 million euro.

(b) A = capital increase; B = loss coverage; C = distribution to shareholders.

(c) The reserve for 25,801 million euro derives 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 qualitification of the reserve posted in application of said accounting standard, the reserve is considered unavailable up to the amount of goodwill and intangible assets recognised in the financial statements.

(d) In accordance with art. 16, par. 1 of Legislative Decree no. 87/92, the non-distributable portion refers to revaluation reserves, share premium reserve for 2,375 million euro and valuation reserves, which can be decreased only in compliance with the provisions of art. 2445 of the Italian Civil Code, as well as a share of net income for 9 million euro corresponding to capital gains recognised in the income statement of the previous year, net of the related tax charge, arising from application of the fair value criterion, pursuant to art. 6, par. 1, letter a) of Legislative Decree no. 38/2005 and to a share of reserves under letter (a).

(1) May be used to increase capital (A) 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 2017 and the distribution of reserves is reported in the specific separate chapter of these financial statements.

14.5 Equity instruments: breakdown and annual 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.
For more information please refer to Part F – Information on capital.

14.6 Other information

There is no other information to be provided in addition to that already contained in this Section.

OTHER INFORMATION

1. Guarantees and commitments

(millions of euro)

	31.12.2017	31.12.2016
1) Financial guarantees given	**31,744**	**24,979**
a) Banks	17,649	16,440
b) Customers	14,095	8,539
2) Commercial guarantees given	**28,685**	**31,080**
a) Banks	4,464	7,383
b) Customers	24,221	23,697
3) Irrevocable commitments to lend funds	**44,227**	**51,893**
a) Banks	848	6,181
- of certain use	*205*	*5,499*
- of uncertain use	*643*	*682*
b) Customers	43,379	45,712
- of certain use	*940*	*6,296*
- of uncertain use	*42,439*	*39,416*
4) Underlying commitments on credit derivatives: protection sales	**2,834**	**1,456**
5) Assets pledged as collateral of third party commitments	**81**	**81**
6) Other commitments	**71**	**189**
TOTAL	**107,642**	**109,678**

2. Assets pledged as collateral of liabilities and commitments

(millions of euro)

	31.12.2017	31.12.2016
1. Financial assets held for trading	1,436	410
2. Financial assets designated at fair value through profit and loss	-	-
3. Financial assets available for sale	25,959	20,629
4. Investments held to maturity	316	299
5. Due from banks	4,992	5,208
6. Loans to customers	74,326	59,774
7. Property and equipment	-	-
TOTAL	**107,029**	**86,320**

3. Information on operating leases

It should be noted that as at 31 December 2017, there are lease contracts of an immaterial amount.

4. Management and dealing on behalf of third parties

(millions of euro)

	31.12.2017	31.12.2016
1. Trading on behalf of customers		
a) Purchases	407	441
1. settled	*407*	*441*
2. to be settled	-	-
b) Sales	560	203
1. settled	*560*	*203*
2. to be settled	-	-
2. Portfolio management		
a) individual	-	330,174
b) collective	-	325,428
3. Custody and administration of securities		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-	-
1. securities issued by the reporting bank	-	-
2. other securities	-	-
b) third party securities held in deposit (excluding portfolio management): other	297,483	296,676
1. securities issued by the reporting bank	*10,287*	*17,733*
2. other securities	*287,196*	*278,943*
c) third party securities deposited with third parties	291,966	291,970
d) portfolio securities deposited with third parties	63,284	54,470
4. Other	**41,978**	**25,164**

Note regarding 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 statement of financial position (b)	Net amount of financial assets presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2017 (f = c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	14,233	-	14,233	12,260	1,406	567	646
2. Repurchase agreements	20,737	-	20,737	20,656	81	-	434
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2017	**34,970**	**-**	**34,970**	**32,916**	**1,487**	**567**	**X**
TOTAL 31.12.2016	**36,657**	**-**	**36,657**	**34,568**	**1,009**	**X**	**1,080**

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 statement of financial position (b)	Net amount of financial liabilities presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2017 (f = c-d-e)	Net amount 31.12.2016
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	18,144	-	18,144	12,260	4,920	964	933
2. Repurchase agreements	10,274	-	10,274	10,232	22	20	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2017	**28,418**	**-**	**28,418**	**22,492**	**4,942**	**984**	**X**
TOTAL 31.12.2016	**29,284**	**-**	**29,284**	**23,925**	**4,426**	**X**	**933**

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" 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 2017.

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/provided 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 2017, the collateral of transactions amounted to 119 billion 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)

	Debt securities	Loans	Other transactions	2017	2016
1. Financial assets held for trading	57	-	-	57	84
2. Financial assets designated at fair value through profit and loss	4	-	-	4	5
3. Financial assets available for sale	188	1	2	191	210
4. Investments held to maturity	4	-	-	4	2
5. Due from banks	37	616	-	653	708
6. Loans to customers	160	4,736	-	4,896	4,782
7. Hedging derivatives	X	X	251	251	591
8. Other assets	X	X	402	402	199
TOTAL	**450**	**5,353**	**655**	**6,458**	**6,581**

Interest and similar income also includes interest income on securities relating to repurchase agreements.
Loans to customers include interest of 141 million euro on bad loans, 227 million euro on exposures included in the unlikely to pay category and 11 million euro on past due non-performing loans.
Other assets include interest on transactions with negative rates.

1.2. Interest and similar income: differentials on hedging transactions

(millions of euro)

	2017	2016
A. Positive differentials on hedging transactions	2,537	3,144
B. Negative differentials on hedging transactions	-2,286	-2,553
BALANCE (A - B)	**251**	**591**

1.3 Interest and similar income: other information

1.3.1 Interest income on foreign currency financial assets

As at 31 December 2017, interest income on foreign currency financial assets amounted to 1,361 million euro.

1.3.2 Interest income on financial lease receivables

The amount of interest income on financial leases as at 31 December 2017 was immaterial.

1.4 Interest and similar expense: breakdown

(millions of euro)

	Debts	Securities	Other transactions	2017	2016
1. Due to Central Banks	29	X	-	29	31
2. Due to banks	650	X	6	656	757
3. Due to customers	106	X	-	106	111
4. Securities issued	X	2,481	-	2,481	3,015
5. Financial liabilities held for trading	-	-	10	10	9
6. Financial liabilities designated at fair value through profit and loss	-	-	-	-	-
7. Other liabilities and allowances	X	X	365	365	144
8. Hedging derivatives	X	X	-	-	-
TOTAL	**785**	**2,481**	**381**	**3,647**	**4,067**

The captions "2. Due to banks" and "3. Due to customers" include interest expense on repurchase agreements, even if the transaction is referred to securities recorded under assets.
Other liabilities and reserves include interest on transactions with negative rates.

1.5 Interest and similar expense: differentials on hedging transactions

Information on differentials on hedging transactions is illustrated in table 1.2, since the balance is included under interest income.

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency financial liabilities

Interest and similar expense as at 31 December 2017 included 736 million euro relative to financial liabilities in foreign currency.

1.6.2 Interest expense on financial lease payables

The amount of interest expense on financial lease payables as at 31 December 2017 was immaterial.

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

	2017	2016
A) Guarantees given	**294**	**300**
B) Credit derivatives	**-**	**26**
C) Management, dealing and consultancy services	**1,594**	**1,385**
1. trading in financial instruments	1	1
2. currency dealing	25	24
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	40	41
5. depositary bank	7	6
6. placement of securities	748	585
7. reception and transmission of orders	56	54
8. consultancy services	1	-
8.1. on investments	1	-
8.2. on financial structure	-	-
9. distribution of third party services	716	674
9.1. portfolio management	*117*	*119*
9.1.1. individual	*117*	*114*
9.1.2. collective	-	*5*
9.2. insurance products	*586*	*543*
9.3. other products	*13*	*12*
D) Collection and payment services	**214**	**190**
E) Servicing related to securitisations	**1**	**-**
F) Services related to factoring	**-**	**-**
G) Tax collection services	**-**	**-**
H) Management of multilateral trading facilities	**-**	**-**
I) Management of current accounts	**639**	**541**
J) Other services	**1,052**	**1,040**
TOTAL	**3,794**	**3,482**

J) Other services recorded fees on credit and debit cards of 598 million euro, commissions on medium-/long-term loans of 326 million euro, commissions on short-term loans of 54 million euro and commissions on sundry services rendered to customers and banks of 74 million euro.

2.2 Fee and commission income: distribution channels of products and services

(millions of euro)

	2017	2016
A) Group branches	**1,464**	**1,259**
1. portfolio management	-	-
2. placement of securities	748	585
3. third party services and products	716	674
B) "Door-to-door" sales	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
C) Other distribution channels	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

(millions of euro)

	2017	2016
A) Guarantees received	**86**	**39**
B) Credit derivatives	**7**	**12**
C) Management, dealing and consultancy services	**34**	**30**
1. trading in financial instruments	2	1
2. currency dealing	1	2
3. portfolio management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolio	-	-
4. custody and administration of securities	27	27
5. placement of financial instruments	-	-
6. "door-to-door" sale of financial instruments, products and services	4	-
D) Collection and payment services	**51**	**44**
E) Other services	**648**	**529**
TOTAL	**826**	**654**

E) Other services includes 43 million euro fees on credit and debit cards, 354 million euro fees on credit cards and use of international circuits, 4 million euro securities lending operations, 120 million euro services rendered by banks and 127 million euro intermediation on other banking operations.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

	2017		2016	
	Dividends	Income from quotas of UCI	Dividends	Income from quotas of UCI
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	29	3	93	2
C. Financial assets designated at fair value through profit and loss	-	-	-	-
D. Equity investments	1,857	X	1,750	X
TOTAL	**1,886**	**3**	**1,843**	**2**

D – Equity investments includes the dividends distributed by:
- Banca Imi S.p.A. for 743 million euro, including 89 million euro relating to the Tier 1 subordinated instrument;
- Eurizon Capital SGR S.p.A. for 351 million euro;
- Intesa Sanpaolo Vita S.p.A. for 255 million euro;
- Fideuram Intesa Sanpaolo Private Banking S.p.A. 114 million euro;
- Banco di Napoli S.p.A. for 92 million euro;
- Mediocredito Italiano S.p.A. for 88 million euro;
- Intesa Sanpaolo Bank Ireland Plc. for 66 million euro;
- Imi Investimenti S.p.A. for 38 million euro;
- Banka Intesa Sanpaolo D.D. for 32 million euro, including 13 million euro relating to the disposal to Privredna Banka Zagreb which, in application of the new standard OPI 1 Revised, considers the difference between the greater transfer value and the carrying value as a distribution of the shareholders' equity (dividends);
- Cassa di Risparmio del Veneto S.p.A. for 21 million euro;
- Intesa Sanpaolo Bank of Albania for 17 million euro;
- Cassa di Risparmio del Friuli Venezia Giulia S.p.A. for 10 million euro;
- Cassa di Risparmio di Firenze S.p.A. for 9 million euro;
- Banca 5 S.p.A. for 9 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)

	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**33**	**45**	**-26**	**-32**	**20**
1.1 Debt securities	6	43	-19	-27	3
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	27	2	-7	-5	17
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**7**	**-**	**-2**	**-**	**5**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	7	-	-2	-	5
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-560**
4. Derivatives	**3,626**	**7,531**	**-3,557**	**-7,543**	**582**
4.1 Financial derivatives :	3,504	7,371	-3,369	-7,383	648
- on debt securities and interest rates	*3,327*	*6,518*	*-3,193*	*-6,524*	*128*
- on equities and stock indexes	*10*	*121*	*-10*	*-123*	*-2*
- on currencies and gold	*X*	*X*	*X*	*X*	*525*
- other	*167*	*732*	*-166*	*-736*	*-3*
4.2 Credit derivatives	122	160	-188	-160	-66
TOTAL	**3,666**	**7,576**	**-3,585**	**-7,575**	**47**

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)

	2017	2016
A. Income from:		
A.1 fair value hedge derivatives	1,742	240
A.2 financial assets hedged (fair value)	27	1,733
A.3 financial liabilities hedged (fair value)	1,585	591
A.4 cash flow hedge: derivatives	-	-
A.5 currency assets and liabilities	-	-
Total income from hedging (A)	**3,354**	**2,564**
B. Expenses for:		
B.1 fair value hedge derivatives	-2,290	-1,677
B.2 financial assets hedged (fair value)	-959	-910
B.3 financial liabilities hedged (fair value)	-122	-2
B.4 cash flow hedge: derivatives	-	-
B.5 currency assets and liabilities	-	-
Total expense from hedging (B)	**-3,371**	**-2,589**
C. Fair value adjustments in hedge accounting (A - B)	**-17**	**-25**

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

	2017			2016		
	Profits	**Losses**	**Net result**	**Profits**	**Losses**	**Net result**
Financial assets						
1. Due from banks	12	-	12	1	-17	-16
2. Loans to customers	73	-96	-23	20	-56	-36
3. Financial assets available for sale	301	-89	212	227	-18	209
3.1 Debt securities	*167*	*-15*	*152*	*184*	*-18*	*166*
3.2 Equities	*29*	*-74*	*-45*	*43*	*-*	*43*
3.3 Quotas of UCI	*105*	*-*	*105*	*-*	*-*	*-*
3.4 Loans	*-*	*-*	*-*	*-*	*-*	*-*
4. Investments held to maturity	-	-	-	-	-	-
Total assets	**386**	**-185**	**201**	**248**	**-91**	**157**
Financial liabilities						
1. Due to banks	-	-3	-3	18	-29	-11
2. Due to customers	1	-	1	-	-	-
3. Securities issued	3	-21	-18	13	-29	-16
Total liabilities	**4**	**-24**	**-20**	**31**	**-58**	**-27**

Losses on disposal of equities classified as financial assets available for sale include the result of the disposal of the stake in Interbank Deposit Guarantee Fund – Voluntary Scheme of the Casse di Cesena, Rimini e San Miniato for -73 million euro occurred in December 2017.

SECTION 7 – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 110

7.1 Profits (losses) on financial assets/liabilities designated at fair value: breakdown

(millions of euro)

	Revaluations	**Profits on trading**	**Write-downs**	**Losses on trading**	**Net result**
1. Financial assets	**1**	**-**	**-3**	**-**	**-2**
1.1 Debt securities	1	-	-1	-	-
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	-	-	-2	-	-2
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**4**	**-**	**-**	**-**	**4**
TOTAL	**5**	**-**	**-3**	**-**	**2**

SECTION 8 – NET LOSSES ON IMPAIRMENT – CAPTION 130

8.1 Net impairment losses on loans: breakdown

(millions of euro)

	IMPAIRMENT LOSSES			RECOVERIES				2017	2016
	Individual		Collective	Individual		Collective			
	write-offs	other		of interest	other	of interest	other		
A. Due from banks	**-**	**-**	**-65**	**-**	**1**	**-**	**2**	**-62**	**-7**
- Loans	-	-	*-15*	-	*1*	-	-	*-14*	*2*
- Debt securities	-	-	*-50*	-	-	-	*2*	*-48*	*-9*
B. Loans to customers	**-205**	**-2,482**	**-19**	**335**	**573**	**-**	**260**	**-1,538**	**-1,580**
Non-performing loans purchased	-	-84	-	11	10	-	-	-63	-56
- Loans	-	*-84*	*X*	*11*	*10*	*X*	*X*	*-63*	*-56*
- Debt securities	-	-	*X*	-	-	*X*	*X*	-	-
Other	-205	-2,398	-19	324	563	-	260	-1,475	-1,524
- Loans	*-205*	*-2,398*	*-8*	*324*	*563*	-	*253*	*-1,471*	*-1,522*
- Debt securities	-	-	*-11*	-	-	-	*7*	*-4*	*-2*
C. Total	**-205**	**-2,482**	**-84**	**335**	**574**	**-**	**262**	**-1,600**	**-1,587**

The financial effects due to release of time value on discounted non-performing loans, recognised under "Recoveries - Individual – of interest", amount to a total of 335 million euro. Of this amount, 243 million euro relates to bad loans and 92 million euro to exposures included in the unlikely to pay category.

8.2 Net impairment losses on financial assets available for sale: breakdown

(millions of euro)

	IMPAIRMENT LOSSES		RECOVERIES		2017	2016
	Individual		Individual			
	write-offs	other	of interest	other		
A. Debt securities	-	-23	-	1	-22	3
B. Equities	-	-3	X	X	-3	-58
C. Quotas of UCI	-	-451	X	-	-451	-176
D. Due from banks	-	-	-	-	-	-1
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-477**	**-**	**1**	**-476**	**-232**

The net impairment losses on debt securities equal to 23 million euro refer mainly to the impairment losses on the junior bonds acquired through the actions requested by the Interbank Deposit Guarantee Fund Voluntary Scheme (FITD).

The net impairment losses on equities include 1 million euro referred to Banque Espirito Santo et de la Venetie S.A. and 1 million euro referred to Milanosesto S.p.A.

The net impairment losses on units of UCI mainly include the impairment of the Atlante Fund, an investment fund established to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

8.3 Net impairment losses on investments held to maturity: breakdown

As at 31 December 2017, Intesa Sanpaolo recorded net recoveries on impairment of investments held to maturity of immaterial amounts.

8.4 Net impairment losses on other financial activities: breakdown

(millions of euro)

	IMPAIRMENT LOSSES			RECOVERIES				2017	2016
	Individual		Collective	Individual		Collective			
	write-offs	other		of interest	other	of interest	other		
A. Guarantees given	-	-57	-1	-	-	-	89	31	31
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to lend funds	-	-	-	-	-	-	27	27	-
D. Other operations	-	-	-	-	-	-	-	-	-
E. Total	**-**	**-57**	**-1**	**-**	**-**	**-**	**116**	**58**	**31**

SECTION 9 - ADMINISTRATIVE EXPENSES - CAPTION 150

9.1 Personnel expenses: breakdown

(millions of euro)

	2017	2016
1) Personnel employed	**3,741**	**2,550**
a) wages and salaries	1,883	1,665
b) social security charges	507	442
c) termination indemnities	27	25
d) supplementary benefits	-	-
e) provisions for termination indemnities	9	14
f) provisions for post employment benefits:	37	41
- defined contribution plans	-	-
- defined benefit plans	*37*	*41*
g) payments to external pension funds:	158	139
- defined contribution plans	*158*	*139*
- defined benefit plans	-	-
h) costs from share-based payments	*80*	82
i) other benefits in favour of employees	1,040	142
2) Other non-retired personnel	**4**	**3**
3) Directors and statutory auditors	**6**	**6**
4) Early retirement costs	**-**	**-**
5) Recovery of expenses for employees of the Bank seconded to other entities	**-61**	**-55**
6) Reimbursement of expenses for employees of other entities seconded to the Bank	**85**	**73**
TOTAL	**3,775**	**2,577**

Provisions to employee termination indemnities determined on the basis of Art. 2120 of the Italian Civil Code amounted to 14 million euro.

9.2 Average number of employees by categories

	2017	2016
Personnel employed	**34,143**	**30,567**
a) managers	574	487
b) total officers	15,141	13,589
c) other employees	18,428	16,491
Other personnel	**42**	**36**
TOTAL	**34,185**	**30,603**

9.3 Post employment defined benefit plans: costs and revenues

(millions of euro)

	2017			2016		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-2	-2	-27	-2	-1	-32
Interest expense	-7	-5	-58	-11	-5	-73
Interest income	-	3	41	-	4	56
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

9.4 Other benefits in favour of employees

The balance as at 31 December 2017 amounted to 1,040 million euro, of which 951 million euro referred to charges for incentive-driven exit plans, mainly regarding the agreements following the integration of the Aggregate Set acquired (901 million euro). The residual 89 million euro essentially refer to contributions for health assistance, lunch and restaurant vouchers and provisions for seniority bonuses.

9.5 Other administrative expenses: breakdown

(millions of euro)

	2017	2016
Expenses for maintenance of information technology and electronic equipment	47	30
Telephonic, teletransmission and transmission expenses	6	3
Information technology expenses	**53**	**33**
Rentals and service charges - real estate	146	103
Security services	15	15
Cleaning of premises	21	20
Expenses for maintenance of real estate assets, furniture and equipment	49	35
Energy costs	43	48
Property costs	-	5
Management of real estate assets	**274**	**226**
Printing, stationery and consumables expenses	15	17
Transport and related services expenses (including counting of valuables)	53	51
Information expenses	28	22
Postal and telegraphic expenses	30	35
Other rental charges	-	-
General structure costs	**126**	**125**
Expenses for consultancy fees	180	157
Legal and judiciary expenses	93	88
Insurance premiums - banks and customers	25	25
Professional and legal expenses	**298**	**270**
Advertising and promotional expenses	**81**	**79**
Services rendered by third parties	**107**	**96**
Indirect personnel costs	**31**	**31**
Costs reimbursed to Group companies	**1,065**	**988**
Other costs	**204**	**351**
Indirect taxes and duties	**421**	**389**
Recovery of other expenses	**-50**	**-49**
TOTAL	**2,610**	**2,539**

Other expenses include 143 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund gross of the tax effect, allocated to the caption "Levies and other charges concerning the banking industry " for the purpose of the reclassified income statement.

SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 160

10.1 Net provisions for risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	2017
Net provisions for legal disputes	-42	33	-9
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-814	5	-809
TOTAL	**-856**	**38**	**-818**

"Net provisions for risks and charges", which amounted to 818 million euro, recorded the provisions attributable to the year relating to:

- litigation, including revocatory actions and other disputes;
- charges deriving from the integration of the Aggregate Set acquired amounting to 715 million euro;
- guarantees issued for the sale of equity investments and other loan transactions.

The above provisions include the interest expense due to time value, whose effect is immaterial.

SECTION 11 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – CAPTION 170

11.1 Net adjustments to property and equipment: breakdown

(millions of euro)

	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Owned	-123	-	-	-123
- used in operations	*-122*	-	-	*-122*
- investment	*-1*	-	-	*-1*
A.2 Acquired under finance lease	-	-	-	-
- used in operations	-	-	-	-
- investment	-	-	-	-
TOTAL	**-123**	**-**	**-**	**-123**

For the determination of impairment losses, see the illustration provided in Part A – Accounting policies.

SECTION 12 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 180

12.1 Net adjustments to intangible assets: breakdown

(millions of euro)

	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-13	-	-	-13
- internally generated	-	-	-	-
- other	*-13*	-	-	*-13*
A.2 Acquired under finance lease	-	-	-	-
TOTAL	**-13**	**-**	**-**	**-13**

SECTION 13 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 190

13.1 Other operating expenses: breakdown

(millions of euro)

	2017	2016
Charges for litigations and provisions for customer restorations	3	5
Burglaries and robberies	-	-
Amortisation of leasehold improvements	17	18
Other non-recurring expenses	40	257
Other	4	3
TOTAL	**64**	**283**

13.2 Other operating income: breakdown

(millions of euro)

	2017	2016
Income on securitisations	-	-
Recovery of insurance costs	1	2
Recovery of other expenses	6	8
Recovery of taxes and interest of previous years	-	-
Cheques prescribed	-	-
Recovery of rents paid	59	56
Recovery of services rendered to Group companies	114	105
Recovery of services rendered to third parties	7	2
Recovery of taxes and duties	354	318
Other	4,851	39
Total	**5,392**	**530**

Other operating income includes 3,500 million euro concerning the government contribution received to offset the impacts on the capital ratios resulting from the acquisition of certain assets, liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, as well as the additional public contribution from Intesa Sanpaolo amounting to 938 million euro to cover integration and rationalisation charges in relation to the mentioned acquisition and included in the caption "Other". . This caption also includes 355 million euro of badwill generated within the same transaction.

SECTION 14 – PROFITS (LOSSES) ON EQUITY INVESTMENTS – CAPTION 210

14.1 Profits (Losses) on equity investments: breakdown

(millions of euro)

	2017	2016
A. Revenues	457	1
1. Revaluations	*422*	*-*
2. Profits on disposal	*34*	*1*
3. Write-backs	*1*	*-*
4. Other	*-*	*-*
B. Charges	-290	-316
1. Write-downs	*-*	*-*
2. Impairment losses	*-290*	*-316*
3. Losses on disposal	*-*	*-*
4. Other	*-*	*-*
Net result	**167**	**-315**

"Impairment losses" refer to Intesa Sanpaolo Provis S.p.A. for 134 million euro, Cassa di Risparmio in Bologna S.p.A. for 96 million euro, Autostrade Lombarde for 15 million euro, Intesa Sanpaolo Re.o.co. S.p.A. for 12 million euro, Autostrada Pedemontana Lombarda S.p.A. for 7 million euro, Pravex Bank for 6 million euro, Risanamento S.p.A. for 5 million euro, Intesa Sanpaolo Casa S.p.A. for 4 million euro, Class Digital Services S.r.l. for 4 million euro, Tangenziali Esterne di Milano S.p.A. for 3 million euro and other minor companies for 4 million euro.

SECTION 15 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 220

15.1 Valuation differences on property, equipment and intangible assets measured at fair value: breakdown

(millions of euro)

	Revaluations (a)	Write-downs (b)	Foreign exchange differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property and equipment	-	16	-	-	-16
A.1 Owned:	-	16	-	-	-16
- used in operations	-	*16*	-	-	*-16*
- investment	-	-	-	-	-
A.2 Acquired under financial lease:	-	-	-	-	-
- used in operations	-	-	-	-	-
- investment	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Acquired under finance lease	-	-	-	-	-
TOTAL	**-**	**16**	**-**	**-**	**-16**

SECTION 16 – GOODWILL IMPAIRMENT - CAPTION 230

16.1 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 – Section 13 – Intangible Assets in the Notes to the consolidated financial statements.

SECTION 17 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 240

17.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

	2017	2016
A. Real estate assets	77	325
- profits on disposal	*102*	*325*
- losses on disposal	*-25*	*-*
B. Other assets	-	-
- profits on disposal	-	-
- losses on disposal	-	-
Net result	**77**	**325**

SECTION 18 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 260

18.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2017	2016
1. Current taxes (-)	414	499
2. Changes in current taxes of previous years (+/-)	47	30
3. Reduction in current taxes of the year (+)	-	-
3bis. Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	396	-98
5. Changes in deferred tax liabilities (+/-)	-55	-63
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**802**	**368**

18.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2017	2016
Income before tax from continuing operations	4,080	317
Income before tax from discontinued operations	-	1,090
Theoretical taxable income	**4,080**	**1,407**

(millions of euro)

		%
Income taxes - theoretical tax charge	**1,349**	**33.1**
Increases of taxes	**206**	**5.0**
Greater IRAP taxable income	-	-
Other non-deductible costs (loss on investments, out-of-period items, fines, IMU property tax, PPA for the acquisition of certain assets and liabilities of Veneto Banca and Banca Popolare di Vicenza, etc.)	161	3.9
Other	45	1.1
Decreases of taxes	**-2,335**	**-57.1**
Lower IRAP taxable income	-38	-0.9
Non-taxed capital gains on equity investments	-130	-3.2
Capital gains subject to substitute tax	-8	-0.2
Tax-exempt portion of dividends	-524	-12.7
ACE Benefit - Aid for Economic Growth [(a)]	-14	-0.3
Public contributions for the acquisition of the Aggregate Set of the Venetian banks	-1,467	-36.0
Badwill recognised in PPA for acquisition of certain assets and liabilities of Veneto Banca and Banca Popolare di Vicenza	-115	-2.8
Other	-39	-1.0
Total change in taxes	**-2,129**	**-52.1**
Total income tax expense for the period	**-780**	**-19.0**
of which: - effective tax expense (income) from continuing operations	**-802**	**-19.7**
- effective tax expense (income) from discontinued operations	**-**	**-**
- effective tax expense (income) on PPA for acquisition of certain assets and liabilities of Veneto Banca and Banca Popolare di Vicenza	**22**	**0.7**

[(a)] Includes IRES ordinary tax 24%, IRES additional rate 3.5% and IRAP weighted average rate 5.56%

[(b)] As at 31 December 2016 the ACE benefit amounted to 59 million euro.

SECTION 19 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 280

19.1 Income (Loss) after tax from discontinued operations: breakdown

(millions of euro)

	2017	2016
1. Income	-	134
2. Charges	-	-
3. Valuation differences on discontinued operations and related liabilities	-	-
4. Profits (Losses) on disposal	-	956
5. Taxes and duties	-	-15
Income (Loss)	**-**	**1,075**

19.2 Breakdown of taxes on discontinued operations

(millions of euro)

	2017	2016
1. Current taxes (-)	-	-15
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes (-1 +/-2 +/-3)	**-**	**-15**

SECTION 20 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 21 – EARNINGS PER SHARE

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

STATEMENT OF COMPREHENSIVE INCOME

(millions of euro)

		Gross amount	Income tax	Net amount
10.	**NET INCOME (LOSS)**	**X**	**X**	**4,882**
	Other comprehensive income that may not be reclassified to the income statement:	**1,598**	**-521**	**1,077**
20.	Property and equipment	1,614	-526	1,088
30.	Intangible assets	-	-	-
40.	Defined benefit plans	-16	5	-11
50.	Non current assets held for sale	-	-	-
60.	Share of valuation reserves connected with investments carried at equity	-	-	-
	Other comprehensive income that may be reclassified to the income statement:	**242**	**-120**	**122**
70.	Hedges of foreign investments:	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
80.	Foreign exchange differences:	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
90.	Cash flow hedges:	318	-105	213
	a) fair value changes	589	-195	394
	b) reclassification to the income statement	-271	90	-181
	c) other changes	-	-	-
100.	Property and equipment	-76	-15	-91
	a) fair value changes	-394	98	-296
	b) reclassification to the income statement	318	-113	205
	- impairment losses	*535*	*-177*	*358*
	- gains/losses from disposals	*-217*	*64*	*-153*
	c) other changes	-	-	-
110.	Non current assets held for sale	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	c) other changes	-	-	-
120.	Share of valuation reserves connected with investments carried at equity:	-	-	-
	a) fair value changes	-	-	-
	b) reclassification to the income statement	-	-	-
	- impairment losses	-	-	-
	- gains/losses from disposals	-	-	-
	c) other changes	-	-	-
130.	**Total other comprehensive income**	**1,840**	**-641**	**1,199**
140.	**TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)**	**X**	**X**	**6,081**

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.

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 units of UCI, whereas "exposures" includes these items. The only exception is table A.2.1 related to credit exposures by external rating classes, which includes units of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

In the tables in this section, the information related to country risk is not presented separately in compliance with the methodological decision for collective measurement of performing loans based on parameters that include "country risk".

A.1.1. Breakdown of credit exposures by portfolio classification and credit quality (book values)

(millions of euro)

Portfolio/quality	Bad loans	Unlikely to pay	Non performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets available for sale	-	-	-	-	33,755	33,755
2. Investments held to maturity	-	-	-	-	335	335
3. Due from banks	-	-	-	-	157,440	157,440
4. Loans to customers	6,454	6,876	228	3,130	216,005	232,693
5. Financial assets designated at fair value through profit and loss	-	-	-	-	217	217
6. Financial assets under disposal	-	260	-	-	-	260
Total 31.12.2017	**6,454**	**7,136**	**228**	**3,130**	**407,752**	**424,700**
Total 31.12.2016	**7,584**	**7,580**	**207**	**2,479**	**345,448**	**363,298**

The "Loans to customers" portfolio includes forborne exposures amounting to 467 million euro amongst bad loans, 2,910 million euro amongst loans classified as unlikely to pay, 15 million euro amongst non-performing past due exposures, 287 million euro amongst performing past due exposures and 4,123 million amongst other performing exposures.

A.1.2. Breakdown of credit exposures by portfolio classification and credit quality *(gross and net values)*

(millions of euro)

Portfolio/quality	NON-PERFORMING ASSETS			PERFORMING ASSETS			TOTAL (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
A. Banking group							
1. Financial assets available for sale	32	-32	-	33,755	-	33,755	33,755
2. Investments held to maturity	-	-	-	335	-	335	335
3. Due from banks	4	-4	-	157,547	-107	157,440	157,440
4. Loans to customers	27,504	-13,946	13,558	219,769	-634	219,135	232,693
5. Financial assets designated at fair value through profit and loss	-	-	-	X	X	217	217
6. Financial assets under disposal	293	-33	260	-	-	-	260
Total 31.12.2017	**27,833**	**-14,015**	**13,818**	**411,406**	**-741**	**410,882**	**424,700**
Total 31.12.2016	**29,655**	**-14,284**	**15,371**	**348,418**	**-755**	**335,680**	**351,051**

Portfolio/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulated capital	Net exposure	Net exposure
1. Financial assets held for trading	31	41	17,953
2. Hedging derivatives	-	-	3,823
Total 31.12.2017	**31**	**41**	**21,776**
Total 31.12.2016	**37**	**93**	**20,318**

Partial derecognition of Loans to customers came to 2,516 million euro for bad loans, 1,216 million euro for loans classified as unlikely to pay and 22 million euro for past due loans.

Performing financial assets may be broken down by portfolio and past due bracket as follows:

(millions of euro)

Credit exposures	Past due up to 3 months	Past due from 3 months up to 6 months	Past due from over 6 months up to 1 year	Past due by over 1 year	Total
1. Financial assets available for sale	-	-	-	-	-
2. Investments held to maturity	-	-	-	-	-
3. Due from banks	-	-	-	-	-
4. Loans to customers	2,140	434	390	166	3,130
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-
Total performing exposures (net exposure)	**2,140**	**434**	**390**	**166**	**3,130**

Past due loans shown in the tables include 803 million euro in assets past due by up to three months, 207 million euro in assets past due by over three months up to six months, 78 million euro in assets past due by over six months up to one year and 27 million euro in assets past due by over one year, as well as the share of the debt not yet past due, which amounted to 1,337 million euro, 225 million euro, 312 million euro and 139 million euro, respectively.

A.1.3. On- and off-balance sheet credit exposures to banks: gross and net values and past-due brackets

(millions of euro)

Type of exposure/value	GROSS EXPOSURE					INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
	Non-performing assets				Performing assets			
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	-	-	-	4	X	-4	X	-
Of which: forborne exposures	-	-	-	-	X	-	X	-
b) Unlikely to pay	-	-	-	-	X	-	X	-
Of which: forborne exposures	-	-	-	-	X	-	X	-
c) Non-performing past due exposures	-	-	-	-	X	-	X	-
Of which: forborne exposures	-	-	-	-	X	-	X	-
d) Performing past due exposures	X	X	X	X	-	X	-	-
Of which: forborne exposures	X	X	X	X	-	X	-	-
e) Other performing exposures	X	X	X	X	160,131	X	-107	160,024
Of which: forborne exposures	X	X	X	X	-	X	-	-
TOTAL A	-	-	-	4	160,131	-4	-107	160,024
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	11	1	-	-	X	-1	X	11
b) Performing	X	X	X	X	27,218	X	-6	27,212
TOTAL B	11	1	-	-	27,218	-1	-6	27,223
TOTAL (A + B)	11	1	-	4	187,349	-5	-113	187,247

On-balance sheet exposures include all on-balance sheet financial assets claimed from banks, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending transactions, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

A.1.4. On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reason/Categories	Bad loans	Unlikely to pay	Non performing past due
A. Initial gross exposure	**1**	**4**	**-**
- of which exposures sold not derecognised	-	-	-
B. Increases	**3**	**2**	**-**
B.1 inflows from performing exposures	-	1	-
B.2 transfers from other non-performing exposure categories	3	-	-
B.3 other increases	-	1	-
B.4 business combinations	-	-	-
C. Decreases	**-**	**-6**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 repayments	-	-3	-
C.4 credit disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other non-performing exposure categories	-	-3	-
C.7 other decreases	-	-	-
C.8 business combinations	-	-	-
D. Final gross exposure	**4**	**-**	**-**
- of which exposures sold not derecognised	-	-	-

A.1.4.bis On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

As at 31 December 2017 there were no forborne exposures to banks.

A.1.5. On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reason/Categories	Bad loans	Of which: forborne exposures	Unlikely to pay	Of which: forborne exposures	Non performing	Of which: forborne exposures
A. Initial total adjustments	**1**	**-**	**4**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**3**	**-**	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing exposure categories	3	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
B.5 business combinations	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-4**	**-**	**-**	**-**
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	-	-	-3	-	-	-
C.6 other decreases	-	-	-	-	-	-
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-

A.1.6. On- and off-balance sheet credit exposures to customers: gross and net values and past-due brackets

(millions of euro)

Type of exposure/value	GROSS EXPOSURE – Non-performing assets – Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Over 1 year	Performing assets	INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	**76**	**4**	**4**	**17,887**	**X**	**-11,517**	**X**	**6,454**
Of which: forborne exposures	***47***	***-***	***1***	***1,207***	***X***	***-788***	***X***	***467***
b) Unlikely to pay	**4,111**	**280**	**1,123**	**4,059**	**X**	**-2,437**	**X**	**7,136**
Of which: forborne exposures	***2,225***	***126***	***404***	***1,051***	***X***	***-853***	***X***	***2,953***
c) Non-performing past due exposures	**56**	**96**	**113**	**21**	**X**	**-57**	**X**	**229**
Of which: forborne exposures	***3***	***4***	***9***	***2***	***X***	***-3***	***X***	***15***
d) Performing past due exposures	**X**	**X**	**X**	**X**	**3,163**	**X**	**-33**	**3,130**
Of which: forborne exposures	*X*	*X*	*X*	*X*	*291*	*X*	*-4*	*287*
e) Other performing exposures	**X**	**X**	**X**	**X**	**252,962**	**X**	**-601**	**252,361**
Of which: forborne exposures	*X*	*X*	*X*	*X*	*4,174*	*X*	*-51*	*4,123*
TOTAL A	**4,243**	**380**	**1,240**	**21,967**	**256,125**	**-14,011**	**-634**	**269,310**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	**966**	**-**	**-**	**-**	**X**	**-174**	**X**	**792**
b) Other	**X**	**X**	**X**	**X**	**85,298**	**X**	**-31**	**85,267**
TOTAL B	**966**	**-**	**-**	**-**	**85,298**	**-174**	**-31**	**86,059**
TOTAL (A + B)	**5,209**	**380**	**1,240**	**21,967**	**341,423**	**-14,185**	**-665**	**355,369**

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending transactions, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.
Non-performing exposures with forbearance measures in the past-due bracket by "up to three months" include 1,872 million euro that do not present past-due amounts during the "cure period".

A.1.7. On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reason/Categories	Bad loans	Unlikely to pay	Non performing past due exposures
A. Initial gross exposure	**19,488**	**9,906**	**255**
- of which exposures sold not derecognised	*25*	*175*	*2*
B. Increases	**2,442**	**4,177**	**1,225**
B.1 inflows from performing exposures	25	1,462	1,051
B.2 transfers from other non-performing exposure categories	1,465	869	26
B.3 other increases	615	1,077	75
B.4 business combinations	337	769	73
C. Decreases	**-3,959**	**-4,510**	**-1,194**
C.1 outflows to performing exposures	-26	-992	-319
C.2 write-offs	-2,655	-362	-3
C.3 repayments	-732	-1,393	-92
C.4 credit disposals	-238	-99	-
C.5. losses from disposals	-80	-1	-
C.6 transfers to other non-performing exposure categories	-124	-1,462	-774
C.7 other decreases	-104	-201	-6
C.8 business combinations	-	-	-
D. Final gross exposure	**17,971**	**9,573**	**286**
- of which exposures sold not derecognised	*188*	*544*	*25*

The "Other increases" mainly include the application of penalty interest, increases in balances for charges, collections of loans derecognised in previous years in the financial statements (through "Repayments") and the revaluation of positions in foreign currency following the change in the exchange rate and the acquisition of non-performing financial assets.
The caption "Business combinations" includes, in addition to the merger by incorporation of Group companies, assets deriving from the acquisition of the Aggregate Set of Veneto Banca and Banca Popolare di Vicenza.

A.1.7bis. On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reason/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**5,103**	**3,336**
- of which exposures sold not derecognised	-	-
B. Increases	**1,548**	**3,991**
B.1 inflows from non-forborne performing exposures	99	2,465
B.2 inflows from forborne performing exposures	265	X
B.3 inflows from non-performing forborne exposures	X	606
B.4 other increases	1,034	911
B.5 business combinations	150	9
C. Decreases	**-1,573**	**-2,862**
C.1 outflows towards non-forborne performing exposures	X	-1,533
C.2 outflows towards forborne performing exposures	-606	X
C.3 outflows towards non-performing forborne exposures	X	-265
C.4 write-offs	-149	-
C.5 collections	-644	-1,004
C.6 gains on disposal	-83	-
C.7 losses on disposal	-	-
C.8 other decreases	-91	-60
C.9 business combinations	-	-
D. Final gross exposure	**5,078**	**4,465**
- of which exposures sold not derecognised	-	-

For the non-performing forborne exposures, the "Other increases" mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The caption "Business combinations" includes, in addition to the merger by incorporation of Group companies, assets deriving from the acquisition of the Aggregate Set of Veneto Banca and Banca Popolare di Vicenza.

A.1.8. On-balance sheet non-performing credit exposures to customers: changes in total adjustments

(millions of euro)

Reason/Categories	Bad loans		Unlikely to pay		Non performing	
		Of which: forborne exposures		*Of which: forborne exposures*		*Of which: forborne exposures*
A. Initial total adjustments	**11,903**	**494**	**2,326**	**863**	**48**	**7**
- of which exposures sold not derecognised	*9*	-	*20*	-	-	-
B. Increases	**2,990**	**409**	**1,479**	**413**	**195**	**17**
B.1 impairment losses	1,728	244	829	222	153	13
B.2. losses on disposal	80	3	1	-	-	-
B.3 transfers from other non-performing exposure categories	595	105	223	34	9	3
B.4 other increases	361	53	94	122	7	1
B.5 business combinations	226	4	332	35	26	-
C. Decreases	**-3,376**	**-115**	**-1,368**	**-423**	**-186**	**-21**
C.1 recoveries on impairment losses	-428	-26	-325	-188	-7	-
C.2 recoveries on repayments	-94	-8	-51	-35	-3	-
C.3 profits on disposal	-1	-	-	-	-	-
C.4 write-offs	-2,655	-56	-362	-74	-3	-
C.5 transfers to other non-performing exposure categories	-66	-20	-594	-107	-166	-16
C.6 other decreases	-132	-5	-36	-19	-7	-5
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**11,517**	**788**	**2,437**	**853**	**57**	**3**
- of which exposures sold not derecognised	*91*	-	*101*	-	*3*	-

The "Other increases" mainly include the application of penalty interest, increases in balances for charges, collections of loans derecognised in previous years in the financial statements (through "Repayments") and the revaluation of positions in foreign currency following the change in the exchange rate and the acquisition of non-performing financial assets.
The caption "Business combinations" includes, in addition to the merger by incorporation of Group companies, assets deriving from the acquisition of the Aggregate Set of Veneto Banca and Banca Popolare di Vicenza.

Conversion of loans into equity instruments

During the year, loans were converted into equity instruments as part of restructuring agreements for non-performing positions. Gross loans converted into shares amounted to 64 million euro. The adjustments directly attributable to the conversion process amounted to 47 million euro, partly made during previous years and partly during the current year. Equity instruments were recognised at their fair value of 17 million euro at the execution date of the transactions among Assets available for sale, as well as for an amount fully written down among Investments.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Breakdown of on- and off-balance sheet credit exposures by external rating classes

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 and DBRS Ratings.

Where two ratings are available for a single customer, the more conservative is adopted; where three ratings are available, the middle rating is adopted.

The Class 6 rating column includes non-performing loans.

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)

	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures	**12,968**	**11,429**	**211,109**	**9,922**	**1,280**	**13,929**	**169,669**	**430,306**
B. Derivatives	**986**	**814**	**569**	**344**	**98**	**-**	**2,112**	**4,923**
B.1. Financial derivatives	986	814	569	294	98	-	2,112	4,873
B.2. Credit derivatives	-	-	-	50	-	-	-	50
C. Guarantees given	**413**	**1,313**	**28,448**	**2,826**	**1,178**	**530**	**25,722**	**60,430**
D. Commitments to lend funds	**1,882**	**7,908**	**20,847**	**4,651**	**1,196**	**304**	**10,282**	**47,070**
E. Other	**29**	**106**	**58**	**-**	**-**	**-**	**666**	**859**
Total	**16,278**	**21,570**	**261,031**	**17,743**	**3,752**	**14,763**	**208,451**	**543,588**

It should be noted that the exposures presented in the table also include units of UCI for 972 million euro.

A.2.2. Breakdown of on- and off-balance sheet exposures by internal rating classes

The breakdown of exposures by internal rating class shown in the following table is based on all ratings available in the credit risk management system. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available. Unrated loans essentially refer to customer segments for which no rating model is available.

(millions of euro)

	INTERNAL RATING CLASSES							UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Non-performing exposures		
A. On-balance sheet exposures	**16,973**	**30,689**	**275,019**	**55,005**	**13,996**	**2,573**	**13,819**	**21,260**	**429,334**
B. Derivatives	**217**	**1,867**	**1,260**	**1,075**	**384**	**27**	**-**	**93**	**4,923**
B.1. Financial derivatives	217	1,867	1,260	1,025	384	27	-	93	4,873
B.2. Credit derivatives	-	-	-	50	-	-	-	-	50
C. Guarantees given	**4,007**	**6,141**	**37,332**	**10,066**	**2,041**	**134**	**499**	**210**	**60,430**
D. Commitments to lend funds	**1,715**	**9,976**	**24,759**	**7,536**	**1,584**	**217**	**303**	**980**	**47,070**
E. Other	**-**	**794**	**65**	**-**	**-**	**-**	**-**	**-**	**859**
Total	**22,912**	**49,467**	**338,435**	**73,682**	**18,005**	**2,951**	**14,621**	**22,543**	**542,616**

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Guaranteed credit exposures to banks

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**9,420**	-	**550**	-	**842**	-	**447**	-	**11,259**
COLLATERAL(1)									
Real estate assets	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-	-	-
Financial leases	-	-	-	-	-	-	-	-	-
Securities	9,153	-	-	-	80	-	-	-	9,233
Other	-	-	-	-	753	-	419	-	1,172
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	-	-	-	-	-	-	-	-	-
Other public entities	-	-	-	-	-	-	-	-	-
Banks	*156*	-	*26*	-	*9*	-	-	-	*191*
Other counterparties	*58*	-	-	-	-	-	-	-	*58*
TOTAL	**9,367**	-	**26**	-	**842**	-	**419**	-	**10,654**

(1) 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 credit exposures to customers

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**127,294**	8,306	**10,462**	1,988	**8,509**	169	**2,336**	91	**148,601**
COLLATERAL(1)									
Real estate assets	186,604	***18,204***	2,262	***1,657***	1,781	***179***	298	***27***	190,945
Mortgages	*186,604*	***18,204***	*2,262*	***1,657***	*1,781*	***179***	*298*	***27***	*190,945*
Financial leases	-	-	-	-	-	-	-	-	-
Securities	25,970	***119***	537	***27***	204	***6***	57	***2***	26,768
Other	2,213	***125***	350	***52***	493	***2***	124	***12***	3,180
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*8,873*	***149***	*550*	***64***	*734*	***1***	*32*	-	*10,189*
Other public entities	*216*	***7***	*77*	***2***	-	-	-	-	*293*
Banks	*181*	***1***	*215*	***4***	*192*	-	*12*	-	*600*
Other counterparties	*13,984*	***1,542***	*2,783*	***346***	*5,855*	***79***	*888*	***12***	*23,510*
TOTAL	**238,041**	***20,147***	**6,774**	***2,152***	**9,259**	***267***	**1,411**	***53***	**255,485**

(1) 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.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Breakdown of on- and off-balance sheet credit exposures to customers by sector (book value)

(millions of euro)

Exposures/Counterparties	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES			INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES		
	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments
A. ON-BALANCE SHEET EXPOSURES																		
A.1. Bad loans	3	-6	X	174	-63	X	66	-144	X	-	-	X	5,132	-9,964	X	1,079	-1,340	X
- of which forborne exposures	*-*	*-*	*X*	*-*	*-*	*X*	*11*	*-16*	*X*	*-*	*-*	*X*	*387*	*-738*	*X*	*69*	*-34*	*X*
A.2. Unlikely to pay	-	-	X	62	-8	X	303	-104	X	-	-	X	5,839	-1,983	X	932	-342	X
- of which forborne exposures	*-*	*-*	*X*	*45*	*-3*	*X*	*181*	*-43*	*X*	*-*	*-*	*X*	*2,450*	*-772*	*X*	*277*	*-35*	*X*
A.3. Non-performing past due exposures	-	-	X	-	-	X	2	-1	X	-	-	X	118	-25	X	109	-31	X
- of which forborne exposures	*-*	*-*	*X*	*-*	*-*	*X*	*1*	*-*	*X*	*-*	*-*	*X*	*8*	*-2*	*X*	*6*	*-1*	*X*
A.4. Performing exposures	40,888	X	-5	11,686	X	-7	44,826	X	-67	986	X	-	92,019	X	-439	65,086	X	-116
- of which forborne exposures	*3*	*X*	*-*	*80*	*X*	*-*	*125*	*X*	*-3*	*-*	*X*	*-*	*3,360*	*X*	*-48*	*842*	*X*	*-4*
Total A	**40,891**	**-6**	**-5**	**11,922**	**-71**	**-7**	**45,197**	**-249**	**-67**	**986**	**-**	**-**	**103,108**	**-11,972**	**-439**	**67,206**	**-1,713**	**-116**
B. OFF-BALANCE SHEET EXPOSURES																		
B.1. Bad loans	-	-	X	-	-	X	1	-	X	-	-	X	91	-34	X	-	-	X
B.2. Unlikely to pay	-	-	X	-	-	X	3	-22	X	-	-	X	687	-117	X	5	-1	X
B.3. Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	5	-	X	-	-	X
B.4. Other exposures	1,716	X	-	2,207	X	-	8,350	X	-1	1,273	X	-	71,318	X	-30	403	X	-
Total B	**1,716**	**-**	**-**	**2,207**	**-**	**-**	**8,354**	**-22**	**-1**	**1,273**	**-**	**-**	**72,101**	**-151**	**-30**	**408**	**-1**	**-**
TOTAL (A+B) 31.12.2017	**42,607**	**-6**	**-5**	**14,129**	**-71**	**-7**	**53,551**	**-271**	**-68**	**2,259**	**-**	**-**	**175,209**	**-12,123**	**-469**	**67,614**	**-1,714**	**-116**
TOTAL 31.12.2016	**56,264**	**-3**	**-6**	**14,697**	**-68**	**-10**	**51,218**	**-265**	**-97**	**1,832**	**-**	**-**	**157,762**	**-12,577**	**-622**	**52,031**	**-1,473**	**-96**

B.2. Breakdown of on- and off-balance sheet credit exposures to customers by geographical area (book value)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	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	6,427	-11,389	25	-105	1	-18	1	-5	-	-
A.2. Unlikely to pay	6,851	-2,278	166	-67	107	-87	6	-2	6	-3
A.3. Non-performing past due exposures	226	-57	3	-	-	-	-	-	-	-
A.4. Performing exposures	191,882	-537	44,803	-51	13,182	-24	4,183	-12	1,441	-10
Total A	**205,386**	**-14,261**	**44,997**	**-223**	**13,290**	**-129**	**4,190**	**-19**	**1,447**	**-13**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	93	-34	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	636	-140	5	-	53	-	-	-	-	-
B.3. Other non-performing assets	5	-	-	-	-	-	-	-	-	-
B.4. Performing exposures	48,310	-25	24,467	-4	10,179	-2	1,178	-	1,133	-
Total B	**49,044**	**-199**	**24,472**	**-4**	**10,232**	**-2**	**1,178**	**-**	**1,133**	**-**
TOTAL (A+B) 31.12.2017	**254,430**	**-14,460**	**69,469**	**-227**	**23,522**	**-131**	**5,368**	**-19**	**2,580**	**-13**
TOTAL 31.12.2016	**232,420**	**-14,662**	**66,757**	**-349**	**27,126**	**-144**	**5,583**	**-40**	**1,919**	**-21**

B.2 Bis Breakdown of relations with customers resident in Italy by geographical area (book value)

(millions of euro)

Exposures/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	2,936	-5,490	651	-970	1,378	-2,514	1,462	-2,415
A.2. Unlikely to pay	3,599	-1,171	911	-258	1,495	-540	846	-309
A.3. Non-performing past due exposures	69	-17	51	-12	54	-12	52	-16
A.4. Performing exposures	77,890	-253	30,349	-99	65,769	-116	17,867	-69
Total A	**84,494**	**-6,931**	**31,962**	**-1,339**	**68,696**	**-3,182**	**20,227**	**-2,809**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	33	-16	21	-4	36	-13	3	-1
B.2. Unlikely to pay	348	-45	52	-31	200	-62	36	-2
B.3. Other non-performing assets	1	-	-	-	4	-	-	-
B.4. Performing exposures	19,476	-15	5,462	-2	21,646	-7	1,726	-1
Total B	**19,858**	**-76**	**5,535**	**-37**	**21,886**	**-82**	**1,765**	**-4**
TOTAL (A+B) 31.12.2017	**104,352**	**-7,007**	**37,497**	**-1,376**	**90,582**	**-3,264**	**21,992**	**-2,813**
TOTAL 31.12.2016	**94,872**	**-7,454**	**18,675**	**-1,236**	**97,968**	**-3,200**	**20,905**	**-2,772**

B.3. Breakdown of on- and off-balance sheet credit exposures to banks by geographical area (book value)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	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	-	-	-	-3	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Performing exposures	143,145	-51	12,005	-26	2,441	-19	2,051	-8	382	-3
Total A	**143,145**	**-51**	**12,005**	**-27**	**2,441**	**-19**	**2,051**	**-11**	**382**	**-3**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	-	-	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	1	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	10	-1	-	-
B.4. Performing exposures	3,222	-	21,407	-2	255	-	1,156	-1	314	-2
Total B	**3,222**	**-**	**21,407**	**-2**	**255**	**-**	**1,167**	**-2**	**314**	**-2**
TOTAL (A+B) 31.12.2017	**146,367**	**-51**	**33,412**	**-29**	**2,696**	**-19**	**3,218**	**-13**	**696**	**-5**
TOTAL 31.12.2016	**123,704**	**-6**	**29,777**	**-25**	**3,471**	**-16**	**4,146**	**-17**	**954**	**-13**

B.3. Bis. Breakdown of relations with banks resident in Italy by geographical area (book value)

(millions of euro)

Exposures/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	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4. Performing exposures	98,206	-2	5,079	-48	36,414	-1	1,047	-
Total A	**98,206**	**-2**	**5,079**	**-48**	**36,414**	**-1**	**1,047**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.4. Performing exposures	674	-	1,155	-	1,223	-	155	-
Total B	**674**	**-**	**1,155**	**-**	**1,223**	**-**	**155**	**-**
TOTAL (A+B) 31.12.2017	**98,880**	**-2**	**6,234**	**-48**	**37,637**	**-1**	**1,202**	**-**
TOTAL 31.12.2016	**89,214**	**-1**	**4,496**	**-4**	**29,380**	**-1**	**614**	**-**

B.4. Large exposures

Large exposures	
a) Book value (millions of euro)	348,252
b) Weighted value (millions of euro)	14,529
b) Number	6

On the basis of regulatory provisions, the number of large exposures indicated in the table was determined by reference to unweighted "exposures", including those to the Group's counterparties, in excess of 10% of eligible capital as defined by EU Regulation no. 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.

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	**44**	**-**	**4**	**-**	**22**	**-4**
- Consumer credit	44	-	4	-	14	-
– Residential mortgage loans [(a)]	-	-	-	-	8	-4
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**5,201**	**-8**	**346**	**1**	**2,150**	**-4**
– Residential mortgage loans [(b) (c)]	235	1	324	-	2,096	-4
– Loans to businesses (including SMEs) [(c)]	4,966	-9	22	1	54	-
TOTAL	**5,245**	**-8**	**350**	**1**	**2,172**	**-8**

[(a)] The amount is entirely referred to non-performing financial assets.

(b) The junior securities held in the portfolio also relate to the securitisations of the former Veneto Banca and the former Banca Popolare di Vicenza with issued securities nearing the contractual term established for their repurchase or elimination and with underlying loans for which, following the due diligence conducted by the Board of Experts, the part considered non-performing as at the acquisition date was not included in the Aggregate Set transferred to the Intesa Sanpaolo Group.

[(c)] Senior, Mezzanine and Junior exposures include non-performing financial assets equal to 16 million euro, 22 million euro and 39 million euro, respectively. "Loans to businesses (including SMEs)" also includes the amounts for GARC synthetic securitisation operations and Tranched Cover Piemonte, referring to performing exposures.

The securitisations in the above table include those for which the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1. Based on this exemption, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

Off-balance sheet

This type of exposure did not exist as at 31 December 2017.

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]	5,072	-	-	-	-	-
Residential mortgage loans	388	2	108	-	515	-1
Trade receivables	272	-1	-	-	-	-
Loans to businesses (including SMEs) [b]	90	-17	30	-	31	-23
Consumer credit	56	-	-	-	-	-
Securitisations	47	-	-	-	-	-
Commercial mortgage loans	-	-	8	-1	4	-
TOTAL	**5,925**	**-16**	**146**	**-1**	**550**	**-24**

[a] The amount also includes 4,944 million euro in Romulus securities held in Intesa Sanpaolo portfolio, generally shown under third-party securitisations. For more details regarding the type of underlying assets, refer to section 3 - Risks of other companies in Part E of the Notes to the consolidated financial statements

[c] Senior, Mezzanine and Junior exposures include non-performing financial assets equal to 87 million euro, 28 million euro and 31 million euro, respectively. The aggregate includes debt securities issed by the securitisation vehicle established for the sale transaction of Casse di Risparmio di Cesena, Rimini e San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund Voluntary Scheme in which the bank participates. The relevant Junior Notes have been entirely derecognised.

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	-	-	-	-	-	-	5,208	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**5,208**	**-**	**-**	**-**	**-**	**-**

C.3. Securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION [(a)]	ASSETS			LIABILITIES		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Intesa Sanpaolo Securitisation Vehicle Srl (b) (c)	Milano	Consolidated	19	-	30	25	-	156
Intesa Sanpaolo Sec SA (b)	Luxembourg	Consolidated	40	-	265	-	-	-
Intesa Sec 3 Srl	Milano	Consolidated	241	-	123	-	163	118
Intesa Sec Npl Spa	Milano	Consolidated	11	-	4	-	-	155
Augusto Srl (d)	Milano	Not consolidated (e)	2	-	2	14	-	-
Colombo Srl (d)	Milano	Not consolidated (e)	16	-	7	-	20	10
Diocleziano Srl (d)	Milano	Not consolidated (e)	8	-	2	53	-	-
ISP CB Ipotecario Srl (f)	Milano	Consolidated	19,968	-	4,980	23,000	-	-
ISP CB Pubblico Srl (f)	Milano	Consolidated	3,823	2,203	2,849	-	-	-
ISP OBG S.r.l. (ex ISP Sec 4 srl) (f)	Milano	Consolidated	24,383	-	3,415	27,435	-	-
Claris ABS 2011 Srl	Conegliano (TV)	Not consolidated	1,354	-	70	525	576	78
Claris Finance 2005 Srl	Roma	Not consolidated (e)	60	-	13	15	24	10
Claris Finance 2006 Srl	Conegliano (TV)	Not consolidated	78	-	5	-	58	3
Claris Finance 2007 Srl	Conegliano (TV)	Not consolidated	128	-	12	85	6	22
Claris Finance 2008 Srl	Conegliano (TV)	Not consolidated	135	-	7	11	44	55
Claris RMBS 2011 Srl	Conegliano (TV)	Not consolidated	544	-	65	335	203	-
Claris RMBS 2014 Srl	Conegliano (TV)	Not consolidated	482	-	16	127	155	176
Claris RMBS 2016 Srl	Conegliano (TV)	Not consolidated	1,005	-	58	781	116	144
Claris SME 2015 Srl	Conegliano (TV)	Not consolidated	959	-	112	329	290	403
Claris SME 2016 Srl	Conegliano (TV)	Not consolidated	561	-	64	235	349	44
Berica 5 RMBS Srl	Vicenza	Not consolidated (e)	132	-	18	64	44	34
Berica 6 RMBS Srl	Vicenza	Not consolidated (e)	299	-	160	-	309	1
Berica 8 RMBS Srl	Vicenza	Not consolidated (e)	394	-	72	200	-	175
Berica 9 RMBS Srl	Vicenza	Not consolidated (e)	465	-	59	-	248	193
Berica 10 RMBS Srl	Vicenza	Not consolidated (e)	457	-	38	-	225	184
Berica ABS Srl	Vicenza	Not consolidated (e)	680	-	25	134	110	327
Berica ABS 2 Srl	Vicenza	Not consolidated (e)	447	-	40	-	447	180
Berica ABS 3 Srl	Vicenza	Not consolidated (e)	546	-	19	292	94	115
Berica ABS 4 Srl	Vicenza	Not consolidated	643	-	23	393	123	95
Berica ABS 5 Srl	Vicenza	Not consolidated	560	-	36	452	60	52
Berica Funding 2016 Srl	Vicenza	Not consolidated	949	-	62	581	199	185
Berica PMI 2 Srl	Vicenza	Not consolidated	582	-	51	82	-	531
Brera Sec Srl	Conegliano (TV)	Not consolidated (e)	6,976	-	298	6,025	-	1,067

[(a)] Consolidation method referring to the "prudential" scope applied to the Group financial statements.

[(b)] Self-securitisation vehicle described in Section 3 - Liquidity Risk, Quantitative Information, paragraph 4.

[(c)] This vehicle (former Intesa Lease Sec S.r.l.) has been used to perform a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB Hungary, also in currencies other than the euro, for a total of 343 million euro.

[(d)] The amounts shown under assets and liabilities refer to the latest financial statement data available (31 December 2016).

[(e)] Not consolidated line by line, but using the equity method.

[(f)] ISP CB Ipotecario, ISP CB Pubblico and ISP OBG are not traditional securitisation vehicles that issue notes; rather, they are involved in COVERED BOND issues. For information, refer to Section E.4 of Part E of these Notes to the Financial Statements.

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

SPECIAL PURPOSE VEHICLES	SECURITISED ASSETS (period-end figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
					Senior		Mezzanine		Junior	
	Non-performing	Performing	Non-performing	Performing	Non-performing loans	Performing loans	Non-performing loans	Performing loans	Non-performing loans	Performing loans
Intesa Sec 3 Srl	23	216	8	101	-	100%	-	93%	-	0%
Intesa Sanpaolo Securitisation Vehicle Srl	19	-	-	97	-	58%	-	0%	-	0%
Brera Sec Srl	1	7,014	-	79	-	0%	-	0%	-	0%
Claris ABS 2011 Srl	90	1,264	-	164	-	79%	-	0%	-	22%
Claris Finance 2005 Srl	12	50	-	11	-	83%	-	0%	-	0%
Claris Finance 2006 Srl	1	127	-	12	-	100%	-	3%	-	0%
Claris Finance 2007 Srl	19	463	-	15	-	83%	-	0%	-	21%
Claris Finance 2008 Srl	26	112	-	23	-	98%	-	0%	-	0%
Claris RMBS 2011 Srl	4	520	-	21	-	71%	-	0%	-	0%
Claris RMBS 2014 Srl	25	457	-	65	-	73%	-	0%	-	0%
Claris RMBS 2016 Srl	16	989	-	121	-	33%	-	0%	-	21%
Claris SME 2015 Srl	154	805	-	279	-	80%	-	20%	-	20%
Claris SME 2016 Srl	101	460	-	143	-	64%	-	0%	-	11%
Berica 5 RMBS Srl	36	96	-	14	-	90%	-	0%	-	3%
Berica 6 RMBS Srl	11	288	-	36	-	100%	-	76%	-	78%
Berica 8 RMBS Srl	30	364	-	46	-	84%	-	0%	-	0%
Berica 9 RMBS Srl	15	450	-	56	-	73%	-	0%	-	0%
Berica 10 RMBS Srl	19	438	-	50	-	70%	-	0%	-	0%
Berica ABS Srl	58	622	-	68	-	77%	-	0%	-	0%
Berica ABS 2 Srl	19	428	-	54	-	70%	-	0%	-	0%
Berica ABS 3 Srl	34	512	-	69	-	54%	-	0%	-	0%
Berica ABS 4 Srl	26	617	-	69	-	46%	-	0%	-	0%
Berica ABS 5 Srl	2	558	-	155	-	11%	-	0%	-	0%
Berica PMI 2 Srl	11	572	-	45	-	87%	-	0%	-	0%
Berica Funding 2016 Srl	9	936	-	130	-	35%	-	0%	-	0%
Total	**760**	**18,358**	**8**	**1,923**	**-**		**-**		**-**	

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, refer to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium-/long-term repurchase agreements, refer to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

E.1. Financial assets sold not derecognised: book value and full value

(millions of euro)

Type / Portfolio	CASH ASSETS				DERIVA-TIVES	31.12.2017		31.12.2016	
	Debt securities	Equities	UCI	Loans		Total	*of which non-performing assets*	Total	*of which non-performing assets*
FINANCIAL ASSETS HELD FOR TRADING	**1,245**	**-**	**-**	**-**	**-**	**1,245**	**-**	**362**	**-**
- Financial assets sold totally recognised (book value)	1,245	-	-	-	-	1,245	-	362	-
- Financial assets sold partly recognised (book value)	-	-	-	-	-	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	-	-	-	-	-
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	**8,098**	**-**	**-**	**-**	**X**	**8,098**	**-**	**7,748**	**-**
- Financial assets sold totally recognised (book value)	8,098	-	-	-	X	8,098	-	7,748	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
INVESTMENTS HELD TO MATURITY	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
DUE FROM BANKS	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
LOANS TO CUSTOMERS	**203**	**X**	**X**	**6,991**	**X**	**7,194**	***562***	**1,219**	***172***
- Financial assets sold totally recognised (book value)	203	X	X	6,991	X	7,194	*562*	1,219	*172*
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
Total 31.12.2017	**9,546**	**-**	**-**	**6,991**	**-**	**16,537**	***562***	**X**	***X***
Total 31.12.2016	**8,844**	**-**	**-**	**485**	**-**	**X**	**X**	**9,329**	**172**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

The operations 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 SEC3 and K-Equity securitisations, as well as securitisations resulting from the acquisition of the Aggregate Set from the former Banca Popolare di Vicenza and the former Veneto Banca.

E.2. Financial liabilities corresponding to financial assets sold not derecognised: book value

(millions of euro)

	DUE TO CUSTOMERS		DUE TO BANKS		TOTAL	TOTAL
	Fully recognised	Partly recognised	Fully recognised	Partly recognised	31.12.2017	31.12.2016
Financial assets held for trading	1,183	-	135	-	1,318	351
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	4,577	-	3,379	-	7,956	7,633
Investments held to maturity	-	-	-	-	-	-
Due from banks	-	-	-	-	-	186
Loans to customers	3,253	-	196	-	3,449	933
TOTAL	**9,013**	**-**	**3,710**	**-**	**12,723**	**9,103**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

The financial liabilities associated to financial assets sold not derecognised relate to both securitisations and repurchase agreements for securities recorded under assets. They do not, however, include repurchase agreements relating to securities received under reverse repurchase agreements.
The Amounts due to customers associated to Loans to customers included liabilities recorded for the SEC 3 and K-Equity securitisations, as well as the securitisations resulting from the acquisition of the Aggregate Set of the former Banca Popolare di Vicenza and the former Veneto Banca.

E.3. Sales with liabilities having recourse exclusively on the assets sold: fair value

(millions of euro)

Type / Portfolio	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS		FINANCIAL ASSETS AVAILABLE FOR SALE		INVESTMENTS HELD TO MATURITY (fair value)		DUE FROM BANKS (fair value)		LOANS TO CUSTOMERS (fair value)		TOTAL 31.12.2017	TOTAL 31.12.2016
	Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:			
	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised		
A. Cash assets	**1,245**	**-**	**-**	**-**	**8,098**	**-**	**-**	**-**	**-**	**-**	**7,072**	**-**	**16,415**	**9,317**
1. Debt securities	1,245	-	-	-	8,098	-	-	-	-	-	199	-	9,542	8,820
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCI	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	6,873	-	6,873	497
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total Assets	**1,245**	**-**	**-**	**-**	**8,098**	**-**	**-**	**-**	**-**	**-**	**7,072**	**-**	**16,415**	**9,317**
C. Associated liabilities	**1,319**	**-**	**-**	**-**	**7,956**	**-**	**-**	**-**	**-**	**-**	**3,452**	**-**	**X**	**X**
1. Due to customers	1,184	-	-	-	4,577	-	-	-	-	-	3,251	-	X	X
2. Due to banks	135	-	-	-	3,379	-	-	-	-	-	201	-	X	X
Total Liabilities	**1,319**	**-**	**-**	**-**	**7,956**	**-**	**-**	**-**	**-**	**-**	**3,452**	**-**	**12,727**	**9,117**
Net Value 2017	**-74**	**-**	**-**	**-**	**142**	**-**	**-**	**-**	**-**	**-**	**3,620**	**-**	**3,688**	**X**
Net Value 2016	**12**	**-**	**-**	**-**	**114**	**-**	**-**	**-**	**-186**	**-**	**260**	**-**	**X**	**200**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

B. Financial assets sold fully derecognised with recognition of continuing involvement
This type of exposure did not exist as at 31 December 2017.

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 at the end of July 2009, had an amount of 20 billion euro (the original 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. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold, the last of which (amounting to around 1 billion euro) in April 2013.
As at 31 December 2017 loans and securities sold to the vehicle had a book value of 6 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 which matured in the fourth quarter of 2011, 12 billion euro relating to issues acquired by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012).
During 2017:
- the early repayment of the second series of CB was carried out, for a nominal value of 2 billion euro which, as it was fully subscribed for 1.8 billion euro by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;
- The thirteenth series of Covered Bonds was issued, for a nominal value of 1.65 billion euro. The notes, with floating rate

and 7-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A1 rating, and are eligible for Eurosystem transactions;

Therefore, as at 31 December 2017 a total nominal amount of 6.7 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 6.5 billion repurchased and 0.2 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2017, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 5.3 billion euro.
As at 31 December 2017 loans sold to the vehicle had a book value of 20 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 28.7 billion euro (of which 8.2 billion euro subject to early redemption in 2012 and 1 billion euro relating to a covered bond that matured in the fourth quarter of 2015).
During 2017:

- the tenth series of CB reached maturity, with a nominal value of 1.9 billion euro;
- in June, series 22 of CB was issued in the form of a fixed-rate bond (1.125%) for a nominal value of 1 billion euro, with a 10-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was placed with institutional investors;

As at 31 December 2017, a total nominal amount of 15.1 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.7 billion placed with third party investors and 3.4 billion subscribed by Intesa Sanpaolo.

In 2012 the third multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio in Bologna and, starting from May 2015, Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). A sale was completed in June 2017 totalling 1.1 billion euro.
As at 31 December 2017 the loans sold to the vehicle by Intesa Sanpaolo had a book value of 10.1 billion euro.
The other Group Banks sold assets to the vehicle for a total original nominal value of 17.7 billion euro, of which 1.8 billion euro sold in 2017.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 49.6 billion euro (of which 28 billion euro subject to early redemption and reimbursed). During 2017:

- in February the ninth series of CB reached maturity, with a value of 1.5 billion euro and a residual nominal amount at maturity of 1.375 billion euro;
- in August, the tenth series of CB reached maturity, with a value of 1.5 billion euro and a residual nominal amount at maturity of 1.375 billion euro;
- in February the 23rd series of CB was issued with a nominal value of 1.375 billion euro. This is a 9-year, floating-rate bond.
- in February the 24th series of CB was issued with a nominal value of 1.375 billion euro. This is a 10-year, floating-rate bond.

All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.
As at 31 December 2017 a total nominal amount of 21.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

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						8,875	4	8,562	147	167		
	Intesa Sanpaolo 11/21 - 5,0%	Bonds and loans to the public sector	27/01/2011	27/01/2021	A3				147	167 (3)	Securities issued	Amortised cost
ISP CB IPOTECARIO			00/01/1900	00/01/1900	0	24,948	115	23,000	11,713	11,729		
	Intesa Sanpaolo 11/26 - 5,25%	RMBSs from self-securitisation - Mortgages	17/02/2011	17/02/2026	A2				100	132 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 11/31 - 5,375%	RMBSs from self-securitisation - Mortgages	17/02/2011	17/02/2031	A2				300	420 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 11/27 - 5,25%	RMBSs from self-securitisation - Mortgages	16/09/2011	16/09/2027	A2				210	258 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 12/21 - 5 %	Mortgages	16/07/2012 26/9/2012	27/01/2021	A2				1,353	1,589 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 12/19 - 3,75%	Mortgages	25/09/2012	25/09/2019	A2				1,000	1,046 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 12/22 - 3,625%	Mortgages	03/12/2012	05/12/2022	A2				1,250	1,359 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 13/25 - 3,375%	Mortgages	24/01/2013	24/01/2025	A2				1,000	1,147 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 13/18 - 2,25%	Mortgages	24/09/2013	24/09/2018	A2				750	773 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 14/26 3,25%	Mortgages	10/02/2014	10/02/2026	A2				1,250	1,462 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 15/22 0,625%	Mortgages	23/01/2015	20/01/2022	Aa2				1,000	1,018 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 15/25 1,375%	Mortgages	18/12/2015	18/12/2025	Aa2				1,250	1,279 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 16/23 0,625%	Mortgages	23/03/2016	23/03/2023	Aa2				1,250	1,246 (3)	Securities issued	Amortised cost
	Intesa Sanpaolo 16/23 1,125%	Mortgages	16/06/2017	16/06/2027	Aa2				1,000	992 (3)	Securities issued	Amortised cost
ISP OBG						27,799 (4)	246 (5)	10,918				

(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 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 professional investors and international financial intermediaries, for the entire amount issued.

(4) The assets of Intesa Sanpaolo vehicle amount to 11,160 million euro; of the remaining, 8,550 million euro is comprised of Banco Napoli securitised assets, 3,451 million euro is comprised of CR Veneto securitised assets, 2,677 million euro is comprised of CR Firenze securitised assets and 1,961 million euro is comprised of Carisbo securitised assets.

(5) The write-downs to Intesa Sanpaolo securitised portfolio amount to 137 million euro; of the remaining, 80 million euro relates to Banco Napoli portfolio, 21 million euro relates to CR Veneto assets, 4 million euro relates to Carisbo assets and 4 million euro relates to CR Firenze assets.

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 0.46% of disbursed loans, down by 0.07% on the end of 2016 (0.53%). This improvement is due to the change of the rating models, the use of new LGD grids and the application of the new Credit Conversion Factors (CCFs), in addition to the active management of the portfolio towards better exposures and the transitions to non-performing loan status, which contribute to removing performing customers with worse ratings from the portfolio.

For the companies included in the roll out plan, the PD, LGD and EAD internal models are subject to a second level of control by the Validation function and a third level of control by the Internal Auditing Head Office 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 performances of the models. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

SECTION 2 – MARKET RISKS

2.1. INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING BOOK

QUALITATIVE INFORMATION

Qualitative information about measurement criteria 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.

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

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 437 million euro, -457 million euro and 861 million euro, respectively, at the end of 2017. This latter figure was up compared to the end of 2016, when it was 598 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 966 million euro during 2017 and amounted to 1,362 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 124 million euro during 2017, with a minimum value of 112 million euro and a maximum value of 140 million euro; the 2017 year-end figure was 126 million euro.

Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2017 of 103 million euro (161 million euro at the end of 2016), with minimum and maximum values of 57 million euro and 146 million euro respectively; the 2017 year-end figure was 64 million euro.

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 AFS portfolio.

Price risk: impact on Shareholders' Equity

(millions of euro)

		Impact on shareholders' equity
Price shock	+10%	60
Price shock	-10%	-60

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	**21,574**	**1,461**	**335**	**1,348**	**3,822**
A.1 Debt securities	3,443	639	-	530	349
A.2 Equities	192	-	5	-	487
A.3 Loans to banks	7,855	347	243	122	853
A.4 Loans to customers	10,084	475	87	696	2,133
A.5 Other financial assets	-	-	-	-	-
B. OTHER ASSETS	**4,129**	**39**	**21**	**157**	**89**
C. FINANCIAL LIABILITIES	**26,255**	**821**	**257**	**181**	**1,522**
C.1 Due to banks	9,438	287	203	32	888
C.2 Due to customers	5,900	216	54	74	413
C.3 Debt securities	10,917	318	-	75	221
C.4 Other financial liabilities	-	-	-	-	-
D. OTHER LIABILITIES	**168**	**7**	**-**	**3**	**424**
E. FINANCIAL DERIVATIVES					
- Options					
long positions	*672*	*16*	*-*	*4*	*106*
short positions	*601*	*18*	*-*	*5*	*104*
- Other derivatives					
long positions	*45,759*	*6,319*	*1,600*	*3,504*	*7,336*
short positions	*45,220*	*6,664*	*1,711*	*4,877*	*9,366*
TOTAL ASSETS	**72,134**	**7,835**	**1,956**	**5,013**	**11,353**
TOTAL LIABILITIES	**72,244**	**7,510**	**1,968**	**5,066**	**11,416**
DIFFERENCE (+/-)	**-110**	**325**	**-12**	**-53**	**-63**

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 59 million euro as at 31 December 2017. This potential impact would only affect Shareholders' Equity, until disposal.

2.4. DERIVATIVES

Starting from 2014, the Bank has been authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk.
The Bank uses these approaches for almost the entire trading portfolio (as shown in the table below, as of 31 December 2017 approximately 98.8% of the total EAD of financial and credit derivatives is measured using EPE models).
Derivatives that are not in scope of internal models represent a residual portion of the portfolio (as of 31 December 2017 accounting for approximately 1.2% of overall EAD), in compliance with the insignificance of the EBA thresholds.
Moreover, with the implementation 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)

Categories of transactions	31.12.2017		31.12.2016	
	Current Exposure Method	EPE Internal Method	Current Exposure Method	EPE Internal Method
Derivative contracts	75	6,423	102	7,327

Using the EPE internal model, it is possible to consider the collateral collected to mitigate credit exposure and any excess collateral paid. The value of guarantees received and included in the calculation of the EAD amounted to over 2.1 billion euro for Intesa Sanpaolo, while the collateral paid amounted to 6.6 billion euro.

A. FINANCIAL DERIVATIVES

A.1. Regulatory trading book: period-end notional amounts

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**512,773**	**-**	**348,660**	**-**
a) Options	10,167	-	5,567	-
b) Swaps	499,182	-	333,828	-
c) Forwards	-	-	-	-
d) Futures	3,424	-	9,265	-
e) Others	-	-	-	-
2. Equities and stock indices	**240**	**27**	**235**	**27**
a) Options	206	27	235	27
b) Swaps	34	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**108,278**	**-**	**100,025**	**-**
a) Options	4,241	-	3,715	-
b) Swaps	25,215	-	23,030	-
c) Forwards	76,800	-	72,240	-
d) Futures	-	-	-	-
e) Others	2,022	-	1,040	-
4. Commodities	**3,620**	**-**	**5,474**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**624,911**	**27**	**454,394**	**27**

The Bank has traded on organised futures markets through direct participants mainly belonging to the Group Investment Bank.

A.2. Banking book: period-end notional amounts

A.2.1. Hedging derivatives

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**204,612**	**-**	**212,683**	**-**
a) Options	2,455	-	2,369	-
b) Swaps	202,157	-	210,314	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**2,215**	**-**	**2,558**	**-**
a) Options	-	-	-	-
b) Swaps	2,215	-	2,558	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**206,827**	**-**	**215,241**	**-**

A.2.2. Other derivatives

(millions of euro)

Underlying assets / Type of derivatives	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,986**	**-**	**3,158**	**-**
a) Options	2,193	-	2,401	-
b) Swaps	793	-	757	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**1,071**	**-**	**741**	**-**
a) Options	1,071	-	741	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**4,057**	**-**	**3,899**	**-**

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss and the put and call options relating to commitments on equity investments.

A.3. Financial derivatives gross positive fair value – breakdown by product

A.4. Financial derivatives gross negative fair value – breakdown by product

A.5. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements

A.6. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements

A.7. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements

A.8. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements

A.9. Residual maturity of over the counter financial derivatives: notional amounts

Tables A.3 to A.9 were not filled in as the financial derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.
Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables A.3 to A.9 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

A.10 Over the counter financial derivatives: counterparty risk/financial risk – internal models

As stated in the initial part of the section on derivatives, the Bank was authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.
Financial derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, for the purpose of summarising all the information on derivatives.

Financial derivatives gross positive fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**12,971**	**-**	**14,072**	**-**
a) Options	262	-	263	-
b) Interest rate swaps	10,314	-	10,376	-
c) Cross currency swaps	1,381	-	1,973	-
d) Equity swaps	-	-	-	-
e) Forwards	773	-	1,073	-
f) Futures	-	-	-	-
g) Others	241	-	387	-
B. Banking book - hedging	**3,823**	**-**	**5,720**	**-**
a) Options	53	-	51	-
b) Interest rate swaps	3,504	-	5,174	-
c) Cross currency swaps	266	-	495	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**240**	**-**	**264**	**-**
a) Options	188	-	215	-
b) Interest rate swaps	52	-	49	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**17,034**	**-**	**20,056**	**-**

Financial derivatives gross negative fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**13,549**	**-**	**15,588**	**-**
a) Options	296	-	269	-
b) Interest rate swaps	10,882	-	11,625	-
c) Cross currency swaps	1,434	-	2,048	-
d) Equity swaps	-	-	-	-
e) Forwards	696	-	1,253	-
f) Futures	-	-	-	-
g) Others	241	-	393	-
B. Banking book - hedging	**5,555**	**-**	**6,517**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	5,206	-	6,148	-
c) Cross currency swaps	349	-	369	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**255**	**-**	**304**	**-**
a) Options	192	-	218	-
b) Interest rate swaps	63	-	86	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**19,359**	**-**	**22,409**	**-**

Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	2,234	464,607	14,178	-	31,283	471
- positive fair value	-	584	7,930	474	-	1,496	18
- negative fair value	-	-20	-10,257	-373	-	-418	-20
2. Equities and stock indices							
- notional amount	-	-	194	-	29	17	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	329	-	76,074	17,108	-	14,695	72
- positive fair value	-	-	1,361	187	-	683	3
- negative fair value	-4	-	-1,845	-133	-	-242	-3
4. Other values							
- notional amount	-	-	1,811	23	-	1,786	-
- positive fair value	-	-	177	-	-	58	-
- negative fair value	-	-	-58	-2	-	-174	-

Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	407	197,352	9,035	-	28	776
- positive fair value	-	3	3,586	146	-	4	-
- negative fair value	-	-	-4,653	-664	-	-	-84
2. Equities and stock indices							
- notional amount	-	-	744	74	-	21	232
- positive fair value	-	-	51	7	-	-	-
- negative fair value	-	-	-7	-	-	-	-52
3. Foreign exchange rates and gold							
- notional amount	-	-	1,964	251	-	-	-
- positive fair value	-	-	266	-	-	-	-
- negative fair value	-	-	-192	-158	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

The data in the tables "Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty" and "Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty" refer exclusively to operations in Over the Counter derivatives.

B. CREDIT DERIVATIVES

B.1. Credit derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	REGULATORY TRADING BOOK		BANKING BOOK	
	single counterparty	more counterparties (basket)	single counterparty	more counterparties (basket)
1. Protection purchases				
- Credit default products	674	4,925	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2017	**674**	**4,925**	**-**	**-**
Total 31.12.2016	**454**	**1,612**	**-**	**-**
2. Protection sales				
- Credit default products	146	2,688	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2017	**146**	**2,688**	**-**	**-**
Total 31.12.2016	**260**	**1,196**	**-**	**-**

As of 31 December 2017, 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.

Also tables B.2 to B.6 were not filled in because the credit derivatives out of scope of internal models represent a residual portion of the portfolio.
Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables B.2 to B.6 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

B.2. Over the counter credit derivatives: gross positive fair value – breakdown by product

B.3. Over the counter credit derivatives: gross negative fair value – breakdown by product

B.4. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty – contracts not included under netting arrangements

B.5. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty - contracts included under netting arrangements

B.6. Residual maturity of credit derivatives: notional amounts

B.7. Credit derivatives: counterparty risk/financial risk – Internal models
As stated in the initial part of the section on derivatives, the Bank was authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.
Credit derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, with the purpose of summarising all the information on derivatives.

Over the counter credit derivatives: gross positive fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE	
	31.12.2017	31.12.2016
A. Regulatory trading book	**139**	**87**
a) Credit default products	139	87
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**139**	**87**

As of 31 December 2017, none of the contracts shown in the table above were included within the structured products reported in the chapter on market risks in the Notes to the consolidated financial statements.

Over the counter credit derivatives: gross negative fair value – breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE	
	31.12.2017	31.12.2016
A. Regulatory trading book	**222**	**120**
a) Credit default products	222	120
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**222**	**120**

As at 31 December 2017, none of the contracts shown in the table above were included within the structured products reported in the chapter on market risks in the Notes to the consolidated financial statements.

Over the counter credit derivatives: gross (positive and negative) fair values by counterparty

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	146	5,302	151	-	-	-
- positive fair value	-	50	1	-	-	-	-
- negative fair value	-	-	-166	-2	-	-	-
2. Protection sales							
- notional amount	-	-	2,834	-	-	-	-
- positive fair value	-	-	88	-	-	-	-
- negative fair value	-	-	-54	-	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

The data exclusively refers to operations in Over the counter credit derivatives.

C. CREDIT AND FINANCIAL DERIVATIVES

C.1. Over the counter credit and financial derivatives: net fair values and future exposure by counterparty

This table was not filled in because, as previously illustrated, the Bank primarily calculates counterparty risk using the EPE approach. According to the internal models approach, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time.

SECTION 3 - 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 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 demand liabilities and the representation of cash 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
Cash assets	**32,629**	**20,192**	**6,902**	**12,502**	**26,086**	**32,098**	**41,396**	**121,503**	**75,173**	**34,298**
A.1 Government bonds	1	-	-	23	89	2,078	2,833	19,714	8,221	-
A.2 Other debt securities	28	652	1,419	2,777	445	603	1,518	2,575	5,184	-
A.3 Quotas of UCI	828	-	-	-	-	-	-	-	-	-
A.4 Loans	31,772	19,540	5,483	9,702	25,552	29,417	37,045	99,214	61,768	34,298
- Banks	*11,358*	*4,687*	*2,030*	*5,843*	*16,631*	*21,017*	*18,476*	*27,256*	*4,207*	*34,298*
- Customers	*20,414*	*14,853*	*3,453*	*3,859*	*8,921*	*8,400*	*18,569*	*71,958*	*57,561*	-
Cash liabilities	**170,732**	**7,853**	**2,897**	**5,042**	**10,249**	**16,157**	**24,608**	**136,188**	**23,120**	**1,572**
B.1 Deposits and current accounts	163,098	493	2,352	3,612	6,563	11,767	17,056	32,089	4,726	-
- Banks	*22,761*	*418*	*1,958*	*2,331*	*4,961*	*9,963*	*15,374*	*30,351*	*4,726*	-
- Customers	*140,337*	*75*	*394*	*1,281*	*1,602*	*1,804*	*1,682*	*1,738*	-	-
B.2 Debt securities	82	87	51	628	1,907	3,810	6,222	39,157	16,779	1,572
B.3 Other liabilities	7,552	7,273	494	802	1,779	580	1,330	64,942	1,615	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	*5,022*	*4,361*	*6,687*	*10,759*	*3,432*	*4,508*	*9,415*	*4,468*	-
- Short positions	*58*	*4,842*	*4,024*	*8,558*	*8,378*	*2,926*	*4,073*	*8,496*	*4,058*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*9,704*	*28*	*21*	*220*	*758*	*850*	*894*	-	-	-
- Short positions	*10,291*	*563*	*429*	*91*	*347*	*455*	*795*	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	*12,526*	-	-	-	-	-	-	-	-	-
- Short positions	-	*12,526*	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	*13,570*	-	*10*	*23*	*5*	*622*	*9,537*	*1,272*	-
- Short positions	*24,828*	*211*	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	30	18	-	1	-	4	5	49	1	-
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	*138*	-	-	-	-	-	-	-	-	-
- Short positions	*219*	-	-	-	-	-	-	-	-	-

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
Cash assets	**1,768**	**2,087**	**540**	**1,879**	**2,913**	**3,007**	**4,752**	**7,633**	**3,516**	**-**
A.1 Government bonds	1	-	-	3	9	25	374	246	790	-
A.2 Other debt securities	7	18	7	336	61	161	354	1,560	872	-
A.3 Quotas of UCI	144	-	-	-	-	-	-	-	-	-
A.4 Loans	1,616	2,069	533	1,540	2,843	2,821	4,024	5,827	1,854	-
- Banks	*1,262*	*683*	*292*	*846*	*1,621*	*1,671*	*2,648*	*486*	*26*	-
- Customers	*354*	*1,386*	*241*	*694*	*1,222*	*1,150*	*1,376*	*5,341*	*1,828*	-
Cash liabilities	**5,076**	**2,454**	**1,298**	**4,056**	**3,160**	**319**	**644**	**6,513**	**5,752**	**-**
B.1 Deposits and current accounts	4,854	2,013	948	1,526	853	49	111	1,913	864	-
- Banks	*2,180*	*870*	*416*	*350*	*359*	*26*	*84*	*1,709*	*634*	-
- Customers	*2,674*	*1,143*	*532*	*1,176*	*494*	*23*	*27*	*204*	*230*	-
B.2 Debt securities	3	17	139	1,499	307	270	503	4,072	4,888	-
B.3 Other liabilities	219	424	211	1,031	2,000	-	30	528	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*3*	*8,989*	*5,202*	*11,783*	*11,419*	*4,677*	*6,526*	*10,235*	*5,693*	-
- Short positions	-	*9,184*	*5,533*	*9,939*	*13,483*	*5,158*	*6,959*	*11,339*	*6,087*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,067*	-	*22*	*117*	*13*	*45*	*163*	-	-	-
- Short positions	*1,077*	-	*8*	*55*	*50*	*66*	*154*	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	*294*	-	-	-	-	-	-	-	-	-
- Short positions	-	*270*	*16*	-	-	-	*8*	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	*2*	-	*211*	*1,562*	*574*	*9,043*	*581*	-
- Short positions	*11,960*	*13*	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	2	-	-	-	-	-	-	-	-	-
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	*1*	-	-	-	-	-	-	-	-	-
- Short positions	*3*	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The securitisations originated by Intesa Sanpaolo in which it underwrote all the securities issued by the related vehicle (selfsecuritisations) need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the financial statements.

Intesa Sanpaolo SEC SA

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC. SA, which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Intesa Sanpaolo Securitization Vehicle Srl

In December 2014 a new securitisation was approved, involving three portfolios of loans originated by CIB Bank ZRT, primarily non-performing positions, secured by guarantees and mortgages and denominated in euro, Hungarian forints and Swiss francs. Those portfolios were transferred without recourse to Intesa Sanpaolo, which on 30 December 2014 in turn sold the three portfolios without recourse to the vehicle for 241 million euro, 17.1 billion Hungarian forints and 57.2 million Swiss francs, respectively.
Intesa Sanpaolo is the servicer of the portfolio and CIB Bank ZRT the sub-servicer, in accordance with applicable legislation.
In February 2015, Intesa Sanpaolo Securitisation Vehicle S.r.l. issued two classes of notes for each of the three separate asset pools. All classes of notes, which are unlisted and unrated, were subscribed for by Intesa Sanpaolo, as summarised below:

- class-A (senior) notes of 138.2 million euro and class-J (junior) notes of 103.3 million euro were issued for the portfolio of securitised loans in euro;
- class-A (senior) notes of 7.8 billion forints and class-J (junior) notes of 9.3 billion forints were issued for the portfolio of securitised loans in Hungarian forints;
- class-A (senior) notes of 29.4 million francs and class-J (junior) notes of 27.9 million francs were issued for the portfolio of securitised loans in Swiss francs.

As at 31 December 2017, the asset pools held by the vehicle were composed as follows:

- securitised assets in euro of 16.5 million, in addition to cash of 29.9 million euro. The securities in issue had a residual value of 14.6 million euro (class A) and 103.3 million euro (class J);
- securitised assets in Hungarian forints with a value in euro of 0 million and cash with a value in euro of 15.6 million euro. The securities in issue had a residual value of 10.7 million euro (class A) and 30 million euro (class J);
- securitised assets in Swiss francs with a value in euro of 2 million euro and cash with a value in euro of 0.4 million euro. The securities in issue had a residual value of 0 million euro (class A) and 22.9 million euro (class J);

Brera Sec Srl

In October 2017, a new self-securitisation was structured, implemented through the sale of five loan portfolios to the vehicle company Brera Sec Srl and originated by the Parent Company and four of the Banche dei Territori banks (Banco di Napoli, Cassa di Risparmio di Bologna, Cassa di Risparmio di Forlì e Cassa di Risparmio Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is 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) 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. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
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 will take care 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 and 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 a Aa2 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:
- Intesa Sanpaolo subscribed 54.30% of the senior (3,271.80 million euro) and junior securities (579.59 million euro)
- Banco di Napoli subscribed 11.25% of the senior (677.60 million euro) and junior securities (120.04 million euro)
- CR Bologna subscribed 9.02% of the senior (543.50 million euro) and junior securities (96.29 million euro)
- CR Forlì e della Romagna subscribed 12.09% of the senior (728.30 million euro) and junior securities (129.00 million euro)
- CR Friuli Venezia Giulia subscribed 13.34% of the senior (803.90 million euro) and junior securities (142.40 million euro).

Berica PMI 2 Srl

This is a multi-originator self-securitisation with an underlying of secured loans and mortgages granted to small and medium enterprises. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 640 million euro (of which 548 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 6-month Euribor plus 130 bps. As at 31 December 2017, securities totalling 82 million euro were still to be repaid, of which 70 million euro for Intesa Sanpaolo;
- junior tranche of 531 million euro (of which 455 million euro subscribed by the bank and fully redeemable), without rating and indexed to the 6-month Euribor.

Berica Funding 2016 Srl

This is a multi-originator self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 893 million euro (of which 791 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 125 bps. As at 31 December 2017, securities totalling 581 million euro were still to be repaid, of which 515 million euro for the bank;
- mezzanine tranche of 119 million euro (of which 106 million euro subscribed by the bank and fully redeemable), with an external rating assigned by Moody's ("A2") and yield indexed to the 3-month Euribor plus 200 bps;
- mezzanine tranche of 80 million euro (of which 71 million euro subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 250 bps;
- junior tranche of 185 million euro (of which 164 million euro subscribed by the bank and fully redeemable), without rating and indexed to the 3-month Euribor plus 300 bps.

Berica ABS 5 Srl

This is a multi-originator 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 ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2017, securities totalling 452 million euro were still to be repaid, of which 368 million euro for Intesa Sanpaolo;
- mezzanine tranche of 39 million euro (of which 32 million euro subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (of which 17 million euro subscribed by the bank and fully redeemable), with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (of which 42 million euro subscribed by Intesa Sanpaolo and fully redeemable), without rating and indexed to the 3-month Euribor.

Claris Finance 2006 Srl

In 2006, Veneto Banca carried out a securitisation of mortgages for a total of 299.8 million euro that were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale (1 July 2006).
The transaction, which obtained a rating on the tranching from Standard & Poor's, involved the issuance of four different securities:

- class A1 for an amount of 220 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class A2 for an amount of 17 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class B for an amount of 60 million euro, with a BBB+ rating, which had a residual amount of 58 million euro as at 31 December 2017;
- class C for an amount of 3 million euro and without rating.

The class A1 securities were repaid in full, whereas the class A2, B and C securities were subscribed by Veneto Banca or by companies of the Veneto Banca Group.
The rated securities have six-monthly variable-rate coupons and a repayment plan that, starting from the fourth year after the issuance, will follow the residual debt of the outstanding mortgages.
As a guarantee of timely payment of the interest and the full redemption of the senior and mezzanine securities, the vehicle "Claris Finance 2006 srl" was also granted a subordinated loan of 6 million euro.
As at 31 December 2017, the book value of the remaining loans was 78 million euro.

Claris RMBS 2016 Srl
In November 2016, Veneto Banca arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,161 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 srl", 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 have a residual amount of 620 million euro as at 31 December 2017 and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class A tranche of 116 million euro, which has a residual amount of 92 million euro as at 31 December 2017 and an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, without rating;
- class J2 tranche of 30 million euro, fully redeemed as at 31 December 2017 and without rating.

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 subscribed proportionally by the Parent Company Veneto Banca and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing transactions with the European Central Bank.
The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating rate coupon, subject to the full redemption of higher class securities.
As at 31 December 2017, the book value of the remaining loans was 1,005 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 31.12.2017
INTESA SANPAOLO SEC SA				
of which issued in EURO				**291**
SECURED PRINCIPAL NOTES	Senior	Receivables from large international corporate customers	no rating	276
SECURED INCOME NOTES	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD				**31**
SECURED PRINCIPAL NOTES	Senior	Receivables from large international corporate customers	no rating	29
SECURED INCOME NOTES	Junior	Receivables from large international corporate customers	no rating	2
INTESA SANPAOLO SECURITISATION VEHICLE SRL				
of which issued in EURO				**118**
CLASS A ABS F/R NOTES	Senior	Commercial mortgage loans	no rating	15
CLASS J ABS F/R AND ADDITIONAL RETURN NOTES	Junior	Commercial mortgage loans	no rating	103
of which issued in CHF				**23**
CLASS A ABS F/R NOTES	Senior	Commercial mortgage loans	no rating	-
CLASS J ABS F/R AND ADDITIONAL RETURN NOTES	Junior	Commercial mortgage loans	no rating	23
of which issued in HUF				**41**
CLASS A ABS F/R NOTES	Senior	Commercial mortgage loans	no rating	11
CLASS J ABS F/R AND ADDITIONAL RETURN NOTES	Junior	Commercial mortgage loans	no rating	30
BRERA SEC SRL				
of which issued in EURO				**7,092**
Class A RMBS F/R Notes	Senior	Residential mortgage loans	Aa2 Moody's	6,025
Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BERICA ABS 5 SRL				
of which issued in EURO				**459**
Berica ABS 5 Residential MBS srl	Senior	Mortgage loans	Moodys Aa2; Fitch AA-	368
Berica ABS 5 Residential MBS srl	Mezzanine	Mortgage loans	Moodys A1; Fitch A	32
Berica ABS 5 Residential MBS srl	Mezzanine	Mortgage loans	Fitch BBB	17
Berica ABS 5 Residential MBS srl	Junior	Mortgage loans	no rating	42

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2017
BERICA PMI 2 SRL					
of which issued in EURO					**525**
	Berica PMI 2 Residential MBS srl	Senior	Unsecured loans and mortgages to small and medium enterprises	Moodys Aa3; Fitch A+	70
	Berica PMI 2 Residential MBS srl	Junior	Unsecured loans and mortgages to small and medium enterprises	no rating	455
BERICA FUNDING 2016 SRL					
of which issued in EURO					**855**
	Berica Funding Residential MBS srl	Senior	Mortgage loans	Moodys Aa2	515
	Berica Funding Residential MBS srl	Mezzanine	Mortgage loans	Moodys A2	106
	Berica Funding Residential MBS srl	Mezzanine	Mortgage loans	Moodys Aa3	70
	Berica Funding Residential MBS srl	Junior	Mortgage loans	no rating	164
CLARIS RMBS 2016 SRL					
of which issued in EURO					**826**
	CLARIS RMBS 16 CL.A	Senior	Mortgage loans	Fitch AA; DBRS AAA	620
	CLARIS RMBS 16 CL.B	Mezzanine	Mortgage loans	Fitch A-; DBRS Ah	92
	CLARIS RMBS16/68CLJ2	Junior	Mortgage loans	no rating	114
CLARIS FINANCE 2006 SRL					
of which issued in EURO					**61**
	CLARIS 2006 CL.B	Mezzanine	Mortgage loans	S&P BBB	58
	CLARIS 2006 CL.J	Junior	Mortgage loans	no rating	3
TOTAL					**10,322**

SECTION 4 – OPERATIONAL RISK

QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

From 31 December 2010, Intesa Sanpaolo uses the full AMA Method to determine its capital requirements and the resulting capital absorption amounted to 563 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 2017 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully phased-in, will only have a partial percentage effect on Common Equity Tier 1 capital (CET1). Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).
Accordingly, the prudential ratios as at 31 December 2017 take account of the adjustments envisaged by the transitional provisions for 2017.

B. Quantitative information

B.1. Parent Company's shareholders' equity: breakdown

(millions of euro)

	31.12.2017	31.12.2016
1. Share capital	8,732	8,732
Ordinary shares	8,247	8,247
Savings shares	485	485
2. Share premium reserve	26,164	27,508
3. Reserves	3,843	3,816
retained earnings:	3,265	3,238
a) legal reserve	2,065	2,065
b) statutory reserve	-	-
c) treasury shares	26	20
d) other	1,174	1,153
other	578	578
4. Equity instruments	4,103	2,117
5. (Treasury shares)	-26	-20
6. Valuation reserves:	774	-425
Financial assets available for sale	13	104
Property and equipment	1,088	-
Intangible assets	-	-
Hedges of foreign investments	-	-
Cash flow hedges	-862	-1,075
Foreign exchange differences	-	-
Non current assets held for sale	-	-
Actuarial gains (losses) on defined benefit plans	-460	-449
Share of valuation reserves connected with investments carried at equity	-	-
Legally-required revaluations	995	995
7. Net income (loss)	4,882	1,760
Total	**48,472**	**43,488**

The share capital is unchanged.

Trading on treasury shares
By virtue of special authorisation from the Shareholders' Meeting, 4,263,325 treasury shares were purchased during the year.

B.2. Valuation reserves of financial assets available for sale: breakdown

(millions of euro)

	TOTAL 31.12.2017		TOTAL 31.12.2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	54	-148	63	-206
2. Equities	134	-95	199	-36
3. Quotas of UCI	69	-1	85	-1
4. Loans	-	-	-	-
Total	257	-244	347	-243

B.3. Valuation reserves of financial assets available for sale: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans
1. Initial amount	-143	163	84	-
2. Positive fair value differences	217	170	455	-
2.1 Fair value increases	193	52	112	-
2.2 Reversal to the income statement of negative reserves	24	51	343	-
- impairment	15	1	343	-
- disposal	9	50	-	-
2.3 Other changes	-	67	-	-
3. Negative fair value differences	-168	-294	-471	-
3.1 Fair value decreases	-54	-199	-401	-
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves:disposal	-114	-28	-70	-
3.4 Other changes	-	-67	-	-
4. Closing amount	-94	39	68	-

B.4. Valuation reserves relating to the defined benefit plans: annual changes
During the year the reserves in question recorded a negative change of 11 million euro (8 million euro of which referring to pension funds and 3 million euro to employee termination indemnities). As at 31 December 2017 there is an overall negative reserve equal to 460 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

2.1. Own funds

A. Qualitative information

As at 31 December 2017, the bank's own funds were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

1. Common Equity Tier 1 Capital (CET1)

The Common Equity Tier 1 only includes listed ordinary shares, for an amount equal to 8,247 million euro, including 26,164 million euro of share premium reserve.

2. Additional Tier 1 Capital (AT1)

The Additional Tier 1 includes listed savings shares for 485 million euro, in addition to the subordinated liabilities listed below.

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering

Characteristics of subordinated instruments	Interest rate	Step-up	Issue date	Expiry date	Early redemption	Currency	Subject to grandfathering	Original amount in currency (millions)	Contribution to regulatory capital (millions of euro)
Notes	up to14/10/2019: 8.375%; thereafter 3-month Euribor + 6.87%	YES	14-Oct-2009	perpetual	14-Oct-2019	Euro	YES	1,500	484
Notes	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Euro	YES	1,250	378
Notes	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Euro	YES	250	163
Total Additional Tier 1 instruments subject to transition requirements									**1,025**
Notes	7.7 % fixed rate	NO	17-Sep-2015	perpetual	17-Sep-2025	USD	NO	1,000	884
Notes	7.0 % fixed rate	NO	19-Jan-2016	perpetual	19-Jan-2021	Euro	NO	1,250	1,250
Notes	6.25% fixed rate	NO	11-Jan-2017	perpetual	11-Jan-2027	Euro	NO	1,250	1,250
Notes	7.75% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Euro	NO	750	750
Total Additional Tier 1 capital instruments not subject to transition requirements									**4,134**
Total Additional Tier 1 capital instruments									**5,159**

3. Tier 2 capital (T2).

Characteristics of subordinated instruments	Interest rate	Step-up	Issue date	Expiry date	Early redemption	Currency	Subject to grandfathering	Original amount in currency (millions)	Contribution to regulatory capital (millions of euro)
Notes (*)	up to 14/10/2019: 8.375%; thereafter 3-month Euribor + 6.87%	YES	14-Oct-2009	perpetual	14-Oct-2019	Euro	YES	1,500	247
Notes (*)	up to 20/6/2018 excluded: 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Euro	YES	1,250	193
Notes (*)	up to 24/9/2018 excluded 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Euro	YES	250	83
Bond loan	quarterly interests according to the formula: (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Euro	YES	373	5
Notes	up to 18/03/2019 excluded: 5.625% p.a. thereafter: 3-month Sterling LIBOR + 1.125% p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165	13
Total Tier 2 capital instruments subject to transition requirements									**541**
Notes	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	USD	NO	2,000	1,636
Notes	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	USD	NO	1,500	1,251
Notes	up to 12/11/2012 6.375%; thereafter 3m GBP Libor + 135 bps".	NO	13-Sep-2013	13-Sep-2023	NO	Euro	NO	1,446	1,409
Notes	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Euro	NO	1,000	980
Bond loan	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Euro	NO	782	703
Notes	5,15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Euro	NO	1,250	469
Notes	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Euro	NO	1,500	362
Notes	2,855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Euro	NO	500	480
Notes	6,625% fixed rate	NO	8-May-2008	8-May-2018	NO	Euro	NO	1,250	59
Notes	from 28/5/2013 3-month Euribor + 1.98%	YES	28-May-2008	28-May-2018	NO	Euro	NO	1,000	20
Notes	6.16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Euro	NO	120	12
Notes	up to 20/2/2013 excluded: 3-month Euribor + 0.25% p.a. thereafter: 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	NO	Euro	NO	750	4
Notes	up to 26/6/2013 excluded: 4.375% p.a. thereafter 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Euro	NO	500	10
Bond loan	3-month Euribor +1.9%/4	NO	26-Sep-2017	26-Sep-2024	NO	Euro	NO	750	724
Total Tier 2 capital instruments not subject to transition requirements									**8,119**
Total Tier 2 capital instruments									**8,660**

(*) Instrument subject to"Grandfathering" in Additional Tier 1 capital, portion subject to cap pursuant to Art. 486 of EU Regulation 575/2013 (CRR).

B. Quantitative information

(millions of euro)

	31.12.2017	31.12.2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**42,471**	**37,722**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**784**	**980**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**43,255**	**38,702**
D. Items to be deducted from CET 1	**5,125**	**2,961**
E. Transitional period - Impact on CET1 (+/-)	**481**	**486**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**38,611**	**36,227**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,644**	**3,849**
of which AT1 instruments subject to transitional adjustments	1,025	1,230
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-158**	**-191**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**5,486**	**3,658**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,321**	**8,988**
of which T2 instruments subject to transitional adjustments	202	410
N. Items to be deducted from T2	**803**	**134**
O. Transitional period- Impact on T2 (+ / -)	**104**	**-92**
P. Total Tier 2 (T2) (M - N +/- O)	**7,622**	**8,762**
Q. Total own funds (F + L + P)	**51,719**	**48,647**

Figures as at 31 December 2017 were calculated according to the method envisaged by the Basel 3 Capital Accord.

According to the current regulatory provisions, Intesa Sanpaolo applies the prudential filter, which permits the gradual recognition in the calculation of own funds of the effects deriving from application of IAS 19 on valuation reserves for actuarial gains or losses on defined benefit plans. The amount subject to the prudential filter as at 31 December 2017 is equal to 418 million euro.
Moreover, following the amendment to the accounting standard for properties and valuable art assets, a specific valuation reserve totalling 1,088 million euro, subject to the "prudential filter" based on the application of national discretion for properties set forth under Bank of Italy Circular no. 285 of 17 December 2013, was recognised in equity.
The amount of this reserve was recognised in CET 1 for about 871 million euro and in Tier 2 capital for about 123 million euro.

2.2. Capital adequacy

A. Qualitative information

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Bank's capital as at 31/12/2017 (including the capital retention reserve, equal to 1.25% at year-end) must amount to at least 9.25%[25] of total risk-weighted assets (total capital ratio) arising from the risks typically associated with banking and financial activity (credit, market, counterparty and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risk following insurance coverage.

Following authorisation from the Supervisory Authority, Intesa Sanpaolo began to calculate the capital requirements for credit risk and counterparty risk, respectively, according to the IRB approach for the Retail SME (Small Medium Enterprise) segment effective 31 December 2012, the IRB approach for the Retail Mortgages segment (Residential mortgages for private individuals) effective 30 June 2010 and the Advanced Internal Rating Based approach (AIRB) for the regulatory portfolio "Exposures to corporates" effective 31 December 2010. The latter approach is based on the use of internal estimates of both PD - probability of default and LGD - loss given default.

Banks must also comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk, settlement risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo applies the internal model to calculate the general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and the general position risk (rate fluctuation risk) for debt securities. Subsequently, Intesa Sanpaolo has been authorised by the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks. Furthermore, since December 2011 Intesa Sanpaolo has used the Stressed VaR to calculate the requirement covering the market risks.

Lastly, as from June 2014, capital requirements for the Parent Company's Hedge Fund portfolios are reported according to the internal model. Standardised approaches are used for the other types of risk.

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[25] From 1/1/2019 the minimum requirement for banks belonging to banking groups will be 10.5%.

Counterparty risk is calculated independently of the portfolio of allocation.

Starting from the disclosure of 31 March 2014, Intesa Sanpaolo received the authorisation from the Bank of Italy to use the internal counterparty risk model for regulatory purposes (EPE – Expected Positive Exposure methodology) to calculate the EAD component of the requirement with respect to default risk and to calculate the new CVA capital charge.
Starting from the disclosure of 31 December 2015, Intesa Sanpaolo received the authorisation from the European Central Bank to apply the above mentioned modified model to manage negative rates. In December 2016 the European Central Bank authorised Intesa Sanpaolo to use internal models to determine counterparty risk for regulatory purposes also for Securities Financing Transactions (SFT - Repos, securities lending, etc.).

Since 2010, following the attainment of authorisation from the Supervisory Authority, Intesa Sanpaolo has been using the advanced AMA approach to calculate capital requirements for operating risks.

As indicated in the table on the regulatory capital and capital ratios requirements, as at 31 December 2017 Intesa Sanpaolo had a Tier 1 capital/risk-weighted assets ratio equal to 21.4% and an own funds/risk-weighted assets ratio equal to 25%.

B. Quantitative information

(millions of euro)

	31.12.2017		31.12.2016	
	Un-weighted amounts	**Weighted amounts/ requirements**	**Un-weighted amounts**	**Weighted amounts/ requirements**
A. RISK ASSETS				
A.1 Credit and counterparty risk	**536,869**	**193,687**	**476,214**	**186,820**
1. Standardised approach	298,855	86,757	287,407	94,096
2. Internal rating based approach	227,058	101,487	178,916	87,000
2.1 Basic	*3,084*	*11,410*	*4,107*	*14,161*
2.2 Advanced	*223,974*	*90,077*	*174,809*	*72,839*
3. Securitisations	10,956	5,443	9,891	5,724
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks		**15,495**		**14,946**
B.2 Credit valuation adjustment risk		**24**		**18**
B.3 Settlement risk		**-**		**-**
B.4 Market risk		**436**		**318**
1. Standardised approach		13		33
2. Internal models		423		285
3. Concentration risk		-		-
B.5 Operational risk		**563**		**583**
1. Basic indicator approach		-		-
2. Standardised approach		-		-
3. Advanced measurement approach		563		583
B.6 Other calculation elements		**3**		**69**
B.7 Total capital requirements		**16,521**		**15,934**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets		**206,507**		**199,175**
C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)		**18.7%**		**18.2%**
C.3 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)		**21.4%**		**20.0%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)		**25.0%**		**24.4%**

Please note that, in the case of the standardised approach, “unweighted amounts” correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors for off-balance sheet transactions. In the case of the internal rating based approach, “unweighted amounts” correspond to “exposure at default” (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are included when determining EAD.

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

1.1. Business combinations

Intesa Sanpaolo signed a contract, effective as of 26 June 2017, with the liquidators of Banca Popolare di Vicenza (BPVi) and Veneto Banca (VB) concerning the acquisition, for a token price of 1 euro, of certain assets and liabilities and certain legal relationships of the two banks. The illustration of that operation is contained in Part G of the Notes to the consolidated financial statements.

Several extraordinary intragroup transactions were also carried out during the year, 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, without recognition of any economic effect.
The main intragroup transactions completed during the year concerned:
– the merger by incorporation of Accedo into Intesa Sanpaolo;
– the sale by Intesa Sanpaolo to PBZ of 51% of Banka Intesa Sanpaolo d.d. (Slovenia);
– and the sale by Intesa Sanpaolo to Intesa Sanpaolo Holding International of the stake held in Intesa Sanpaolo Bank Luxembourg.

Annual changes in goodwill

(millions of euro)

	31.12.2017
Initial goodwill	**859**
Increases	**-**
- Goodwill recorded in the year	-
- Intragroup transactions	-
- Other changes	-
Decreases	**-**
- Impairment recorded in the year	-
- Disinvestments	-
- Intragroup transactions	-
- Other changes	-
Final goodwill	**859**

1.2. Other information

As regards the separate financial statements of Intesa Sanpaolo, with regard to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the table below shows the statement of financial position as recorded on the date of acquisition by Intesa Sanpaolo. In detail, the statement of financial position provides disclosure at the acquisition date of the balance sheet data based on the book values deriving from the former Venetian banks and the initial recognition values (fair value) in the separate financial statements of Intesa Sanpaolo.

(millions of euro)

Assets/liabilities	Book Value	Fair Value
Assets		
Financial assets held for trading	2,097	2,088
Financial assets designated at fair value	2	2
Financial assets available for sale	5,709	5,714
Investments held to maturity	-	-
Due from banks	5,981	6,103
Loans to customers	30,233	30,426
Equity investments	583	476
Property and equipment and intangible assets	240	302
Tax assets	1,863	2,377
Non-current assets held for sale and discontinued operations	307	276
Other assets	922	933
Total assets	**47,937**	**48,697**
Liabilities		
Due to banks	11,504	11,503
Due to customers and securities issued	31,674	31,930
Financial liabilities held for trading	1,564	1,587
Financial liabilities designated at fair value	-	-
Tax liabilities	105	224
Liabilities associated with non-current assets held for sale and discontinued operations	-	-
Other liabilities	2,993	2,993
Allowances for specific purposes	97	105
Shareholders' equity captions	-	355
- of which badwill recognised in profit or loss	-	355
Total liabilities and shareholders' equity	**47,937**	**48,697**

Below, the allocation of the acquisition cost which resulted in the recognition of a badwill caption of 355 million euro, is shown. The badwill was recognised in the income statement, as required by IFRS 3, under the caption 190 “Other operating expenses (income)” of the official Bank of Italy consolidated format (Circular 262) and the caption “Effect of purchase price allocation (net of tax)” of the reclassified income statement.

The table below provides more details regarding the PPA process and the determination of the badwill.

(millions of euro)

Purchase price [1]	**-**
Shareholders' equity [2]	**-**
Difference to be allocated (A) - (B)	**-**
Fair value differences of assets acquired and liabilities	
Loans to customers and due from banks	315
Other financial assets	7
Equity investments	-107
Property and equipment and intangible assets	62
DTA on tax losses	417
Non-current assets held for sale (high risk loans and receivables)	-31
Due to banks	1
Securities issued and due to customers	-279
Allowance for risks and charges	-8
Total fair value difference at the acquisition date (gross of taxes)	**377**
Tax effects	-22
Total net capital gain on assets and liabilities acquired	**355**
Badwill recognised in profit or loss	**355**

[1] Amounting to 1 euro based on the provisions of the Sale Contract

[2] The business lines acquired were "balanced off" (net assets at zero)

The differences in the single items subject to the PPA process, as compared to that set out in the corresponding table in Part G of the Notes to the consolidated financial statements, are attributable to the fact that the separate financial statements do not take account of the contribution of the assets and liabilities of the subsidiaries included in the Aggregate Set, while it implements the valuation of the individual investments, which were then netted in the consolidated financial statements. Banking investments subject to line-by-line consolidation, in the specific cases Banca Nuova, Banca Apulia, VB Croazia and VB Albania, were measured during the PPA based on the Price/Total Book Value (P/TBV) multiple of listed Italian or foreign banks in CEE area, considering the correlation between that multiple and the NPL ratio because, as established in the contracts, the non-performing loans of those banks were transferred back to the Banks in compulsory administrative liquidation at the date of execution. As regards the investment in SEC Servizi, the value was determined using the DCF method, based on available cash flows under a long-term plan, and using the market multiples method. Lastly, the value of the investment in Servizi Bancari was aligned with the company's pro-quota equity.

During 2017, starting from the acquisition date, the effects pertaining to the period were included in the income statement, relating to the amortisation of the differences between the fair value and the book values arising during the PPA. Those differences mainly refer to accounting captions at amortised cost (e.g. loans to customer or securities issued). As specified in the table below, the impact on the 2017 income statement was a positive 20 million euro, net of the relevant tax effect.

(millions of euro)

Income statement	
Interest margin	33
Adjustments to intangible assets	-3
Taxes on income from continuing operations	-10
Net income for the year	**20**

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE CLOSE OF THE YEAR

No business combinations in the scope of IFRS 3 have been undertaken since the end of 2017.

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 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 controlled by the latter; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least one of the following indicators:
- participation by the counterparty in the share capital of Intesa Sanpaolo with a holding of between 1% and the minimum threshold set by the regulations on disclosure of significant shareholdings in listed companies;
- equity investment by the entity of the ISP Group in the counterparty exceeding 10% of 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 the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.
With regard to 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 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 Intesa Sanpaolo);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

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

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

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

The 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 2017 – 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.

	31.12.2017 Amount (millions of euro)	Impact (%)
Total financial assets	127,211	28.5
Total other assets	29,942	88.5
Total financial liabilities	105,707	29.4
Total other liabilities	32,182	26.3

	31.12.2017 Amount (millions of euro)	Impact (%)
Total interest income	1,008	15.6
Total interest expense	673	18.5
Total fee and commission income	1,511	39.8
Total fee and commission expense	221	26.8
Total operating costs	1,234	19.3

During the period there were provisions for non-performing loans for 25 million euro on loans and 28 million euro on existing guarantees towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24 (see the next paragraph for information on compensation to Supervisory and Management Board Members) and with Shareholders that have a shareholding above the minimum threshold set in the regulations on disclosure of significant shareholdings in listed companies (calculated solely on shares owned or managed) and the related corporate groups, as well as the entities jointly controlled by those shareholders, as well as other parties included in the scope by 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 10.
The table 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 90 billion euro, of which 89 billion euro to subsidiaries.

(millions of euro)

	Financial assets held for trading	Financial assets available for sale	Due from banks	Loans to customers	Other financial assets	Due to banks	Due to customers	Financial liabilities held for trading	Other financial liabilities	Guarantees and committments given	Guarantees and committments received
Subsidiaries	5,326	650	106,815	13,460	3,346	93,737	2,445	8,252	5,541	115,411	689
- 100%-owned subsidiaries belonging to the banking group	*5,303*	*576*	*103,074*	*6,328*	*3,125*	*89,590*	*1,732*	*8,246*	*4,634*	*105,758*	*398*
- subsidiaries not 100%-owned and belonging to the banking group	*23*	*74*	*3,741*	*1,051*	*145*	*4,096*	*35*	*6*	*897*	*3,682*	*-*
- subsidiaries not belonging to the banking group	*-*	*-*	*-*	*6,081*	*76*	*51*	*678*	*-*	*10*	*5,971*	*291*
Joint ventures and their subsidiaries	10	-	-	148	-	-	109	-	1	14	163
Associates and their subsidiaries	136	146	-	492	-	2	679	-	40	136	122
Officers, Key Managers and related parties	-	-	-	9	-	-	10	-	-	1	26
Pension funds	-	-	-	-	2	-	98	-	1	1	-
Total	**5,472**	**796**	**106,815**	**14,109**	**3,348**	**93,739**	**3,341**	**8,252**	**5,583**	**115,563**	**1,000**
Shareholders (*)	-	-	-	-	-	-	243	-	1	35	1
Companies which the Group has notable investments in and financial links with (**)	-	-	-	11	-	-	133	-	-	53	-

(*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies, calculated considering only shares owned or under management (to date 3%), as well as entities jointly controlled by them.

(**) Companies that meet the conditions of at least two of the following indicators: i) equity investment by the counterparty in the share capital of Intesa Sanpaolo with a holding of between 1% and the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies; ii) equity investment by entities of the ISP Group in the counterparty exceeding 10% of voting rights; iii) significant credit exposure of the Group to the counterparty.

A detailed list of subsidiaries, as well as companies subject to joint control, and companies subject to significant influence as at 31 December 2017 is provided in the Notes to the consolidated financial statements (Part B – Assets – Section 10).

For the illustration of the associated companies and companies under joint control - and the companies controlled by them - most significant at Group level, see the description in the corresponding paragraph of the Notes to the consolidated financial statements.

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 that would have resulted – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.
The transactions exempt from said obligation include the multi-originator securitisation transaction to expand the portfolio of retained securities of Intesa Sanpaolo S.p.A. eligible for Eurosystem refinancing operations.
The transaction, which involved various Group banks and has a total value for Intesa Sanpaolo S.p.A. of 3.9 billion euro, was implemented through the sale of loans consisting of mortgages to the vehicle company Brera Sec S.r.l. The terms of the transaction are in line with those previously structured by the Group, with payment of the sale price through the funds received by the vehicle company and resulting from the issue of Senior and Junior securities subscribed pro rata by the individual selling banks based on the individual sale price.

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 – during the year, a portfolio of mortgages was sold to the vehicle company ISP CB Ipotecario S.r.l for a total value of around 5.3 billion euro, and several securitisation transactions took place, as well as transactions aimed at the issue of Covered Bonds. The latter transactions are described in the Notes to the consolidated financial statements - Part E – Information on risks and relative hedging policies, to which reference is made.

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 general managers and 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 2017, 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 concerned mainly:
- 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 and Intesa Sanpaolo Group Services S.c.p.A., primarily to banks of the Banca dei Territori Division and the Parent Company;
- 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.

During 2017 the activities aimed at implementing the strategic options set out in the Business Plan and at rationalising Group structure continued.

The Business Plan 2014-2017 envisages indeed an important simplification in the corporate breakdown of Banca dei Territori Division of the Group. 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 merger by incorporation of Accedo S.p.A. into Intesa Sanpaolo S.p.A. was implemented. The merger took effect in relation to third parties from 27 February 2017.

On 21 December 2017 the Board of Directors of Cassa dei Risparmi di Forlì e della Romagna S.p.A. approved the project for its merger by incorporation into Intesa Sanpaolo S.p.A. In addition, the Boards of Directors of Banco di Napoli S.p.A. and Cassa di Risparmio del Friuli Venezia Giulia S.p.A. approved the merger by incorporation of the subsidiaries into Intesa Sanpaolo S.p.A.
On this issue, note that the following extraordinary transactions were also approved:

- merger of CIB Real Estate into CIB Leasing;
- merger of Fideuram Fiduciaria into Società Italiana di Revisione e Fiduciaria;
- merger of Banca Nuova S.p.A. into Intesa Sanpaolo S.p.A.;
- reorganisation of the VUB sub-group through the merger of VUB Factoring into Vseobecna Uverova Banka and the complete spin-off of Consumer Finance Holding, partially to Vseobecna Uverova Banka and partially to VUB Leasing.

These transactions will be finalised in the upcoming months.

Continuing with the analysis of extraordinary corporate transactions, we note the initiative of the International Subsidiary Banks Division to achieve synergies between the subsidiary banks Privredna Banka Zagreb and Banca Koper through the sale of 51% of the latter by Intesa Sanpaolo S.p.A. to Privredna Banka Zagreb. The transaction envisages the revitalisation of profitability of the subsidiary Banca Koper by promoting the expansion of business in a geographic area marked by limited attractiveness of the market such as Slovenia. This gives rise to the strategy of involving Privredna Banka Zagreb, the Group's Croatian subsidiary, which is the leader on its domestic market.

In relation to transactions in equity investments, the following should be noted:

- the sale by Intesa Sanpaolo S.p.A of stakes held in the Bank of Italy, as part of the process of disposing of the excess stakes in the Bank of Italy compared to the regulatory threshold of 3% introduced by Legislative Decree 133 of 30 November 2013, converted into Law no. 5 of 29 January 2014. For additional details, see Part H of the Notes to the consolidated financial statements;
- the sale by Intesa Sanpaolo S.p.A. to Intesa Sanpaolo Holding International S.A. of 13,750 ordinary shares of Intesa Sanpaolo Bank Luxembourg S.A., for a total value of 12 million euro.
  The transaction is part of the project to strengthen Intesa Sanpaolo Bank Luxembourg S.A., launched by the Corporate & Investment Banking Division in 2015.

With regard to transactions relating to capital measures, on 29 June 2017 Banca IMI S.p.A issued the second tranche of AT1 subordinated instruments for an amount of 200 million euro, which follows on from the first tranche of 500 million euro issued on 28 September 2016. Note that the transaction, whose total amount comes to 700 million euro, was subscribed by the Parent Company and aimed at increasing the regulatory capital allocation of Banca IMI.

In order to ensure fulfilment by the subsidiary Intesa Sanpaolo Provis S.p.A. of the minimum capital requirements laid down by the supervisory authorities, as a company enrolled on the Unified Register of financial intermediaries under Article 106 of the Consolidated Law on Banking which are required to comply with the minimum capital requirement of 6% (CET1, ratio), on 14 March 2017 the Management Board of the Parent Company authorised a capital increase for a maximum of 100 million euro to be paid in several tranches.
The first tranche was paid in on 19 May 2017 for an amount of 50 million euro; the second tranche of the capital increase was paid in on 17 November 2017.

Capitalisation measures were also carried out for the subsidiary CIB Bank LTD for an amount of 48 million euro.
Note that the Management Board meeting of the Parent Company of 3 November 2015 had authorised a capital measure on CIB Bank LTD due to needs linked, on one hand, to covering the losses recognised in 2015 and, on the other, to requests from the Supervisory Authorities, strictly pertaining to the 2016 results. Considering the net profits recorded in 2016, CIB Bank LTD has not yet needed to request additional capital allocation. Nonetheless, as a result of two events occurring in 2017, specifically the reclassification of the Capital Contribution and the introduction of the Systemic Risk Buffer, which resulted in a tightening of solvency requirements, which resulted in the need for the above capital measure of the subsidiary.

Lastly, we note the recapitalisation of Neva Finventures S.p.A. to provide the company with adequate funds in relation to investments and additional initiatives it launched or is implementing.
Note that on 11 June 2015 the Management Board meeting of the Parent Company authorised the establishment of the company with initial capital of 30 million euro, of which 10 million euro previously paid in at the time the company was established. Subsequently, the extraordinary shareholders' meeting of Neva Finventures S.p.A. of 4 October 2016 approved a capital increase for the remaining 20 million euro, paid in on 24 February 2017 by Intesa Sanpaolo S.p.A.

Regarding Intesa Sanpaolo Smart Care, Intesa Sanpaolo Casa, Compagnia Aerea Italiana, Intesa Sanpaolo Forvalue, Eurizon Capital (HK) Limited and Intesa Sanpaolo Highline, share capital increases were subscribed or payments were made for capital increases.

However, with reference to the transactions in financial instruments it was necessary to restore the appropriateness of the cover pool to allow new covered bond issues as part of the programme guaranteed by ISP OBG S.r.l..
As a consequence, a portfolio of receivables deriving from mortgage loans was transferred without recourse, for an amount of:

- 1.9 billion euro from Banco di Napoli;
- 1.2 billion euro from Intesa Sanpaolo;
- 648 million euro from Cassa di Risparmio del Veneto.

Also note the sale to Intesa Sanpaolo Vita S.p.A. of stakes held by Intesa Sanpaolo S.p.A. in the Yielding Fund for a total value of 40 million euro.

The capital injection required for the payment of the purchase price of the portfolios was obtained from the SPV through a subordinated loan disbursed by the counterparties. An accessory to the purchase of the portfolio of assets above was the signing by the SPV of some hedging agreements again towards the same counterparties used to transform the disparate cash flows coming from the loan portfolio subject to assignment into homogeneous cash flows like those of the CBs.

Transactions regarding non-performing positions pertained to the companies in the Risanamento Group. Regarding the latter, subsidiaries without management and coordination, worth noting are the deferral and the extensions relating to the loans maturing on 31 December 2017. The measures aim to maintain a positive financial balance for the Risanamento Group, for the purpose of defining the project to renovate the Santa Giulia area of Milan (the Group's residual asset with the greatest value, in addition to the SKY Complex in Milan). In relation to this project, in 2017 two separate Project Development Agreements were entered into with the Australian Group Lend Lease, one to develop the South Lots and the other to develop the Northern Sector. This latter agreement is subject to the condition precedent of approval of the variant to the Master Plan currently being examined by the Municipality of Milan and the support of the lending banks through the rescheduling of outstanding exposures, as well as obtaining new financing to execute the reclamation and general infrastructural works (which will subsequently be reimbursed by Lend Lease).

In relation to other financial transactions, as previously illustrated in the Annual Report 2016, funds were transferred from Intesa Sanpaolo S.p.A. to Banca Prossima S.p.A. deriving from the placement of domestic senior "Serie Speciale Banca Prossima" bonds.
This transaction aims to further increase the Group's presence in implementing transactions in support of the non-profit sector, for both lay and religious organisations.

With regard to distribution agreements, specifically worth noting is the transaction between Intesa Sanpaolo S.p.A. and Banca 5 S.p.A. for the promotion and sale through participating tobacconists of the "Carta Flash Banca 5", a prepaid bearer card that can be topped up, issued by the Parent Company. The agreement is based on the innovative instant banking model, and allows the Group to count on 20 thousand new points of contact with potential customers.

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 10 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 Parent Company's financial statements - Part E – Information on risks and the relative hedging policies.

Lastly, the subsidiary Infogroup S.c.p.A., fully sold to the Engineering Group on 28 December 2017, left the scope of consolidation.

Other significant information
With reference to the investments in associates or companies subject to joint control, value adjustments/impairment losses were recognised for 31 million euro (Autostrade Lombarde S.p.A., Tangenziali Esterne di Milano S.p.A., Autostrade Pedemontana Lombarda S.p.A., Class Digital Service S.r.l., Tangenziale Esterna S.p.A. and other minor companies). Instead, concerning Compagnia Aerea Italiana, the impact on the income statement was nil, since the special allowance for risks and charges set aside in 2015 was used to offset the value adjustments recorded in the period.
Please refer to Part C – Income Statement – Section 14 of the Parent Company's Financial Statements for more information on the income (loss) of 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 Parent company's financial statements – Part B – Information on the balance sheet – Liabilities, Point 12.3 Post employment defined-benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

Other significant subsequent events
No significant events were finalised after the end of the accounting period, even though these do not impact the balances represented in the tables.

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/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 2017 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 31.12.2017	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits [3]	5	5	20	16	25	21
Post-employement benefits [4]	-	-	2	2	2	2
Other long-term benefits [5]	-	-	8	-	8	-
Termination benefits [6]	-	-	4	-	4	-
Share-based payments [7]	-	-	11	-	11	-
Total	**5**	**5**	**45**	**18**	**50**	**23**

(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 for stock option plans (including Lecoip) calculated on the basis of IFRS 2 and recognised in the financial statements.

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 every year in the separate document "Report on Remuneration", specifically:
- a detailed indication of the compensation paid to members of the management and control bodies and, in aggregate, Key Managers, as well as the stock option plans reserved for 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 members of the management and control bodies, Key Managers and other associated entities.

Part I – Share-based payments

A. QUALITATIVE INFORMATION

1. Description of share-based payments

1.1. Incentive Plan based on financial instruments

The 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 incentives paid (50%) to "Risk Takers" be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2012, and in implementation of the Shareholders' Meeting resolution of 22 April 2013, on 8 October 2013 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,920,413 Intesa Sanpaolo ordinary shares (representing approximately 0.06% of the ordinary share capital) at an average purchase price of 1.72775 euro per share, for a total value of 15,412,287 euro;
- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 09 October 2015 the Intesa Sanpaolo 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 Intesa Sanpaolo 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 23,702,245 euro.

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 system. 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.

1.2 Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group's resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.

There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the "challenge to create value" represented by the Business Plan (LECOIP).
The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
   - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
   - invest them in Co-Investment Plans through long-term financial instruments, the "LECOIP Certificates", with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.
As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.
The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:

- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares ("protected capital") and

- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Adhesion to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.

The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Management Board's mandate to:
- increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
- increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.

The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period, which will end in April 2018.

In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as "equity settled" plans, since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead, the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.
Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 150a "Administrative expenses: personnel expenses", as a balancing entry for an increase in a specific shareholders' equity reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).
For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment in December 2014, as the shares are not subject to accrual conditions (vesting period).
For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.

The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), will be recognised during the period of accrual of the benefit and throughout the duration of the Plan.

B. QUANTITATIVE INFORMATION

1. Share-based incentive plan in 2017

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2016	6,596,288	-	Mar - Jun 2017 / Sep - Oct 2020
Financial instruments granted during the year	4,455,473	-	Mar - Jun 2019 / Mar - Jun 2022
Financial instruments no longer assignable (a)	17,249	-	-
Financial instruments vested during the year and assigned	2,655,986	-	-
Financial instruments outstanding as at 31 December 2017	8,378,526	-	Mar - Jun 2018 / Mar - Jun 2022
of which: vested and assigned as at 31 December 2017	-	-	-

(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

Breakdown by residual life

Residual life	Number of shares
Mar - Oct 2018	3,263,076
Mar - Oct 2019	3,373,186
Mar - Oct 2020	1,111,098
Mar - Oct 2021	341,543
Mar - Jun 2022	289,623

2.2 Long-term share-based instruments: LECOIP

The economic effects for 2017 connected to the LECOIP Plans amount to about 80.2 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).

This being an equity settled plan, payables for cash settled payments are not recorded.
The following tables summarise the changes in the LECOIP Plans from the date of acceptance (December 2014) to 31 December 2017.

	LECOIP												
	Free Shares 31.12.2014		Matching Shares 31.12.2014		Discounted Shares 31.12.2014		Sell to cover shares 31.12.2014 (a)		Total number of shares assigned 31.12.2014	Number of LECOIP Certificates 31.12.2016	Changes in the year (c)	Number of LECOIP Certificates 31.12.2017	Average fair value 31.12.2016
	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	10,126,532	2.3205	18,984,007	2.2986	116,442,156	0.3689	20,814,178	2.4007	166,366,873	27,741,400	-331,432	27,409,968	3.9140

(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

Part L – Segment reporting

Segment reporting is provided in the consolidated financial statements.

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 2017.

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 2017 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems.[26]

3. The undersigned also certify that:

   3.1 The Parent Company's financial statements as at 31 December 2017:
   - 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.

23 february 2018

Carlo Messina Managing Director and CEO	Fabrizio Dabbene Manager responsible for preparing the Company's financial reports

[26] 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 as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the 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 2017 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 Intesa Sanpaolo S.p.A. 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

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.4 "Loans"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 7 "Loans to customers"

Notes to the separate financial statements "Part C - Information on the Parent Company's income statement": Section 8 "Net losses on impairment"

Notes to the separate 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 totalled €232,693 million at 31 December 2017, accounting for 45.7% of total assets. Net impairment losses recognised in profit or loss during the year totalled €1,600 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. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty, 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 impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables and risks of the sectors in which the bank's customers operate.	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; — examining the design and implementation of controls and the performance of procedures to assess the operating effectiveness of the controls held to be relevant, with particular reference to the identification of exposures with indicators of impairment and the calculation of the impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the official categories and checking, on a sample basis, that the loans and receivables had been correctly classified; — 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 this procedure with the assistance of experts of the KPMG network;

For the above reasons, we believe that the classification and measurement of loans and receivables to customers is 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 official categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant group departments; — checking the appropriate disclosures on loans and receivables with customers in the separate financial statements.

Classification and measurement of financial assets and liabilities at fair value

Notes to the separate financial statements "Part A – Accounting policies": paragraph A.2.1 "Financial assets held for trading", paragraph A.2.2 "Financial assets available for sale", paragraph A.2.5 "Financial assets designated at fair value through profit and loss", paragraph A.2.15 "Financial liabilities held for trading", paragraph A.2.16 "Financial liabilities designated at fair value through profit and loss", paragraph A.4 "Information on fair value"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 2 "Financial assets held for trading", Section 3 "Financial assets designated at fair value through profit and loss", Section 4 "Financial assets available for sale", Section 8 "Hedging derivatives"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Liabilities": Section 4 "Financial liabilities held for trading", Section 5 "Financial liabilities designated at fair value through profit and loss", Section 6 "Hedging derivatives"

Notes to the separate 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", Section 7 "Profits (Losses) on financial assets and liabilities designated at fair value", Section 8 "Net losses on impairment"

Notes to the separate financial statements "Part E - Information on risks and relative hedging policies": Section 2 "Market risks"

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 2017 include financial assets and financial liabilities totalling €59,321 million and €20,144 million, respectively. A portion thereof, equal to roughly €22,334 million and €19,590 million, respectively, is made up of financial assets and liabilities measured at fair value without a quoted price on an active market. The bank's directors have classified them in the 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; — examining the design and implementation of controls and the performance of procedures to assess the operating effectiveness of the controls held to be relevant, with particular reference 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, checking 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 group departments; — checking the appropriate disclosures on financial instruments and related fair value levels in the separate financial statements.

Recognition of business combinations and purchase price allocation procedures

Notes to the separate financial statements "Part A - Accounting policies": paragraph 18 "Other information, Business combinations"

Notes to the separate financial statements "Part C - Information on Parent Company's income statement": Section 13 "Other operating expenses (income)"

Notes to the separate financial statements "Part G – Business combinations": Section 1 "Transactions carried out in the year"

Key audit matter	Audit procedures addressing the key audit matter
On 26 June 2017, the bank acquired a set of assets, liabilities and legal relationships (the "aggregate set") from Banca Popolare di Vicenza S.c.p.A. and Veneto Banca S.p.A., both in compulsory administrative liquidation (the "banks in CAL"), for €1. The aggregate set comprises assets and liabilities of the two banks, including certain foreign branches and equity investments, but excluding those non-performing exposures, issued subordinated bonds, equity investments and other legal relationships not pertaining to the transaction. Intesa Sanpaolo S.p.A. gave the banks in CAL a loan to cover the difference between the acquired assets and liabilities (the "imbalance"), which the Italian government has backed for up to a maximum of €6,351 million. A panel of experts was engaged to perform a due diligence to calculate the definitive amount of the imbalance. In exchange for its acquisition, the bank received government grants and guarantees in order to offset the effect of the transaction on the Intesa Sanpaolo Group's regulatory ratios, cover the integration and restructuring costs arising from the acquisition and contain the effect of any risks, obligations and commitments arising any failure to comply with the statements and guarantees given by the banks in CAL. As the transaction qualifies as a business combination, the bank's directors have applied IFRS 3 and have identified the acquisition date, calculated the transaction cost (or consideration transferred) and allocated the transaction cost (purchase price allocation procedure). Upon conclusion of the PPA procedure, the bank recognised negative goodwill of €355 million in its income statement for the year ended 31 December 2017.	Our audit procedures included: — analysing the contractual documentation relating to the acquisition of the aggregate set; — analysing the outcome of the due diligence carried out to calculate the definitive amount of the aggregate set's imbalance; — analysing the criteria used to recognise the aggregate set's assets and liabilities; — analysing the criteria used to recognise the government grants received; — analysing the migration of the aggregate set's assets and liabilities from the banks in CAL's to the bank's IT systems; — analysing the valuation approach, assumptions and methods used to determine the transaction-date fair value of the loans and receivables with customers and banks included in the aggregate set; we carried out this procedure with the assistance of experts of the KPMG network; — analysing the valuation approach, assumptions and methods used to determine the transaction-date fair value of the issued securities and amounts due to customers included in the aggregate set; we carried out this procedure with the assistance of experts of the KPMG network; — analysing the valuation approach, assumptions and methods used to determine the transaction-date fair value of the equity investments included in the aggregate set; we carried out this procedure with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
Given the materiality of this business combination and the complex valuations requiring a high level of directors' judgement in the measurement of the acquired assets and liabilities, we believe that its recognition and the related purchase price allocation procedure are a key audit matter.	— analysing how the bank identified and measured the deferred tax assets and identifiable intangible assets ("customer relationships"); we carried out this procedure with the assistance of experts of the KPMG network; — checking the appropriate disclosures on the business combination and purchase price allocation procedure in the separate financial statements.

Responsibilities of the directors and management control committee of Intesa Sanpaolo S.p.A. 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, in accordance with 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, in accordance with 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 relevant ethical requirements regarding independence 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 engaged 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 the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 were not provided and that we remained independent of the bank in conducting the 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 the bank's directors' report and report on corporate governance and ownership structure at 31 December 2017 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 2017 and their compliance with the applicable law and to express a statement on any 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 2017 and have been prepared in compliance with the applicable law.

With reference to the statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the bank and its environment obtained through our audit, we have nothing to report.

Milan, 8 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

Attachments to the Parent Company's financial 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 2016 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2016

The published Intesa Sanpaolo balance sheet as at 31 December 2016 did not require any adjustments.

Reconciliation between published Intesa Sanpaolo income statement for 2016 and adjusted Intesa Sanpaolo income statement for 2016

The published Intesa Sanpaolo income statement for 2016 did not require any adjustments.

Reconciliation between adjusted/published Intesa Sanpaolo financial statements and restated Intesa Sanpaolo financial statements

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2016 and the restated Intesa Sanpaolo balance sheet as at 31 December 2016

(millions of euro)

Assets	31.12.2016 Published (*)	Changes		31.12.2016 Restated
		Merger of Accedo (a)	Elimination of intragroup transactions (b)	
10. Cash and cash equivalents	6,213	1	-	6,214
20. Financial assets held for trading	19,577	-	-	19,577
30. Financial assets designated at fair value through profit and loss	371	-	-	371
40. Financial assets available for sale	38,983	-	-	38,983
50. Investments held to maturity	335	-	-	335
60. Due from banks	126,634	45	-45	126,634
70. Loans to customers	200,549	1,009	-972	200,586
80. Hedging derivatives	5,720	-	-	5,720
90. Fair value change of financial assets in hedged portfolios (+/-)	160	-	-	160
100. Equity investments	30,589	-136	-	30,453
110. Property and equipment	2,758	-	-	2,758
120. Intangible assets	2,379	-	-	2,379
of which				
- goodwill	*859*	-	-	*859*
130. Tax assets	10,589	118	-	10,707
a) current	*2,563*	*6*	-	*2,569*
b) deferred	*8,026*	*112*	-	*8,138*
- of which convertible into tax credit (Law no. 214/20	*6,758*	*93*	-	*6,851*
140. Non-current assets held for sale and discontinued operations	1	-	-	1
150. Other assets	2,834	73	-56	2,851
Total Assets	**447,692**	**1,110**	**-1,073**	**447,729**

(*) Figures originally published, in euro, in the 2016 financial statements.

(a) Merger by incorporation of Accedo S.p.A., effective for legal purposes from 27 February 2017 and with accounting and tax effects from 1 January 2017.

(b) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.

(millions of euro)

Liabilities and Shareholders' Equity	31.12.2016 Published (*)	Changes: Merger of Accedo (a)	Changes: Elimination of intragroup transactions (b)	31.12.2016 Restated
10. Due to banks	139,036	972	-972	139,036
20. Due to customers	147,364	-	-45	147,319
30. Securities issued	84,824	-	-	84,824
40. Financial liabilities held for trading	16,670	-	-	16,670
50. Financial liabilities designated at fair value through profit and loss	8	-	-	8
60. Hedging derivatives	6,517	-	-	6,517
70. Fair value change of financial liabilities in hedged portfolios (+/-)	528	-	-	528
80. Tax liabilities	811	-	-	811
a) current	*190*	-	-	*190*
b) deferred	*621*	-	-	*621*
90. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
100. Other liabilities	5,762	155	-56	5,861
110. Employee termination indemnities	736	-	-	736
120. Allowances for risks and charges	1,948	63	-	2,011
a) post employment benefits	*836*	-	-	*836*
b) other allowances	*1,112*	*63*	-	*1,175*
130. Valuation reserves	-425	-	-	-425
140. Redeemable shares	-	-	-	-
150. Equity instruments	2,117	-	-	2,117
160. Reserves	3,816	-	-	3,816
170. Share premium reserve	27,508	-	-	27,508
180. Share capital	8,732	-	-	8,732
190. Treasury shares (-)	-20	-	-	-20
200. Net income (loss)	1,760	-80	-	1,680
Total Liabilities and Shareholders' Equity	**447,692**	**1,110**	**-1,073**	**447,729**

(*) Figures originally published, in euro, in the 2016 financial statements.

(a) Merger by incorporation of Accedo S.p.A., effective for legal purposes from 27 February 2017 and with accounting and tax effects from 1 January 2017.

(b) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.

Reconciliation between adjusted Intesa Sanpaolo income statement for 2016 and restated Intesa Sanpaolo income statement for 2016

(millions of euro)

		2016 Published (*)	Changes		Total change in scope	2016 Restated
			Merger of Accedo (a)	Elimination of intragroup transactions (b)		
10.	Interest and similar income	6,581	86	-32	54	6,635
20.	Interest and similar expense	-4,067	-32	32	-	-4,067
30.	**Interest margin**	**2,514**	**54**	**-**	**54**	**2,568**
40.	Fee and commission income	3,482	11	-2	9	3,491
50.	Fee and commission expense	-654	-28	2	-26	-680
60.	**Net fee and commission income**	**2,828**	**-17**	**-**	**-17**	**2,811**
70.	Dividend and similar income	1,845	-21	-	-21	1,824
80.	Profits (Losses) on trading	-106	-	-	-	-106
90.	Fair value adjustments in hedge accounting	-25	-	-	-	-25
100.	Profits (Losses) on disposal or repurchase of:	130	16	-	16	146
	a) loans	*-52*	*16*	-	*16*	*-36*
	b) financial assets available for sale	*209*	-	-	-	*209*
	c) investments held to maturity	-	-	-	-	-
	d) financial liabilities	*-27*	-	-	-	*-27*
110.	Profits (Losses) on financial assets and liabilities designated at fair value	13	-	-	-	13
120.	**Net interest and other banking income**	**7,199**	**32**	**-**	**32**	**7,231**
130.	Net losses / recoveries on impairment:	-1,788	-54	-	-54	-1,842
	a) loans	*-1,587*	*-54*	-	*-54*	*-1,641*
	b) financial assets available for sale	*-232*	-	-	-	*-232*
	c) investments held to maturity	-	-	-	-	-
	d) other financial activities	*31*	-	-	-	*31*
140.	**Net income from banking activities**	**5,411**	**-22**	**-**	**-22**	**5,389**
150.	Administrative expenses:	-5,116	-44	10	-34	-5,150
	a) personnel expenses	*-2,577*	*-3*	-	*-3*	*-2,580*
	b) other administrative expenses	*-2,539*	*-41*	*10*	*-31*	*-2,570*
160.	Net provisions for risks and charges	-108	-33	-	-33	-141
170.	Net adjustments to / recoveries on property and equipment	-124	-	-	-	-124
180.	Net adjustments to / recoveries on intangible assets	-3	-	-	-	-3
190.	Other operating expenses (income)	247	-	-10	-10	237
200.	**Operating expenses**	**-5,104**	**-77**	**-**	**-77**	**-5,181**
210.	Profits (Losses) on equity investments	-315	-	-	-	-315
220.	Valuation differences on property, equipment and intangible assets measured at fair value	-	-	-	-	-
230.	Goodwill impairment	-	-	-	-	-
240.	Profits (Losses) on disposal of investments	325	-	-	-	325
250.	**Income (Loss) before tax from continuing operations**	**317**	**-99**	**-**	**-99**	**218**
260.	Taxes on income from continuing operations	368	19	-	19	387
270.	**Income (Loss) after tax from continuing operations**	**685**	**-80**	**-**	**-80**	**605**
280.	Income (Loss) after tax from discontinued operations	1,075	-	-	-	1,075
290.	**Net income (loss)**	**1,760**	**-80**	**-**	**-80**	**1,680**

(*) Figures originally published, in euro, in the 2016 financial statements.

(a) Merger by incorporation of Accedo S.p.A., effective for legal purposes from 27 February 2017 and with accounting and tax effects from 1 January 2017.

(b) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.

Restated Intesa Sanpaolo financial statements

Restated Intesa Sanpaolo balance sheet

(millions of euro)

Assets		31.12.2017	31.12.2016 restated	Changes amount	Changes %
10.	Cash and cash equivalents	5,750	6,214	-464	-7.5
20.	Financial assets held for trading	18,264	19,577	-1,313	-6.7
30.	Financial assets designated at fair value through profit and loss	322	371	-49	-13.2
40.	Financial assets available for sale	36,912	38,983	-2,071	-5.3
50.	Investments held to maturity	335	335	-	-
60.	Due from banks	157,440	126,634	30,806	24.3
70.	Loans to customers	232,693	200,586	32,107	16.0
80.	Hedging derivatives	3,823	5,720	-1,897	-33.2
90.	Fair value change of financial assets in hedged portfolios (+/-)	-131	160	-291	
100.	Equity investments	30,558	30,453	105	0.3
110.	Property and equipment	4,400	2,758	1,642	59.5
120.	Intangible assets	2,454	2,379	75	3.2
	of which				
	- goodwill	*859*	*859*	*-*	*-*
130.	Tax assets	13,013	10,707	2,306	21.5
	a) current	*2,950*	*2,569*	*381*	*14.8*
	b) deferred	*10,063*	*8,138*	*1,925*	*23.7*
	- of which convertible into tax credit (Law no. 214/2011)	*7,172*	*6,851*	*321*	*4.7*
140.	Non-current assets held for sale and discontinued operations	266	1	265	
150.	Other assets	3,278	2,851	427	15.0
Total Assets		**509,377**	**447,729**	**61,648**	**13.8**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2017	31.12.2016 restated	Changes amount	Changes %
10.	Due to banks	173,710	139,036	34,674	24.9
20.	Due to customers	170,914	147,319	23,595	16.0
30.	Securities issued	82,666	84,824	-2,158	-2.5
40.	Financial liabilities held for trading	14,580	16,670	-2,090	-12.5
50.	Financial liabilities designated at fair value through profit and loss	9	8	1	12.5
60.	Hedging derivatives	5,555	6,517	-962	-14.8
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	323	528	-205	-38.8
80.	Tax liabilities	1,285	811	474	58.4
	a) current	*103*	*190*	*-87*	*-45.8*
	b) deferred	*1,182*	*621*	*561*	*90.3*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	
100.	Other liabilities	7,195	5,861	1,334	22.8
110.	Employee termination indemnities	767	736	31	4.2
120.	Allowances for risks and charges	3,901	2,011	1,890	94.0
	a) post employment benefits	*884*	*836*	*48*	*5.7*
	b) other allowances	*3,017*	*1,175*	*1,842*	
130.	Valuation reserves	774	-425	1,199	
140.	Redeemable shares	-	-	-	
150.	Equity instruments	4,103	2,117	1,986	93.8
160.	Reserves	3,843	3,816	27	0.7
170.	Share premium reserve	26,164	27,508	-1,344	-4.9
180.	Share capital	8,732	8,732	-	-
190.	Treasury shares (-)	-26	-20	6	30.0
200.	Net income (loss)	4,882	1,680	3,202	
Total Liabilities and Shareholders' Equity		**509,377**	**447,729**	**61,648**	**13.8**

Restated Intesa Sanpaolo income statement

(millions of euro)

		2017	2016 restated	Changes amount	%
10.	Interest and similar income	6,458	6,635	-177	-2.7
20.	Interest and similar expense	-3,647	-4,067	-420	-10.3
30.	**Interest margin**	**2,811**	**2,568**	**243**	**9.5**
40.	Fee and commission income	3,794	3,491	303	8.7
50.	Fee and commission expense	-826	-680	146	21.5
60.	**Net fee and commission income**	**2,968**	**2,811**	**157**	**5.6**
70.	Dividend and similar income	1,889	1,824	65	3.6
80.	Profits (Losses) on trading	47	-106	153	
90.	Fair value adjustments in hedge accounting	-17	-25	-8	-32.0
100.	Profits (Losses) on disposal or repurchase of:	181	146	35	24.0
	a) loans	*-11*	*-36*	*-25*	*-69.4*
	b) financial assets available for sale	*212*	*209*	*3*	*1.4*
	c) investments held to maturity	-	-	-	-
	d) financial liabilities	*-20*	*-27*	*-7*	*-25.9*
110.	Profits (Losses) on financial assets and liabilities designated at fair value	2	13	-11	-84.6
120.	**Net interest and other banking income**	**7,881**	**7,231**	**650**	**9.0**
130.	Net losses / recoveries on impairment:	-2,018	-1,842	176	9.6
	a) loans	*-1,600*	*-1,641*	*-41*	*-2.5*
	b) financial assets available for sale	*-476*	*-232*	*244*	
	c) investments held to maturity	-	-	-	-
	d) other financial activities	*58*	*31*	*27*	*87.1*
140.	**Net income from banking activities**	**5,863**	**5,389**	**474**	**8.8**
150.	Administrative expenses:	-6,385	-5,150	*1,235*	*24.0*
	a) personnel expenses	*-3,775*	*-2,580*	*1,195*	*46.3*
	b) other administrative expenses	*-2,610*	*-2,570*	*40*	*1.6*
160.	Net provisions for risks and charges	-818	-141	677	
170.	Net adjustments to / recoveries on property and equipment	-123	-124	-1	-0.8
180.	Net adjustments to / recoveries on intangible assets	-13	-3	10	
190.	Other operating expenses (income)	5,328	237	5,091	
200.	**Operating expenses**	**-2,011**	**-5,181**	**-3,170**	**-61.2**
210.	Profits (Losses) on equity investments	167	-315	482	
220.	Valuation differences on property, equipment and intangible assets measured at fair value	-16	-	16	-
230.	Goodwill impairment	-	-	-	-
240.	Profits (Losses) on disposal of investments	77	325	-248	-76.3
250.	**Income (Loss) before tax from continuing operations**	**4,080**	**218**	**3,862**	
260.	Taxes on income from continuing operations	802	387	415	
270.	**Income (Loss) after tax from continuing operations**	**4,882**	**605**	**4,277**	
280.	Income (Loss) after tax from discontinued operations	-	1,075	-1,075	
290.	**Net income (loss)**	**4,882**	**1,680**	**3,202**	

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)

Captions of the reclassified balance sheet - Assets	Captions of the restated balance sheet - Assets	31.12.2017 Including the Aggregate Set	31.12.2016 Restated
Financial assets held for trading		18,264	19,577
	Caption 20 - Financial assets held for trading	*18,264*	*19,577*
Financial assets designated at fair value through profit and loss		322	371
	Caption 30 - Financial assets designated at fair value through profit and loss	*322*	*371*
Financial assets available for sale		36,912	38,983
	Caption 40 - Financial assets available for sale	*36,912*	*38,983*
Investments held to maturity		335	335
	Caption 50 - Investments held to maturity	*335*	*335*
Due from banks		157,440	126,634
	Caption 60 - Due from banks	*157,440*	*126,634*
Loans to customers		232,693	200,586
	Caption 70 - Loans to customers	*232,693*	*200,586*
Equity investments		30,558	30,453
	Caption 100 - Equity investments	*30,558*	*30,453*
Property, equipment and intangible assets		6,854	5,137
	Caption 110 - Property and equipment	*4,400*	*2,758*
	+ Caption 120 - Intangible assets	*2,454*	*2,379*
Tax assets		13,013	10,707
	Caption 130 - Tax assets	*13,013*	*10,707*
Non-current assets held for sale and discontinued operations		266	1
	Caption 140 - Non-current assets held for sale and discontinued operations	*266*	*1*
Other assets		12,720	14,945
	Caption 10 - Cash and cash equivalents	*5,750*	*6,214*
	+ Caption 150 - Other assets	*3,278*	*2,851*
	+ Caption 80 - Hedging derivatives	*3,823*	*5,720*
	+ Caption 90 - Fair value change of financial assets in hedged portfolios	*(131)*	*160*
Total Assets	**Total Assets**	**509,377**	**447,729**

Captions of the reclassified balance sheet - Liabilities and Shareholders' Equity	Captions of the restated balance sheet - Liabilities and Shareholders' Equity	31.12.2017 Including the Aggregate Set	31.12.2016 Restated
Due to banks		173,710	139,036
	Caption 10 - Due to banks	*173,710*	*139,036*
Due to customers and securities issued		253,580	232,143
	Caption 20 - Due to customers	*170,914*	*147,319*
	+ Caption 30 - Securities issued	*82,666*	*84,824*
Financial liabilities held for trading		14,580	16,670
	Caption 40 - Financial liabilities held for trading	*14,580*	*16,670*
Financial liabilities designated at fair value through profit and loss		9	8
	Caption 50 - Financial liabilities designated at fair value through profit and loss	*9*	*8*
Tax liabilities		1,285	811
	Caption 80 - Tax liabilities	*1,285*	*811*
Liabilities associated with non-current assets held for sale and discontinued operations		-	-
	Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations	*-*	*-*
Other liabilities		13,073	12,906
	Caption 100 - Other liabilities	*7,195*	*5,861*
	+ Caption 60 - Hedging derivatives	*5,555*	*6,517*
	+ Caption 70 - Fair value change of financial liabilities in hedged portfolios	*323*	*528*
Allowances for specific purpose		4,668	2,747
	Caption 110 - Employee termination indemnities	*767*	*736*
	Caption 120 - Allowances for risks and charges	*3,901*	*2,011*
Share capital		8,732	8,732
	Caption 180 - Share capital	*8,732*	*8,732*
Reserves		29,981	31,304
	Caption 160 - Reserves	*3,843*	*3,816*
	Caption 170 - Share premium reserve	*26,164*	*27,508*
	– Caption 190 - Treasury shares	*-26*	*-20*
Valuation reserves		774	-425
	Caption 130 - Valuation reserves	*774*	*-425*
Equity instruments		4,103	2,117
	Caption 150 - Equity instruments	*4,103*	*2,117*
Net income (loss)		4,882	1,680
	Caption 200 - Net income (loss)	*4,882*	*1,680*
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**509,377**	**447,729**

Reconciliation between Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

(millions of euro)

Captions of the reclassified income statement		Captions of the restated income statement	2017 Including the Aggregate Set	2016 Restated
Net interest income			3,119	2,890
	Caption 30	*Interest margin*	*2,811*	*2,568*
	- Caption 30 (partial)	*Interest margin (Effect of purchase price allocation)*	*-22*	*2*
	+ Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans (Time value loans)*	*355*	*352*
	+ Caption 150 a) (partial)	*Personnel expenses (Time value employee termination indemnities and other)*	*-25*	*-31*
	+ Caption 160 (partial)	*Net provisions for risks and charges (Time value allowances for risks and charges)*	*-*	*-1*
Net fee and commission income			2,946	2,790
	Caption 60	*Net fee and commission income*	*2,968*	*2,811*
	+ Caption 150 b) (partial)	*Other administrative expenses (Recovery of other expenses)*	*-22*	*-21*
Profits (Losses) on trading			326	133
	Caption 80	*Profits (Losses) on trading*	*47*	*-106*
	+ Caption 90	*Fair value adjustments in hedge accounting*	*-17*	*-25*
	+ Caption 100 b)	*Profits (Losses) on disposal or repurchase of financial assets available for sale*	*212*	*209*
	- Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (National Interbank Deposit Guarantee Fund - Voluntary Scheme)*	*73*	*-*
	- Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Effect of purchase price allocation on debt securities)*	*-2*	*-*
	+ Caption 100 d)	*Profits (Losses) on disposal or repurchase of financial liabilities*	*-20*	*-27*
	- Caption 100 d) (partial)	*Profits (Losses) on disposal or repurchase of financial liabilities (Effect of purchase price allocation)*	*-1*	*-*
	+ Caption 110	*Profits (Losses) on financial assets and liabilities designated at fair value*	*2*	*13*
	+ Caption 70 (partial)	*Dividend and similar income on shares available for sale and held for trading*	*32*	*95*
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe)*	*-*	*-26*
Other operating income (expenses)			2,031	1,851
	Caption 70	*Dividend and similar income*	*1,889*	*1,824*
	+ Caption 190	*Other operating expenses (income)*	*5,328*	*237*
	+ Caption 190 (partial)	*Other operating income (expenses) (Recovery of rentals receivable)*	*-*	*56*
	- Caption 70 (partial)	*Dividend and similar income on shares available for sale and held for trading*	*-32*	*-95*
	- Caption 190 (partial)	*Other operating expenses (income) (Extraordinary operating expenses and income of the Aggregate Set)*	*-4,793*	*-*
	- Caption 190 (partial)	*Other operating income (expenses) (Recovery of expenses and indirect taxes)*	*-361*	*-383*
	- Caption 190 (partial)	*Other operating income (expenses) (IMI/SIR dispute)*	*-*	*-13*
	- Caption 190 (partial)	*Other operating income (expenses) (US sanction)*	*-*	*225*
Operating income			**8,422**	**7,664**
Personnel expenses			-2,800	-2,490
	Caption 150 a)	*Personnel expenses*	*-3,775*	*-2,580*
	- Caption 150 a) (partial)	*Personnel expenses (Time value employee termination indemnities and other)*	*25*	*31*
	- Caption 150 a) (partial)	*Personnel expenses (Charges for integration and exit incentives)*	*950*	*59*
Other administrative expenses			-2,014	-1,854
	Caption 150 b)	*Other administrative expenses*	*-2,610*	*-2,570*
	- Caption 150 b) (partial)	*Other administrative expenses (Charges for integration)*	*69*	*60*
	- Caption 150 b) (partial)	*Other administrative expenses (Recovery of other expenses)*	*22*	*21*
	- Caption 150 b) (partial)	*Other administrative expenses (Resolution fund and deposit guarantee scheme)*	*144*	*308*
	+ Caption 190 (partial)	*Other operating income (expenses) (Recovery of rentals receivable)*	*-*	*-56*
	+ Caption 190 (partial)	*Other operating income (expenses) (Recovery of expenses and indirect taxes)*	*361*	*383*
Adjustments to property, equipment and intangible assets			-131	-126
	Caption 170	*Net adjustments to/recoveries on property and equipment*	*-123*	*-124*
	+ Caption 180	*Net adjustments to/recoveries on intangible assets*	*-13*	*-3*
	- Caption 170 (partial)	*Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)*	*-*	*-4*
	- Caption 170 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment)*	*-*	*3*
	- Caption 180 (partial)	*Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)*	*5*	*2*
Operating costs			**-4,945**	**-4,470**
Operating margin			**3,477**	**3,194**

(millions of euro)

Captions of the reclassified income statement		Captions of the restated income statement	2017 Including the Aggregate Set	2016 Restated
Operating margin			**3,477**	**3,194**
Net adjustments to loans			-1,859	-1,998
	Caption 100 a)	*Profits (Losses) on disposal or repurchase of loans*	*-11*	*-36*
	+ Caption 130 a)	*Net losses/recoveries on impairment of loans*	*-1,599*	*-1,641*
	- Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans*	*48*	
	+ Caption 130 d)	*Net losses/recoveries on impairment of other financial activities*	*58*	*31*
	- Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans (Time value loans)*	*-355*	*-352*
Net provisions and net impairment losses on other assets			-145	-204
	Caption 160	*Net provisions for risks and charges*	*-819*	*-141*
	+ Caption 130 b)	*Net losses/recoveries on impairment of financial assets available for sale*	*-476*	*-232*
	- Caption 130 b) (partial)	*Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system)*	*472*	*176*
	- Caption 160 (partial)	*Net provisions for risks and charges (Time value allowances for risks and charges)*	*-*	*1*
	- Caption 160 (partial)	*Net provisions for risks and charges (Investments for the stability of the banking system)*	*-*	*60*
	- Caption 160 (partial)	*Net provisions for risks and charges (Aggregate Set)*	*726*	*-*
	+ Caption 170 (partial)	*Net adjustments to/recoveries on property and equipment (Impairment)*	*-*	*-3*
	+ Caption 210 (partial)	*Profits (Losses) on equity investments (impairment of non-controlling interets)*	*-31*	*-65*
	+ Caption 220	*Valuation differences on property, equipment and intangible assets measured at fair value*	*-17*	*-*
Other income (expenses)			4,034	139
	Caption 210	*Profits (Losses) on equity investments*	*167*	*-316*
	Caption 240	*Profits (Losses) on investments*	*77*	*325*
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe)*	*-*	*26*
	+ Caption 190 (partial)	*Other operating expenses (income) (government contribution for the Aggregate Set)*	*3,500*	*-*
	+ Caption 190 (partial)	*Other operating income (expenses) (IMI/SIR dispute)*	*-*	*13*
	+ Caption 190 (partial)	*Other operating income (expenses) (US sanction)*	*-*	*-225*
	- Caption 210 (partial)	*Profits (Losses) on equity investments*	*290*	*316*
Income (Loss) from discontinued operations			-	1,090
	Caption 280	*Income (Loss) from discontinued operations*	*-*	*1,075*
	+ Caption 280 (partial)	*Income (Loss) from discontinued operations (of which taxes)*	*-*	*15*
Gross income (loss)			**5,507**	**2,221**

(millions of euro)

Captions of the reclassified income statement		Captions of the restated income statement	2017 Including the Aggregate Set	2016 Restated
Taxes on income			6	158
	Caption 260	*Taxes on income from continuing operations*	*803*	*387*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Charges for integration and exit incentives)*	*-334*	*-36*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	*6*	*-*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)*	*-47*	*-100*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Impairment losses on investments for the stability of the banking system)*	*-156*	*-78*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Losses/recoveries on impairment of loans)*	*-13*	*-*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Profits (Losses) on purchase / disposal of financial assets available for sale)*	*-24*	*-*
	- Caption 260 (partial)	*Taxes on income from continuing operations (Provisions for risks and charges for the Aggregate Set)*	*-229*	*-*
	- Caption 280 (partial)	*Income (Loss) from discontinued operations (of which taxes)*	*-*	*-15*
Charges (net of tax) for integration and exit incentives			-243	-83
	+ Caption 150 a) (partial)	*Personnel expenses (Charges for integration and exit incentives)*	*-950*	*-59*
	+ Caption 150 b) (partial)	*Other administrative expenses (Charges for integration)*	*-69*	*-60*
	+ Caption 160 (partial)	*Net provisions for risks and charges (Aggregate Set)*	*-726*	*-*
	+ Caption 190 (partial)	*Other operating expenses (income) (Aggregate Set)*	*939*	*-*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Net provisions for risks and charges - Aggregate Set)*	*229*	*-*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Charges for integration and exit incentives)*	*334*	*36*
Effect of purchase price allocation (net of tax)			368	1
	+ Caption 10 (partial)	*Interest and similar income*	-82	*-2*
	+ Caption 20 (partial)	*Interest and similar expense*	104	*1*
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (Aggregate Set)*	*2*	*-*
	+ Caption 100 d) (partial)	*Profits (Losses) on disposal or repurchase of financial liabilities (Effect of purchase price allocation)*	*1*	*-*
	+ Caption 170 (partial)	*Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)*	0	*4*
	+ Caption 180 (partial)	*Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)*	-5	*-2*
	+ Caption 190 (partial)	*Other operating expenses (income) (Aggregate Set)*	354	*0*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Effect of purchase price allocation)*	-6	*0*
Levies and other charges concerning the banking industry (net of tax)			-497	-366
	+ Caption 100 b) (partial)	*Profits (Losses) on disposal or repurchase of financial assets available for sale (National Interbank Deposit Guarantee Fund - Voluntary Scheme)*	*-73*	*-*
	+ Caption 130 a) (partial)	*Net losses/recoveries on impairment of loans*	*-48*	*-*
	+ Caption 130 b) (partial)	*Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system)*	*-472*	*-176*
	+ Caption 150 b) (partial)	*Other administrative expenses (Resolution fund and deposit guarantee scheme)*	*-144*	*-308*
	+ Caption 160 (partial)	*Net provisions for risks and charges (Investments for the stability of the banking system)*	*-*	*-60*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)*	*47*	*100*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Profits (Losses) on disposal / repurchase of financial assets available for sale)*	*24*	*-*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Losses/recoveries on impairment of loans)*	*13*	*-*
	+ Caption 260 (partial)	*Taxes on income from continuing operations (Impairment losses on investments for the stability of the banking system)*	*156*	*78*
Impairment (net of tax) of goodwill, other intangible assets and controlling interests			-259	-251
	+ Caption 210 (partial)	*Profits (Losses) on equity investments (impairment of controlling interests)*	-259	-251
Net income (loss)	**Caption 290**	**Net income (loss)**	**4,882**	**1,680**

Other attachments

Statement of Intesa Sanpaolo property, equipment and financial assets subject to revaluation

(millions of euro)

	REVALUATIONS						Total
	Royal Law Decree 1729 of 19.10.1937	Law 823 of 19.12.1973	Law 576 of 02.12.1975	Law 72 of 19.03.1983	Law 413 of 30.12.1991	Law 218 of 30.07.1990	
Real estate assets	**-**	**16**	**10**	**50**	**129**	**181**	**386**
Equity investments	**-**	**-**	**-**	**-**	**-**	**26**	**26**
a) Subsidiaries	-	-	-	-	-	26	26
b) Other	-	-	-	-	-	-	-
Total	**-**	**16**	**10**	**50**	**129**	**207**	**412**

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 (**)	8.47	-	12.75	-
Release of attestations (***)	1.38	-	1.62	-
Tax consulting services	-	-	-	-
Other services:				
agreed audit procedures	*0.38*	-	*0.66*	-
consolidated non-financial statement	*0.15*	-	*0.09*	-
other	-	-	-	-
TOTAL	**10.38**	**-**	**15.12**	**-**

(*) Group companies and other consolidated subsidiaries.

(**) Including costs for statutory audit and voluntary audit. Costs for audit of non-consolidated funds for about 7.9 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

GLOSSARY

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

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation (IRB) or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD and Maturity) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of "prime" category, but which, due to various factors such as LTV ratio, documentation provided, borrower's income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as "Alt-A".

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

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

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 (AT1) In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

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

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

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

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

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

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

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

Bookrunner
See Lead manager and Joint lead manager.

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

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

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

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, CAGR is calculated as follows: (Ending value/Starting value)^(1/n) -1.

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

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

Captive
Term generically referring to "networks" or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

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

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

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

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

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

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

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set

date - an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the optional structure to obtain full or partial protection of the invested capital, which takes the form of full or partial returns of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - market managed by Borsa Italiana, and on the EuroTLX market).

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

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

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

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

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

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

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

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

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in

exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

CreditVaR

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

Cross selling

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

CRP (Country Risk Premium)

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

Cumulative loss

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

Default

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

Deferred tax (tax liabilities or assets)

Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.

Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:

(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.

Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.

There are two types of temporary difference:

(d) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or
(e) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

Delinquency

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

Delta

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

Delta-Gamma-Vega (DGV VaR)

Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

Desk

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

Directional (Funds)

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

Domestic Currency Swap

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

Duration

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

Dynamics of funding

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

EAD – Exposure At Default

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

EDF – Expected Default Frequency

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

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Embedded derivatives

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

Embedded value

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

Eonia (Euro overnight index average)

Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the euro area.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Forward Rate Agreement
See "Forwards".

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

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

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

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

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

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

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

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

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

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

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss."

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Indirect customer deposits
The holding of third parties’ securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

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

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

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

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

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

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

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

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

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.
Ke – g
Difference between the discounting rate for cash flows and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

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

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

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the borrower. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Leveraged & acquisition finance
See “Acquisition finance”.

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

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

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

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

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate clients for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the

debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

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

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

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

Operational risk
The risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or tortious liability or other disputes, ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Other related parties – close relatives
An individual's "close relatives" comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual's non-separated spouse/domestic partner and the individual's children, his/her spouse's/domestic partner's children, and the individual's or his/her spouse's/domestic partner's dependents.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

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

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

Pool (transactions)
See "Syndicated lending".

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

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

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk, and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

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

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

Ratings
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

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

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

Risk Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

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

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

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.
SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

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

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

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

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

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

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

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

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

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

Tier 1 ratio
The ratio of Tier 1 capital, which includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to own funds components (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

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

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

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

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

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

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

Wealth management
See "Asset management".

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

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

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Financial calendar

Approval of the Interim Statement as at 31 March 2018:	8 May 2018
Approval of the half-yearly report as at 30 June 2018:	1 August 2018
Approval of the Interim Statement as at 30 September 2018:	6 November 2018