INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 31 December 2017

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 dicembre 2017". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.

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

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

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

Basel 3 Pillar 3 Disclosure as at 31 December 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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Introduction

Notes to the Basel 3 Pillar 3 disclosure

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

In particular, Pillar 3 – which concerns public disclosure obligations on capital adequacy, risk exposure and the general characteristics of related management and control systems, with the aim of better regulating the market – was also reviewed. Amongst other things, the amendments were designed to introduce greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

That said, the content of "Basel 3" was incorporated into two EU legislative acts:

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

EU legislation is complemented by the provisions issued by the Bank of Italy, in particular with Circular no. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to Italian banks and banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.
The above Circular does not dictate - as it did in the past - specific rules for the preparation and disclosure of Pillar 3 reporting, but simply reports the list of provisions envisaged for that purpose by the CRR. Therefore, the issue is directly regulated by:

- the CRR, Part Eight "Disclosure by Institutions" (art. 431-455) and Part 10, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492);
- the Regulations of the European Commission, whose preparation is entrusted to the EBA (European Banking Authority), bearing the regulatory or implementing technical standards to regulate the uniform templates for the disclosure of various types of information.

Further information on Pillar 3 was then provided by the EBA (European Banking Authority) with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No. 575/2013), which governs additional significant aspects of the preparation of Pillar 3 disclosure:

- application by the institutions of the Materiality criterion;
- application by the institutions of the Proprietary and Confidentiality criteria;
- need to publish the disclosure more frequently than once a year.

The issue of Pillar 3 disclosure was also the subject of analyses by the Basel Committee with its document "Revised Pillar 3 disclosure requirements". This document provides indications to the Supervisory Authorities, which should have them incorporated in the national regulations (in our case the EU) so that they come into force. In this regard, on 14 December 2016, the EBA published the final version of the "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" (EBA/GL/2016/11). The aim of these guidelines is to increase and improve the consistency and comparability of the information to be provided for Pillar 3, which, from 31.12.2017, requires the publication of new tables in the Pillar 3 disclosure, for G-SII and O-SII banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. These guidelines were also implemented in the proposed draft for the amendment of CRR 575 published in November 2016. At the end of March 2017, the Basel Committee published the document "Pillar 3 disclosure requirements - consolidated and enhanced framework" which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank's key prudential metrics to support the market in the analysis of the data and achieve greater comparability.

The EBA also supplemented the abovementioned guidelines with the publication in June 2017 of the “Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013” (EBA/GL/2017/01), with additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

* * * * * *

In accordance with the abovementioned provisions, this document has been drawn up on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (as described in Section 2 - Scope of application - Qualitative disclosure).

As regards the prudential scope of consolidation, with effect from 26 June 2017, Intesa Sanpaolo (ISP) signed the contract with the liquidators of Banca Popolare di Vicenza (BPVi) and Veneto Banca (VB), jointly with BPVi 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, envisaged by the Consolidated Law on Banking in accordance with Decree Law 99 of 25 June 2017 “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.
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 Intesa Sanpaolo 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”.

With specific regard to the shareholdings, the Aggregate Set, subject to receipt of the related authorisations, includes the shareholdings in Banca Apulia S.p.A. (excluding its shareholdings 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. However, 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, the authorisations had been received for all the investees included in the Aggregate Set, except for Eximbank (Moldova): a local legislative measure aimed at facilitating the sale of the NPLs of that investee 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 shareholdings that are not fully consolidated and is therefore not part of the scope of prudential consolidation.

For further details concerning the aforementioned acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, see the more extensive information provided in the Report on Operations and Part G of the consolidated financial statements.

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

Under the terms of art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities. In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (art. 437), "Capital Requirements" (art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the new EBA Guidelines (EBA/GL/2016/11), which require interim disclosures of certain information.

With specific reference to the information on the Leverage ratio, please note that in February 2016 the Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under EU Regulation No. 575/2013. Therefore, starting from 31 March 2016, the Intesa Sanpaolo Group has been publishing the Leverage ratio on the basis of the provisions contained in the Delegated Act.

Starting from 2016, the disclosure obligations concerning the countercyclical capital buffers have also been applied. With effect from 31 December 2016, the disclosure includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a “prudential” consolidation area, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Additional information about the risks is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). In particular, the information on risks is set forth in Part E of the Notes to the consolidated financial statements. Part E also illustrates:

- the various types of risks of the insurance segment (Part E – Information on risks and relative hedging policies: Section 2 – Risks of insurance companies);
- the risks of other companies (Part E – Information on risks and relative hedging policies: Section 3 – risks of other companies);
- Banking Group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.2.3 Foreign exchange risk)
- exposure to structured credit products (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: Information on Structured credit products);
- legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.4 Operational risk - Legal risks and tax litigation).

In order to better understand the organisation of the Group, reference is also made to the Report on operations of the consolidated financial statements (Breakdown of consolidated results by business area and geographical area – Balance sheet aggregates).

The “Corporate Governance Report and Information on Ownership Structures” and the “Report on Remuneration” include all the information concerning the Corporate Governance system of Intesa Sanpaolo and the remuneration policies in force. The documents are available for consultation in the “Governance” section of the Bank's website at: www.group.intesasanpaolo.com.

In particular, the “Report on Corporate Governance and Ownership Structures” includes the information required by paragraph 2 of art. 435 of the CRR:

- in Part II – Information on the Adoption of the Corporate Governance Code and other information on Governance:
    a. the engagement policy for the selection of members of the management body and their actual knowledge, skills, and experience;
    b. the diversity policy adopted in the selection of members of the management body, its objectives and any targets set within the framework of that policy as well as the extent to which these objectives and targets have been achieved;
    c. whether the entity has set up a separate risk committee and the number of times that the latter met;
    d. the description of the flow of information on risks to the management body.
- in Part III – Summary Tables:
    a. the number of administrative tasks assigned to the members of the management body;

The “Report on Remuneration” includes all the information required by art. 450 of the CRR on the remuneration policy and procedures for those categories of staff whose professional activities have a material impact on the risk profile of the Bank.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro.

Having regard to the information on the geographical breakdown of exposures provided in this document, it is noted that the materiality thresholds used to identify the countries to be reported individually are consistent with the provisions of the EBA Guidelines GL/2016/11 and GL/2014/14.

Lastly, an explanation of the meaning of certain terms and/or abbreviations commonly used in this disclosure is provided in the specific glossary annexed to this document.

The Group's website also publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: “Indicators of the assessment methodology to identify the global systemically important banks”).

Approval, certification and publication of the Basel 3 Pillar 3 disclosure of Intesa Sanpaolo as at 31 December 2017

The Basel 3 Pillar 3 disclosure as at 31 December 2017 (“Pillar 3”) of Intesa Sanpaolo has been prepared in accordance with Part 8 of the Regulation (EU) 575/2013, considering the specific requirements introduced by the EBA “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013” of 14 December 2016.

The preparation of the Pillar 3 disclosure on capital adequacy, risk exposure and the general characteristics of the related management and control systems of Intesa Sanpaolo is governed, in compliance with the applicable regulations, by the “Guidelines on the disclosure of Financial information to the Market”, approved by the Board of Directors. Under the governance of the Pillar 3 disclosure, the Manager responsible for preparing the Company's financial reports and the Chief Risk Officer, and the structures reporting to them, must ensure – within their respective areas of responsibility – that the disclosure contained in the document corresponds to the supporting documentation, ledgers and other accounting records the information provided is consistent with Group risk management guidelines and policies and with the measurement and control of the Group's exposure to the different risk categories.

The preparation of Financial disclosures to the Market, is one of the processes subject to assessment under the Group “Guidelines for Administrative and Financial Governance”, which were also approved by the Board of Directors and updated in 2017, as required by Art. 154-bis of the Consolidated Law on Finance, which has qualified by law the role of the Manager responsible for preparing the Company’s financial reports, assigning to this role specific responsibilities aimed at guaranteeing the presentation of a true and fair view of the information on balance sheet, income statement and financial position of the Group.

The disclosure is prepared in accordance with the internal processes and control systems that have been adopted by the Bank.
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 Basel 3 Pillar 3 disclosure of Intesa Sanpaolo is accompanied by the certification by the Manager responsible for preparing the Company's financial reports, in accordance with paragraph 2 of the already mentioned 154-bis of the Consolidated Law on Finance.

Considering the importance of this disclosure, Intesa Sanpaolo has decided to submit the annual Pillar 3 Report, as at 31 December, to a limited audit on a voluntary basis. The Independent Auditor's report is included.

The document is submitted for approval by the Board of Directors and subsequently published on Intesa Sanpaolo’s website at the link www.group.intesasanpaolo.com in the Governance – Risk Management section.

References to the regulatory disclosure requirements

The tables below provide a summary of the location of the market disclosure, in accordance with the regulatory requirements governed by the European legislation and in particular CRR Part Eight and the EBA Guidelines “GL/2016/11” and “GL/2017/01”.

Reference to the CRR Part Eight regulatory requirements

CRR Article	Pillar 3 Section Reference	Reference to other company disclosures
435 - Risk management objectives and policies	▪ Introduction (specific reference also to the "Report on Corporate Governance and Ownership Structures") ▪ Section 1 – General requirements ▪ Section 5 - Liquidity risk ▪ Section 6 - Credit risk: general disclosure ▪ Section 11 – Counterparty risk ▪ Section 13 - Market risk ▪ Section 14 – Operational risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E ▪ Consolidated financial statements - Report on operations – Overview of 2017 ▪ Report on Corporate Governance and Ownership Structures
436 - Scope of application	▪ Section 2 – Scope of application	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part A ▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
437 - Own funds	▪ Section 3 - Own Funds ▪ Attachment 1 - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments ▪ Attachment 2 - Own funds: transitional own funds disclosure template	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part F
438 - Capital Requirements	▪ Section 4 - Capital Requirements	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
439 - Exposure to counterparty credit risk	▪ Section 11 – Counterparty risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
440 - Capital buffers	▪ Section 4 - Capital Requirements	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part F
441 - Indicators of global systemic importance	▪ Introduction (specific reference to information published in the website)	▪ Website (Indicators of the assessment methodology to identify the global systemically important banks)
442 - Credit risk adjustments	▪ Section 6 - Credit risk: general disclosure ▪ Section 7 - Credit risk: credit quality	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
443 - Unencumbered assets	▪ Section 17 - Encumbered and Unencumbered assets	-
444 - Use of ECAIs	▪ Section 6 - Credit risk: general information ▪ Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
445 - Exposure to market risk	▪ Section 13 - Market risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
446 - Operational risk	▪ Section 14 – Operational risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
447 - Exposures in equities not included in the trading book	▪ Section 15 - Equity Exposures: disclosures for positions not included in the trading book	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
448 - Exposure to interest rate risk on positions not included in the trading book	▪ Section 16 – Interest rate risk on positions not included in the trading book	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
449 - Exposure to securitisation positions	▪ Section 12 – Securitisations	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
450 - Remuneration policy	▪ Introduction (specific reference to the "Report on Remuneration")	▪ Consolidated financial statements: Report on operations - Corporate Governance and remuneration policies ▪ Report on Remuneration
451 - Leverage	▪ Section 18 - Leverage Ratio	-
452 - Use of the IRB Approach to credit risk	▪ Section 6 - Credit risk: general disclosure ▪ Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
453 - Use of credit risk mitigation techniques	▪ Section 6 - Credit risk: general disclosure ▪ Section 10 – Credit Risk mitigation techniques	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Section 14 – Operational risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
455 - Use of Internal Market Risk Models	▪ Section 13 - Market risk	▪ Consolidated financial statements: Notes to the consolidated financial statements - Part E
492 – Disclosure of own funds	▪ Section 3 - Own Funds ▪ Attachment 2 – Own funds: transitional own funds disclosure template	▪ Consolidated financial statements: Notes to the consolidated financial statements – Part F

Reference to new EBA requirements (EBA/GL/2016/11 and EBA/GL/2017/01)

The table below shows the location within the Pillar 3 document of the new disclosure requirements introduced by the EBA Guidelines (EBA/GL/2016/11 and EBA/GL/2017/01), in force from 31.12.2017.

EBA GL Table	Description of EBA GL Table	Pillar 3 Section
EU OVA	Institution risk management approach	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Section 2 – Scope of application
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	
EU OV1	Overview of RWAs	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	
EU CCR7	RWA flow statements of CCR exposures under the IMM	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	
EU INS1*	Non-deducted participations in insurance undertakings	
EU LIQA	Qualitative information of liquidity risk	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	
EU CRA	General qualitative information about credit risk	Section 6 – Credit risk: General disclosure
EU CRB-B	Total and average net amount of exposures	
EU CRB-C	Geographical breakdown of exposures	
EU CRB-D	Concentration of exposures by industry or counterparty types	
EU CRB-E	Breakdown of exposures by residual maturity	
EU CRB-A	Additional disclosure related to the credit quality of assets	Section 7– Credit risk: Credit quality
EU CR1-A	Credit quality of exposures by exposure class and instrument	
EU CR1-B	Credit quality of exposures by industry or counterparty types	
EU CR1-C	Credit quality of exposures by geography	
EU CR1-D	Ageing of past-due exposures	
EU CR1-E	Non-performing and forborne exposures	
EU CR2-B	Changes in gross non-performing on-balance sheet exposures	
EU CR2-A	Changes in adjustments to non-performing on-balance sheet exposures	
EU CRD	Qualitative disclosure on the institution’s use of external credit ratings under the standardised approach for credit risk	Section 8 – Credit risk: disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	
EU CR5	Standardised approach - Exposures post CCF and CRM	
EU CR5 bis	Standardised approach - Exposures before CCF and CRM	
EU CRE	Qualitative disclosure on IRB models	Section 9 – Credit risk: Disclosures on portfolios subject to IRB approaches
EU CR7	IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	
EU CR10	IRB (specialised lending and equities)	
EU CR9	IRB approach – Backtesting of PD per exposure class	
EU CRC	Qualitative disclosure on CRM techniques	Section 10 – Credit Risk mitigation techniques
EU CR3	CRM techniques – Overview	
EU CCRA	Qualitative disclosure on CCR	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	

EU CCR2	CVA capital charge	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	
EU CCR3 bis	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	
EU CCR6	Credit derivatives exposures	
EU CCR5-A	Impact of netting and collateral held on exposure values	
EU CCR5-B	Composition of collateral for exposures to CCR	
EU CCR8	Exposures to CCPs	
EU MRA	Qualitative disclosure on market risk	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	
EU MR1	Market risk under the standardised approach	
EU MR2-A	Market risk under the IMA	
EU MR3	IMA values for trading portfolios	
EU MR4	Comparison of VaR estimates with gains/losses	

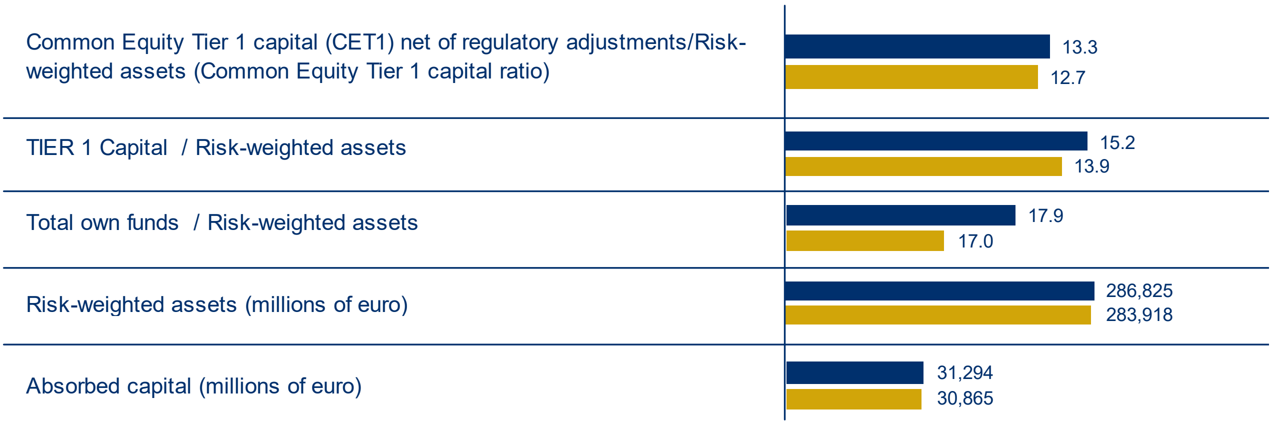
* Table not applicable to the Intesa Sanpaolo Group

Since this is the first time the EBA Guidelines GL/2016/11 have been applied, the figures for the previous period have not been provided, as permitted by the Guidelines.

Section 1 – General requirements

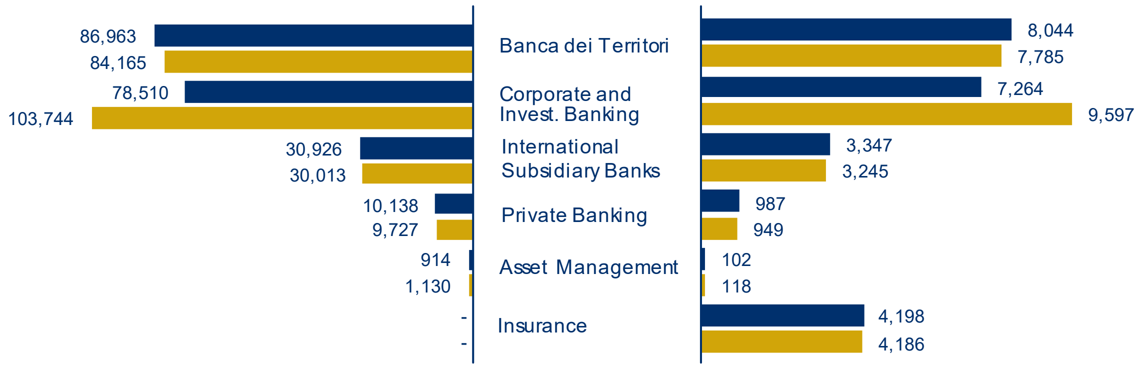
Group's risk profile: key indicators as at 31 December 2017

Consolidated capital ratios (%)



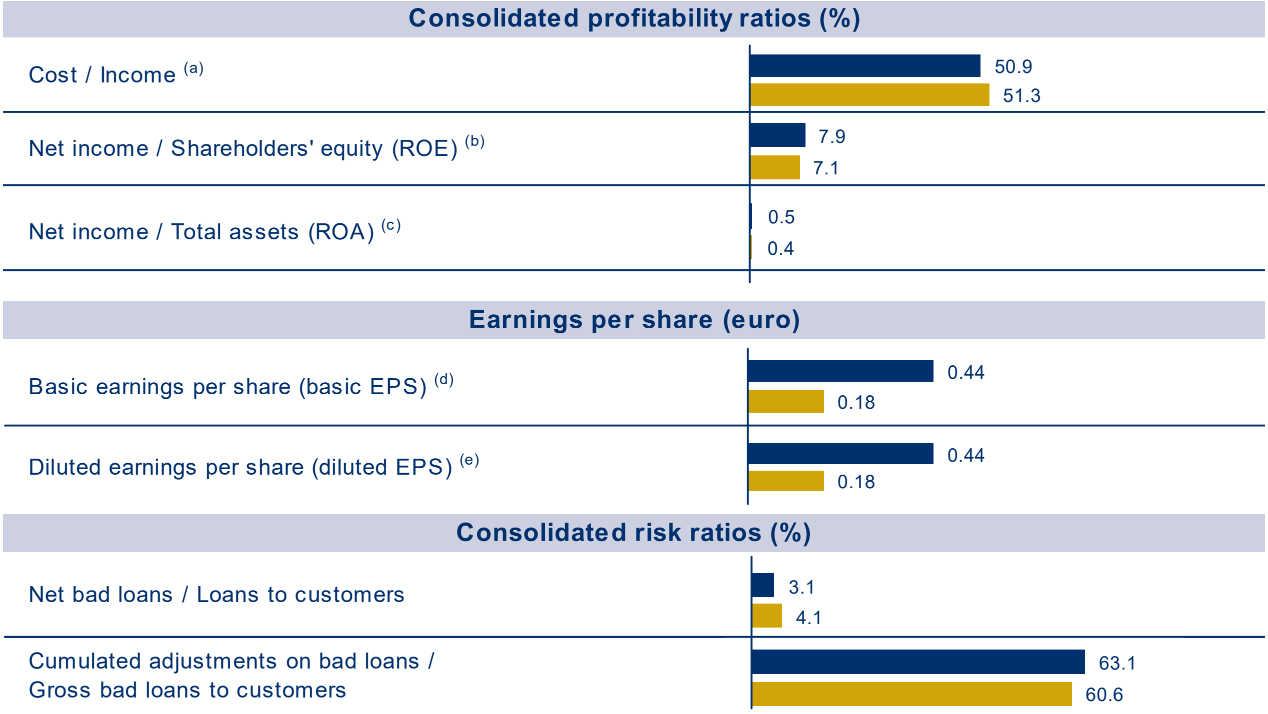
Risk-weighted assets by sector
(millions of euro)

Absorbed capital by sector
(millions of euro)



31.12.2017 (Consolidated figure including the Aggregate Set w here not specified otherw ise)

31.12.2016 (Consolidated figure)



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.

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 LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of December, the 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.

With regard to the significant transactions in which the Group was involved during the year, reference is made to the Consolidated Financial Statements.

General risk management 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 (IDC).

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.

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 Risk Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies 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 Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life 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 (i) with 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.

Further information on the Intesa Sanpaolo internal control system may be found in Part E of the Notes to the 2017 consolidated financial statements (available for consultation from the "Financial Reports" section of the website www.group.intesasanpaolo.com) and in the Report on Corporate Governance and Ownership Structures (available for consultation from the "Governance" section of the same Group website).

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, described in detail in this document.

With regard to the detail of the different types of risk governed by Basel 3 Pillar 3 Disclosure (credit, counterparty, market, interest rate, liquidity and operational risk), reference is made to the individual sections of this document. With regard to insurance risk, outside the prudential scope, reference is made to Part E of the Notes to the 2017 Consolidated financial statements, available for consultation in the "Financial Reports" section of the Group website www.group.intesasanpaolo.com.

Other Risks

In addition to the risks discussed above, 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.

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 as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, the banks in the Banca dei Territori Division and the main Italian product companies.
Subsequently, the scope of application has been gradually extended to include the SME Retail and Mortgage Retail portfolios, as well as other Italian and international 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 Public Sector Entities and Banks 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 extending to 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.

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

(*) 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 a validation inspection visit for the authorisation for 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 were also reviewed, for which authorisation had been obtained for the use of internal models starting from June 2010.
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.

Section 2 – Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies
Intesa Sanpaolo S.p.A., Parent Company of the Banking Group "Intesa Sanpaolo", included in the National Register of Banking Groups.

Outline of differences in the basis of consolidation for accounting and prudential purposes
The disclosure contained in this document refers solely to the Banking Group as defined by the prevailing Supervisory Provisions.
The consolidation area of the Banking Group (or the "prudential" scope of consolidation) differs from the scope of consolidation of the financial statements (the complete list of consolidated companies is included in Part A of the Notes to the consolidated financial statements), which includes Intesa Sanpaolo and the companies that it directly and indirectly controls. The scope of consolidation - as specified by IAS/IFRS - also includes the companies operating in dissimilar sectors from the Parent Company, as well as private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no stake in the company.

The "prudential" consolidation area, on the other hand, excludes from full consolidation the companies carrying out insurance, commercial or other types of business other than banking and finance activities and some types of special purpose vehicles. Moreover, for the purposes of prudential consolidation, the companies that are jointly controlled by Intesa Sanpaolo, which are measured using the equity method in the financial statements, are consolidated using the proportional method.

The table below provides the list of companies fully consolidated or consolidated with the equity method in the financial statements, with details of the "prudential" treatment. Investments in companies that appear in the "Not consolidated nor deducted" column are weighted to determine the total risk weighted assets. In addition, investments in companies that appear in the "Deducted" column are partly deducted from regulatory capital and partly weighted, in accordance with the provisions of Articles 36, 469 and 478 of the CRR.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2017 *(Table 1 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
INTESA SANPAOLO SPA	Full consolidation	X				BANK
BANCA 5 S.P.A.	Full consolidation	X				BANK
BANCA APULIA SPA	Full consolidation	X				BANK
BANCA IMI SECURITIES CORP	Full consolidation	X				FINANCIAL
BANCA IMI SPA	Full consolidation	X				BANK
BANCA INTESA AD BEOGRAD	Full consolidation	X				BANK
BANCA INTESA JOINT-STOCK COMPANY	Full consolidation	X				BANK
BANCA NUOVA S.P.A.	Full consolidation	X				BANK
BANCA PROSSIMA SPA	Full consolidation	X				BANK
BANCO DI NAPOLI S.P.A.	Full consolidation	X				BANK
BANK OF ALEXANDRIA	Full consolidation	X				BANK
BANKA INTESA SANPAOLO D.D.	Full consolidation	X				BANK
CASSA DEI RISPARMI DI FORLI E DELLA ROMAGNA SPA	Full consolidation	X				BANK
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.P.A.	Full consolidation	X				BANK
CASSA DI RISPARMIO DEL VENETO SPA	Full consolidation	X				BANK
CASSA DI RISPARMIO DI FIRENZE S.P.A.	Full consolidation	X				BANK
CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA SPA	Full consolidation	X				BANK
CASSA DI RISPARMIO IN BOLOGNA SPA	Full consolidation	X				BANK
CIB BANK LTD	Full consolidation	X				BANK
CIB FACTOR FINANCIAL SERVICES LTD.	Full consolidation	X				FINANCIAL
CIB INSURANCE BROKER LTD.	Full consolidation			X		EU NO EMU NON-FIN. COMP.
CIB INVESTMENT FUND MANAGEMENT LTD.	Full consolidation	X				FINANCIAL
CIB LEASING LTD.	Full consolidation	X				FINANCIAL
CIB REAL ESTATE	Full consolidation	X				PRODUCTION COMPANIES
CIB RENT OPERATIVE LEASING LTD.	Full consolidation	X				FINANCIAL
COMPAGNIA ITALIANA FINANZIARIA SRL - IN FORMA ABBREVIATA CIF	Full consolidation			X		PRIVATE OPERATING HOLDING
CONSUMER FINANCE HOLDING A.S.	Full consolidation	X				FINANCIAL
CONSUMER FINANCE HOLDING CESKA REPUBLIKA, A.S.	Full consolidation	X				FINANCIAL
DUOMO FUNDING PLC	Full consolidation			X		OTHER EU EMU FIN. INTERMEDIARIES
EPSILON SGR S.P.A.	Full consolidation	X				FINANCIAL
ETOILE ACTUALIS S.A.R.L.	Full consolidation			X		EU-EMU NON FIN. COMPANIES
ETOILE FRANCOIS 1ER SARL	Full consolidation			X		EU-EMU NON FIN. COMPANIES
ETOILE SAINT FLORENTIN S.A.R.L.	Full consolidation			X		EU-EMU NON FIN. COMPANIES
ETOILE SERVICES S.A.R.L.	Full consolidation			X		EU-EMU NON FIN. COMPANIES
EURIZON CAPITAL SA	Full consolidation	X				FINANCIAL
EURIZON CAPITAL SGR SPA	Full consolidation	X				FINANCIAL
EURIZON SLJ CAPITAL LIMITED	Full consolidation	X				FINANCIAL
FIDEURAM - INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
FIDEURAM ASSET MANAGEMENT (IRELAND) DAC	Full consolidation	X				FINANCIAL
FIDEURAM BANK (LUXEMBOURG) SA	Full consolidation	X				BANK
FIDEURAM FIDUCIARIA SPA	Full consolidation	X				FINANCIAL
FIDEURAM INVESTIMENTI - Società di Gestione del Risparmio S.p.A.	Full consolidation	X				FINANCIAL
FIDEURAM VITA SPA	Full consolidation				X	INSURANCE
FINANCIERE FIDEURAM SA	Full consolidation	X				FINANCIAL

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2017

(Table 2 of 5)

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
IMI CAPITAL MARKET USA CORP	Full consolidation	X				FINANCIAL
IMI FINANCE LUXEMBOURG SA	Full consolidation	X				FINANCIAL
IMI FONDI CHIUSI SGR S.P.A.	Full consolidation	X				FINANCIAL
IMI INVESTIMENTI SPA	Full consolidation	X				FINANCIAL
IMI INVESTMENTS SA	Full consolidation	X				FINANCIAL
IMMOBILIARE CASCINA RUBINA S.R.L	Full consolidation			X		PRODUCTION COMPANIES
IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Full consolidation			X		PRIVATE OPERATING HOLDING
INIZIATIVE LOGISTICHE S.r.l.	Full consolidation			X		PRIVATE OPERATING HOLDING
INTESA LEASING (CLOSED JOINT STOCK COMPANY)	Full consolidation	X				FINANCIAL
INTESA LEASING D.O.O. BEOGRAD	Full consolidation	X				FINANCIAL
INTESA SANPAOLO ASSICURA SPA	Full consolidation			X		INSURANCE
INTESA SANPAOLO BANK ALBANIA SH.A.	Full consolidation	X				BANK
INTESA SANPAOLO BANK IRELAND PLC	Full consolidation	X				BANK
INTESA SANPAOLO BANK LUXEMBOURG SA	Full consolidation	X				BANK
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Full consolidation	X				BANK
INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Full consolidation	X				BANK
INTESA SANPAOLO FUNDING LLC	Full consolidation	X				FINANCIAL
INTESA SANPAOLO GROUP SERVICES SOCIETA' CONSORTILE PER AZIONI	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO HARBOURMASTER III S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO HOLDING INTERNATIONAL SA	Full consolidation	X				FINANCIAL
INTESA SANPAOLO IMMOBILIERE S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO LIFE DAC	Full consolidation			X		INSURANCE
INTESA SANPAOLO PRIVATE BANK (SUISSE) SA	Full consolidation	X				BANK
INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
INTESA SANPAOLO PROVIS S.P.A.	Full consolidation	X				FINANCIAL
INTESA SANPAOLO RE.O.CO. S.P.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO REAL ESTATE S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Full consolidation	X				BANK
INTESA SANPAOLO SEC SA	Full consolidation	X				FINANCIAL
INTESA SANPAOLO SECURITISATION VEHICLE S.R.L.	Full consolidation	X				FINANCIAL
INTESA SANPAOLO SERVITIA S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO SMART CARE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
INTESA SANPAOLO VITA SPA	Full consolidation				X	INSURANCE
INTESA SEC. 3 S.R.L.	Full consolidation	X				FINANCIAL
INTESA SEC. NPL S.P.A.	Full consolidation	X				FINANCIAL
INTESA SEC. S.P.A.	Full consolidation	X				FINANCIAL
ISP CB IPOTECARIO S.R.L.	Full consolidation	X				FINANCIAL
ISP CB PUBBLICO S.R.L.	Full consolidation	X				FINANCIAL
ISP OBG S.R.L.	Full consolidation	X				FINANCIAL
LUNAR FUNDING V PLC	Full consolidation			X		EU EMU VEHICLE COMPANY
LUX GEST ASSET MANAGEMENT S.A.	Full consolidation	X				FINANCIAL
MEDIOCREDITO ITALIANO S.P.A.	Full consolidation	X				BANK
MILANO SANTA GIULIA S.P.A.	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO QUARTO S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO SECONDO S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO TERZO S.R.L.	Full consolidation			X		PRODUCTION COMPANIES

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2017 *(Table 3 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
MSG RESIDENZE SRL	Full consolidation			X		PRODUCTION COMPANIES
NEVA FINVENTURES S.P.A.	Full consolidation	X				FINANCIAL
PBZ CARD D.O.O.	Full consolidation	X				FINANCIAL
PBZ INVEST D.O.O.	Full consolidation	X				FINANCIAL
PBZ LEASING D.O.O.	Full consolidation	X				FINANCIAL
PBZ NEKRETNINE D.O.O.	Full consolidation	X				INSTRUMENTAL
PBZ STAMBENA STEDIONICA DD	Full consolidation	X				BANK
PRAVEX BANK PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK	Full consolidation	X				BANK
PRIVATE EQUITY INTERNATIONAL S.A.	Full consolidation	X				FINANCIAL
PRIVREDNA BANKA ZAGREB DD	Full consolidation	X				BANK
QINGDAO YICAI WEALTH MANAGEMENT CO. LTD.	Full consolidation	X				FINANCIAL
RECOVERY PROPERTY UTILISATION AND SERVICECS ZRT.	Full consolidation			X		OTHER EU NON EMU FIN. INTERM.
RI. ESTATE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
RI. PROGETTI S.p.A.	Full consolidation			X		PRODUCTION COMPANIES
RI. RENTAL S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
RISANAMENTO EUROPA S.R.L.	Full consolidation			X		PRIVATE OPERATING HOLDING
RISANAMENTO SPA	Full consolidation			X		PRODUCTION COMPANIES
ROMULUS FUNDING CORP.	Full consolidation			X		OTHER NON EU FIN. COMPANIES
SANPAOLO INVEST SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.P.A.	Full consolidation	X				FINANCIAL
SEC SERVIZI - SOCIETA' CONSORTILE PER AZIONI	Full consolidation	X				INSTRUMENTAL
SERVIZI BANCARI - S.C.P.A.	Full consolidation	X				INSTRUMENTAL
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.p.A.	Full consolidation	X				FINANCIAL
SVILUPPO COMPARTO 3 SRL	Full consolidation			X		PRODUCTION COMPANIES
TRADE RECEIVABLES INVESTMENT VEHICLE SARL	Full consolidation			X		EU EMU VEHICLE COMPANY
VENETO BANKA DD	Full consolidation	X				BANK
VENETO BANKA SH.A.	Full consolidation	X				BANK
VSEOBECNA UVEROVA BANKA A.S.	Full consolidation	X				BANK
VUB ASSET MANAGEMENT, SPRAV. SPOL., A.S.	Full consolidation	X				FINANCIAL
VUB FACTORING, A.S.	Full consolidation	X				FINANCIAL
VUB LEASING A.S.	Full consolidation	X				FINANCIAL
08 GENNAIO SRL IN SCIOGLIMENTO E LIQUIDAZIONE	Equity method			X		PRODUCTION COMPANIES
ADRIANO LEASE SEC S.R.L.	Equity method			X		FINANCIAL
APULIA FINANCE N. 2 S.R.L.	Equity method			X		FINANCIAL
APULIA FINANCE N. 4 S.R.L.	Equity method			X		FINANCIAL
APULIA MORTGAGES FINANCE N. 3 S.R.L.	Equity method			X		FINANCIAL
ASSOCIAZIONE STUDI E RICERCHE PER IL MEZZOGIORNO	Equity method			X		R&D
AUGUSTO SRL	Equity method			X		FINANCIAL
AUTOSTRADA PEDEMONTANA LOMBARDA SPA	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL
AUTOSTRADE LOMBARDE S.P.A.	Equity method			X		PRIVATE OPERATING HOLDING
BANCOMAT SPA	Equity method				X	INSTRUMENTAL
BERICA 10 RESIDENTIAL MBS S.R.L.	Equity method			X		FINANCIAL
BERICA 5 RESIDENTIAL MBS S.R.L.	Equity method			X		FINANCIAL
BERICA 6 RESIDENTIAL MBS S.R.L.	Equity method			X		FINANCIAL

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2017

(Table 4 of 5)

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
BERICA 8 RESIDENTIAL MBS S.R.L.	Equity method			X		FINANCIAL
BERICA 9 RESIDENTIAL MBS SRL	Equity method			X		FINANCIAL
BERICA ABS 2 S.R.L.	Equity method			X		FINANCIAL
BERICA ABS 3 S.R.L.	Equity method			X		FINANCIAL
BERICA ABS SRL	Equity method			X		FINANCIAL
BERICA RESIDENTIAL MBS 1 SRL	Equity method			X		SECURITISATION VEHICLE
BRERA SEC S.R.L.	Equity method			X		FINANCIAL
CASSA DI RISPARMIO DI FERMO SPA	Equity method				X	BANK
CLARIS FINANCE 2005 S.R.L.	Equity method			X		FINANCIAL
CLASS DIGITAL SERVICE S.R.L	Equity method			X		FINANCIAL
COLOMBO SRL	Equity method			X		FINANCIAL
COMPAGNIA AEREA ITALIANA SPA	Equity method			X		PRODUCTION COMPANIES
CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDAZIONE)	Equity method			X		INVESTMENT HOLDING
CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Equity method			X		INSTRUMENTAL
CR FIRENZE MUTUI SRL	Equity method			X		FINANCIAL
DESTINATION ITALIA S.P.A.	Equity method			X		PRODUCTION COMPANIES
DIOCLEZIANO SRL	Equity method			X		FINANCIAL
EMISYS CAPITAL S.G.R. SPA	Equity method				X	FINANCIAL
EQUITER SPA	Equity method				X	FINANCIAL
EURIZON CAPITAL (HK) LIMITED	Equity method				X	FINANCIAL
EUROMILANO SPA	Equity method			X		PRODUCTION COMPANIES
EUROPROGETTI & FINANZA S.P.A. IN LIQUIDAZIONE	Equity method			X		FINANCIAL
EUROTLX SOCIETA' DI INTERMEDIAZIONE MOBILIARE SPA	Equity method				X	FINANCIAL
EUSEBI HOLDINGS B.V.	Equity method			X		EU-EMU NON FIN. COMPANIES
EXELIA SRL	Equity method				X	INSTRUMENTAL
EXPERIENTIA GLOBAL S.A.	Equity method			X		NON EU NON FIN. COMPANIES
FENICE SRL	Equity method			X		FINANCIAL
FOCUS INVESTMENTS SPA	Equity method			X		PRODUCTION COMPANIES
FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
FONDO SARDEGNA ENERGIA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
GALILEO NETWORK S.P.A.	Equity method			X		PRODUCTION COMPANIES
IDEAMI S.p.A.	Equity method			X		OTHER FINANCIAL
IMMIT - IMMOBILI ITALIANI SRL	Equity method			X		PRODUCTION COMPANIES
IMMOBILIARE NOVOLI S.P.A.	Equity method			X		PRODUCTION COMPANIES
IMPIANTI SRL IN LIQUIDAZIONE	Equity method			X		PRIVATE OPERATING HOLDING
IMPRESOL S.R.L. IN LIQUIDAZIONE	Equity method			X		PRODUCTION COMPANIES
INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDAZIONE	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO CASA S.P.A	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO FORVALUE S.P.A	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO HIGHLINE SRL	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO HOUSE IMMO S.A.	Equity method			X		INSTRUMENTAL

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2017 *(Table 5 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA	Equity method			X		FINANCIAL
INTOWN SRL	Equity method			X		PRODUCTION COMPANIES
ISM INVESTIMENTI SPA	Equity method			X		INVESTMENT HOLDING
ITALCONSULT SPA	Equity method			X		PRODUCTION COMPANIES
JOINT STOCK COMMERCIAL BANK EXIMBANK GRUPPO VENETO BANCA	Equity method				X	BANK
LEONARDO TECHNOLOGY S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
MANDARIN CAPITAL MANAGEMENT S.A.	Equity method				X	FINANCIAL
MANUCOR SPA	Equity method			X		PRODUCTION COMPANIES
MANZONI SRL	Equity method			X		PRIVATE OPERATING HOLDING
MARKETWALL SRL	Equity method			X		PRODUCTION COMPANIES
MEZZANOVE CAPITAL MANAGEMENT S.A.R.L.	Equity method				X	FINANCIAL
MIR CAPITAL MANAGEMENT SA	Equity method				X	FINANCIAL
MIR CAPITAL S.C.A. SICAR	Equity method		X			FINANCIAL
MISR INTERNATIONAL TOWERS CO.	Equity method			X		NON EU NON FIN. COMPANIES
NETWORK IMPRESA S.P.A.	Equity method			X		PRODUCTION COMPANIES
NEWCO RICERCA E INNOVAZIONE S.R.L.	Equity method			X		OTHER ACCESSORY FINANCIAL COMP.
OOO INTESA REALTY RUSSIA	Equity method			X		NON EU NON FIN. COMPANIES
PBZ CROATIA OSIGURANJE PUBLIC LIMITED COMPANY COMPULSORY PENSION	Equity method		X			FINANCIAL
PENGHUA FUND MANAGEMENT CO. LTD	Equity method				X	FINANCIAL
PIETRA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
PORTOCITTA' SRL	Equity method			X		PRODUCTION COMPANIES
RAINBOW	Equity method			X		REAL ESTATE
RCN FINANZIARIA S.p.A.	Equity method			X		INVESTMENT HOLDING
SCHUTTRANGE NUCLEUS SCA	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
SICILY INVESTMENTS S.A.R.L.	Equity method			X		EU-EMU NON FIN. COMPANIES
SLOVAK BANKING CREDIT BUREAU, S.R.O.	Equity method			X		EU-EMU NON FIN. COMPANIES
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO SPA	Equity method			X		PRODUCTION COMPANIES
SOLAR EXPRESS S.R.L.	Equity method			X		PRODUCTION COMPANIES
SVILUPPO INDUSTRIALE S.P.A. IN LIQUIDAZIONE E CONCORDATO PREV.	Equity method			X		FINANCIAL
TANGENZIALE ESTERNA S.P.A.	Equity method			X		PRODUCTION COMPANIES
TANGENZIALI ESTERNE DI MILANO S.P.A.	Equity method			X		PRIVATE OPERATING HOLDING
THEMYS INVESTIMENTI S.P.A.	Equity method			X		FINANCIAL OPERATING HOLDING
TRINACRIA CAPITAL S.A.R.L.	Equity method			X		EU-EMU NON FIN. COMPANIES
UMBRIA EXPORT SOCIETA' CONSORTILE A RESPONSABILITA' LIMITATA	Equity method			X		PRODUCTION COMPANIES
VARESE INVESTIMENTI S.P.A.	Equity method				X	FINANCIAL
VENTURE CAPITAL PARTNERS SGR SPA	Equity method				X	FINANCIAL
VUB GENERALI DOCHODKOVA SPRAVCOVSKA SPOLOCNOST, A.S.	Equity method		X			FINANCIAL

The table below (LI1) contains the reconciliation of the accounting and regulatory scopes of consolidation and the mapping of the financial statement categories with regulatory risk categories as at 31 December 2017. The second table below (LI2) presents the reconciliation between the net total amount based on the "prudential" scope of consolidation (financial statements) and the exposure value subject to capital requirements, for each type of risk.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories as at 31 December 2017

(millions of euro)

		Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	CARRYING VALUES OF ITEMS						
				Subject to credit risk framework	Subject to the CRR framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets									
10.	Cash and cash equivalents	9,353	9,363	9,363	-	-	-	-	-	-
20.	Financial assets held for trading	39,518	39,042	-	24,793	-	*24,793*	-	38,994	48
30.	Financial assets designated at fair value	75,269	863	863	-	-	-	-	-	-
40.	Available for sale financial assets	142,341	64,967	64,134	-	-	-	628	-	205
50.	Held to maturity investments	1,174	1,174	1,174	-	-	-	-	-	-
60.	Loans to banks	72,462	71,883	63,483	8,400	*8,400*	-	-	-	-
70.	Loans to customer	410,746	415,029	376,043	31,482	*31,482*	-	6,581	-	923
80.	Hedging derivatives	4,217	4,213	-	4,213	-	*4,213*	-	-	-
90.	Changes in fair value assets in hedged portfolios (+/-)	-204	-204	-204	-	-	-	-	-	-
100.	Equity investments	678	5,998	4,204	-	-	-	-	-	1,794
110.	Technical insurance reserves attributable to reinsurers	16	-	-	-	-	-	-	-	-
120.	Property and equipment	6,678	6,597	6,597	-	-	-	-	-	-
130.	Intangible assets	7,741	7,068	-	-	-	-	-	-	7,068
	of which: goodwill	*4,056*	*3,562*	-	-	-	-	-	-	*3,562*
140.	Tax assets	16,887	16,359	14,678	-	-	-	-	-	1,681
150.	Non current assets and disposals groups classified as held for sale	627	349	349	-	-	-	-	-	-
160.	Other assets	9,358	5,652	5,652	-	-	-	-	-	-
	Total Assets	**796,861**	**648,353**	**546,336**	**68,888**	***39,882***	***29,006***	**7,209**	**38,994**	**11,719**
	Liabilities and Shareholders' Equity									
10.	Due to banks	99,990	99,805	-	14,156	*14,156*	-	-	-	85,649
20.	Due to customers	323,443	327,482	-	21,303	*21,303*	-	-	-	306,179
30.	Securities issued	94,239	96,137	-	-	-	-	-	-	96,137
40.	Financial liabilities held for trading	41,285	41,215	-	28,294	-	*28,294*	-	41,215	-
50.	Financial liabilities designated at the fair value through profit and loss	68,169	4	-	-	-	-	-	-	4
60.	Hedging derivatives	7,489	7,489	-	7,489	-	*7,489*	-	-	-
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	478	478	-	-	-	-	-	-	478
80.	Tax liabilities	2,509	1,863	-	-	-	-	-	-	1,863
	a) current	364	315	-	-	-	-	-	-	315
	b) deferred	2,145	1,548	-	-	-	-	-	-	1,548
90.	Liabilities associated with non-current assets held for sale and discontinued operations	264	-	-	-	-	-	-	-	-
100.	Other liabilities	12,574	10,629	-	-	-	-	-	-	10,629
110.	Employee termination indemnities	1,410	1,403	-	-	-	-	-	-	1,403
120.	Allowances for risks and charges	5,481	5,365	-	-	-	-	-	-	5,365
	a) post employment benefits	1,104	1,103	-	-	-	-	-	-	1,103
	b) other allowances	4,377	4,262	-	-	-	-	-	-	4,262
130.	Technical reserves	82,926	-	-	-	-	-	-	-	-
140.	Valuation reserves	-789	-789	-	-	-	-	-	-	-790
150.	Redeemable shares	-	-	-	-	-	-	-	-	-
160.	Equity instruments	4,103	4,103	-	-	-	-	-	-	4,103
170.	Reserves	10,921	10,921	-	-	-	-	-	-	10,922
180.	Share premium reserve	26,006	26,006	-	-	-	-	-	-	26,006
190.	Share capital	8,732	8,732	-	-	-	-	-	-	8,732
200.	Treasury shares (-)	-84	-84	-	-	-	-	-	-	-84
210.	Minority interests (+/-)	399	278	-	-	-	-	-	-	278
220.	Net income (loss)	7,316	7,316	-	-	-	-	-	-	7,316
	Total Liabilities and Shareholders' Equity	**796,861**	**648,353**	**-**	**71,242**	***35,459***	***35,783***	**-**	**41,215**	**564,190**

The differences between the carrying values in the accounting scope and the carrying values in the "prudential" scope of consolidation are attributable to the deconsolidation of the companies that are not part of the Banking Group and the proportional consolidation of the subsidiaries subject to joint control, which are consolidated according to equity method in the financial statements.

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements as at 31 December 2017

(millions of euro)

	Subject to credit risk framework	Subject to counterparty risk (*)	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**546,336**	**68,888**	***39,882***	***29,006***	**7,209**	**38,994**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	**-**	**71,242**	***35,459***	***35,783***	**-**	**41,215**
Total net amount under the regulatory scope of consolidation	**546,336**	**104,347**	***75,341***	***29,006***	**7,209**	**80,209**
Off-balance-sheet amounts	51,005	78	*78*	-	2,457	-
Differences due to the treatment of adjustments (exposures subject to IRB approaches - on-balance sheet only)	23,205	-	-	-	-	-
Differences due to the treatment of positions subject to advanced EPE approaches (incl. effect of collateral and netting)	-	-96,506	*-66,257*	*-30,249*	-	-
Effect of collateral (exposures subject to the Standarised Approach - on-balance sheet only)	-2,566	-	-	-	-	-
Reclassification of initial margins and change margins included in counterparty risk (EPE approach)	-17,403	17,403	-	*17,403*	-	-
Other	-10,188	-	-	-	-398	-
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**590,389**	**25,322**	***9,162***	***16,160***	**9,268**	**-**

(*) Reconciliation entries for counterparty risk are broken down into SFTs and derivatives, in separate columns.

The main differences between the carrying values determined based on the regulatory scope of consolidation and the amounts of the exposures determined for regulatory purposes, with regard to credit risk, are attributable to the following:

a) amounts of the off-balance sheet exposures, not included in the carrying values, reported after application of the credit conversion factors;
b) amounts related to value adjustments on the on-balance sheet exposures subject to internal models, which in the regulatory scope do not reduce the value of the EAD, because they are included in the calculation of the Excess Reserve - Shortfall (comparison between value adjustments and expected losses)
c) amounts related to the value of the collateral received that, in the standardised approach, reduce the carrying value for the determination the exposure value, in application of the comprehensive approach envisaged by the regulations;
d) amounts referring to initial and variation margins, in relation to derivatives transactions, which are excluded from the exposure value for credit risk purposes because they are included in the calculation of the exposure value of the derivatives subject to the EPE (Expected Positive Exposure) approach.

The main differences attributable to counterparty risk that explain the differences between the carrying values in the financial statements and the regulatory values (EAD) mainly relate to the use of the EPE approach for both Derivatives transactions and SFTs. These include the following factors:

a) for Derivatives, the use of an EPE internal model enables the measurement of the entire portfolio of this type of instrument over time, by simulating the risk factors over a period of one year (in accordance with the regulatory requirement). Derivatives that have a negative fair value at t_0, but could have a positive fair value over the one-year period, are simulated and remeasured;
b) at the same time, the internal model approach allows the Group to fully benefit from the risk mitigation contracts which consist of netting and margining arrangements, which it uses both to reduce bilateral risk and to comply with the EMIR clearing obligations. The exposure to each counterparty, in each simulated scenario, is obtained as the positive difference between the value of the portfolio and any financial collateral received or given to the counterparty. The final EAD corresponds to the weighted average for the period of the simulated exposures, scaled at a prudential factor of 1.4;
c) for the exposures in SFTs, these are margined daily, through GMRA/GMSLA arrangements, that reduce the exposure and consequently the EAD.

The exposures relating to positions not covered by the internal model (EPE) are determined using standardised approaches (Mark-to-Market approach for Derivatives and Comprehensive Approach for SFTs); however, these positions are residual with respect to the total exposures subject to counterparty risk.

Section 3 - Own Funds

Qualitative disclosure

Introduction

The harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation no. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

These regulatory provisions were adopted in Italy through the following circulars:
- Bank of Italy Circular no. 285: Supervisory regulations for banks;
- Bank of Italy Circular no. 286: Instructions for preparing prudential reports for banks and investment companies;
- Update of Bank of Italy Circular no. 154: Credit and financial institutions supervisory reports: Preparation and transmission.

This 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, profit reserves, valuation reserves, 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 works of art;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit rating;
- adjustments to fair value assets associated with the "prudent valuation".

The regulations also envisage 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 adjustments (the shortfall reserve) for positions 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;
- minor 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 thresholds envisaged in the regulations);
- significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations).

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 or AT1 equity instruments).

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.

As previously specified, the new regulatory framework is introduced gradually over a transitional period, generally through 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 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).

For information on Group and Third Party Consolidated Shareholders' Equity reference is made to paragraph B1 of Part F of the Notes to the Consolidated Financial Statements 2017.

Significant restrictions to transferring own funds or to liability repayment within the Group

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.

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to any mandatory capital requirements

As at 31 December 2017, there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 December 2017 is summarised in the table below.

(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**

The tables below provide a detailed summary of the various capital levels before regulatory adjustments and transitional regime adjustments, together with the reconciliation between Common Equity Tier 1 and net book value. With regard to transitional regime adjustments, note that for the eligibility of:

- grandfathered instruments;
- minority interests;
- unrealised profits or losses on instruments designated at fair value;
- negative amounts resulting from the calculation of expected losses (shortfall reserve);
- IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans;
- property valuation reserves;
- other minor captions;

the regulations envisage specific treatment allowing gradual entry into force of the rules, to be applied during the transitional period. In this respect, they state specific percentages for deductions and eligibility for Common Equity.

In particular, 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 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.

Furthermore, consolidated own funds also benefited from the revaluation of real estate properties carried out as at 31 December 2017, which involved both owner-occupied property, including valuable art assets, and investment property. The net valuation reserve of 1,252 million euro recognised in shareholders’ equity (the portion pertaining to the Group amounts to approximately 1,238 million euro), was subjected to a “prudential filter” when applying the national discretion exercised by the Bank of Italy in the context of prudential regulations (see Bank of Italy Circular 285/2013). The amount of this reserve is recognised in CET 1 for about 991 million euro and in Tier 2 capital for about 138 million euro.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution’s own funds and the balance sheet of the financial statements are shown at the end of this Section.

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments are reported in Attachment 1 to this disclosure. Attachment 2, on the other hand, reports the Transitional Own Funds Disclosure Template envisaged in the instructions issued by the EBA.

Reconciliation of net book value 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.

Further details are provided below on the composition of each capital level making up own funds.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

	31.12.2017	31.12.2016
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	8,247	8,247
Share premium reserve	26,006	27,349
Reserves [(a)]	10,890	9,512
'Accumulated other comprehensive income [(b)]	-790	-1,854
Net income (loss) for the period	7,316	3,111
Net income (loss) for the period not eligible	-	-3,111
Dividends and other expected charges [(c)]	-3,500	-
Minority interests	50	44
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,219**	**43,298**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-94	-98
Goodwill	-4,079	-4,183
Other intangible assets	-3,103	-2,822
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,417	-155
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-530	-23
Defined benefit pension funds assets	-	-
Prudential filters	756	1,055
- of which Cash Flow Hedge Reserve	*1,000*	*1,146*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-36*	*53*
- of which Prudent valuation adjustments	*-208*	*-144*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-252	-115
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-	-
Deductions with 10% threshold [(d)]	-1,776	-1,748
- 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	*-1,776*	*-1,748*
Deductions with threshold of 17.65% [(e)]	-560	-
Positive or negative elements - other	-393	-389
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-11,448**	**-8,478**
Total adjustments in the transitional period (CET1)	**1,280**	**1,106**
Common Equity Tier 1 (CET1) - Total	**38,051**	**35,926**

(a) Amount included in CET1.

(b) The caption "Accumulated other comprehensive income" includes an increase equal to about 1,234 million euro relating to the market valuation of the real-estate portfolio

(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) See the specific table for the details of the calculation of the deduction thresholds.

(e) The deductions shown refer only to DTA and Significant investments for which 10% was not deducted.

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 the portion not distributed - 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.
Likewise note that the Board of Directors has proposed to the Shareholders' Meeting for distribution on the net income for 2017, 20.3 cents for each ordinary share and 21.4 cents per each savings share, for a total dividend of 3,419 million euro.

Starting from 2016, as envisaged by Article 258 of (EU) Regulation no. 575/2013 which governs the case, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.
The amount of such deduction as at 31 December 2017 is equal to 252 million euro.

The “Negative elements – other” mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill.
The amount of the filter as at 31 December 2017 is equal to 217 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	31.12.2017	31.12.2016
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	4,121	2,121
Minority interests	9	6
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,615**	**2,612**
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 (AT1)	**-**	**-**
Total adjustments in the transitional period, including minority interests (AT1)	**-226**	**-309**
AT1 instruments eligible for grandfathering	**1,025**	**1,230**
Additional Tier 1 (AT1) - Total	**5,414**	**3,533**

In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17 Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted at the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.
With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT 1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.

As already specified, the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments are reported in Attachment 1 to this disclosure.

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering and other AT1 instruments

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**

Tier 2 Capital (T2)

(millions of euro)

	31.12.2017	31.12.2016
Tier 2 Capital (T2)		
T2 Instruments	8,105	8,503
Minority interests	5	2
Excess of provisions over expected losses eligible (excess reserve)	125	239
Tier 2 capital before regulatory adjustments	**8,235**	**8,744**
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	-821	-152
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-821**	**-152**
Total adjustments in the transitional period, including minority interests (T2)	**-47**	**-187**
T2 instruments eligible for grandfathering	**541**	**410**
Tier 2 Capital (T2) - Total	**7,908**	**8,815**

It is noted that 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.

Tier 2 (T2) equity instruments

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 instruments subject to transitional provisions									**541**
Intesa Sanpaolo	3-month Euribor + 1.9 %	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 rate	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 instruments not subject to transitional provisions									**8,105**
Total Tier 2 instruments									**8,646**

(*) Instrument subject to grandfathering in the Additional Tier 1 capital, capped portion pursuant to art. 486 of EU Regulation 575/2013 (CRR).

Deduction thresholds for DTAs and investments in companies operating in the financial sector

(millions of euro)

	31.12.2017	31.12.2016
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,912	3,657
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	3,912	3,657
C. Threshold for significant investments and DTA not deducted in the threshold described under point B:		
• 15% under transitional regime until 31 December 2017	5,925	5,526
• 17.65% as from 2018	5,490	5,236

The regulations envisage that for certain regulatory adjustments, such as those for DTAs based on future income and deriving from temporary differences, and for significant and minor investments in CET1 instruments issued by companies in the financial sector, certain thresholds or “deductibles” are specified, calculated on Common Equity estimated using different approaches.
For minor investments in CET1 instruments issued by companies in the financial sector the deduction of amounts exceeding 10% of CET1 prior to deductions deriving from exceeding the thresholds is envisaged.
For significant investments in CET1 instruments and DTAs, however, an initial threshold on deductions is envisaged, still calculated as 10% of CET1 prior to deductions deriving from exceeding the thresholds, adjusted to take into account any excess over the threshold described in the previous point. A further threshold is indicated, calculated on 15% of Common Equity adjusted for the above 10% threshold, to be applied in aggregate on amounts not deducted using the first threshold.
All amounts not deducted are weighted among risk-weighted assets in accordance with the percentages envisaged in the regulations for individual cases.

As mentioned previously, these deductions are introduced gradually through the application of specific transitional rules. In addition to applying deductions with an increasing impact, these rules also envisage different treatment, compared to that applied on a fully loaded basis, for amounts not deducted.

Transitional regime adjustments

Greater details on the impact of the transitional regime on the different levels of capital for the period under review are provided below.

(millions of euro)

	ADJUSTMENTS TO CET1			ADJUSTMENTS TO AT1	ADJUSTMENTS TO T2
	Amounts eligible /deductible on full phase-in	Adjustments to CET1	Net effect on CET1 at the date		
Instruments eligible for grandfathering	**-**	**-**	**-**	**1,025**	**541**
Minority interests	**50**	**28**	**78**	**-**	**-**
Other adjustments in the transitional period	**284**	**-57**	**227**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	284	-57	227	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-4,410**	**1,073**	**-3,337**	**-226**	**-226**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,417	283	-1,134	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-530	106	-424	-53	-53
- of which IAS 19 Reserves	-687	241	-446	-	-
- of which CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-	-	-	-
- 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	-1,776	443	-1,333	-173	-173
Other filters and adjustments	**678**	**236**	**914**	**-**	**179**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-3,398**	**1,280**	**-2,118**	**799**	**494**

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

(millions of euro)

ACCOUNTING DATA			Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total Accounting data			**53,488**	
ASSETS	**Financial statements scope**	**Prudential scope**		
100. Investments in associates and companies subject to joint control	678	5,998	-1,794	8, 19, 41b, 56b
of which: implicit goodwill in associated companies IAS 28-31	*65*	*560*	*-65*	*8, 19, 41b, 56b*
130. Intangible assets	7,741	7,068	-7,562	8
of which: goodwill	*4,056*	*3,562*	*-4,056*	*8*
of which: other intangible assets	*3,685*	*3,506*	*-3,506*	*8*
140. Tax assets	16,887	16,359	-1,160	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,417*	*1,160*	*-1,160*	*10*
LIABILITIES				
30. Securities issued	94,239	96,137	9,670	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	*0*	*1,567*	*1,565*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*8,105*	*8,105*	*46, 52*
80. Tax liabilities	2,509	1,863	446	8
a) Current tax liabilities	364	315	N.A.	
b) Deferred tax liabilities	2,145	1,548	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*446*	*8*
140. Valuation reserves	-789	-789	326	3, 9, 11, 26a, 56c
of which: valuation reserves on securities available for sale	*284*	*284*	*267*	*26a, 56c*
of which: valuation reserves on cash flow hedges	*-1,000*	*-1,000*	*0*	*11*
of which: foreign exchange differences	*-970*	*-970*	*-970*	*3*
of which: legally-required revaluations	*1,584*	*1,584*	*1,475*	*3*
of which: valuation reserves on net actuarial losses	*-687*	*-687*	*-446*	*9*
of which: other	*0*	*0*	*0*	
160 Equity instruments	4,103	4,103	4,121	
170. Reserves	10,921	10,921	10,889	2
180. Share premium reserve	26,006	26,006	26,006	1
190. Share capital	8,732	8,732	8,732	1, 30
of which: ordinary shares	*8,247*	*8,247*	*8,247*	*1*
of which: savings shares	*485*	*485*	*485*	*30*
200. Treasury shares (-)	-84	-84	-94	16
210. Minority interests (+/-)	399	278	92	5, 34, 48
of which CET1 compliant		*0*	*78*	*5*
of which AT1 compliant		*0*	*9*	*34*
of which T2 compliant		*0*	*5*	*48*
220. Net income (loss) for the period (+/-)	7,316	7,316	3,816	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*3,816*	*5a*
OTHER COMPONENTS OF OWN FUNDS			**Relevant amount for the purpose of own funds**	**See table "Transitional own funds disclosure template"**
Total other components, of which:			-2,115	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			-36	14
Value adjustments due to the requirements for prudent valuation			-208	7
Exposures to securitisations deducted rather than risk weighted at 1250%			-252	
IRB shortfall of credit risk adjustments to expected losses			-530	12, 41a, 56a
IRB Excess of provisions over expected losses eligible			125	50
Filter on unrealised capital gains on real properties			-99	26
Filter on double tax realignment			-217	26
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-821	55
Indirect investments			-77	26
Total own funds as at 31 December 2017			**51,373**	

Section 4 - Capital Requirements

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.
The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:

- Regulatory Capital for Pillar 1 risks;
- overall Economic Capital for Pillar 2 risks, for the ICAAP process.

The Regulatory Capital and the overall Economic Capital differ in terms of their definition and the coverage of risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent use of internal models for the exposure assumed.
Capital Management essentially involves the control of capital adequacy through the careful monitoring of both the regulatory constraints (Basel 3 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.
Accordingly, the capital adequacy assessment process is based on a "twin track" approach: Regulatory Capital for compliance with the Pillar 1 requirements and overall Economic Capital for the ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also to run its operations. In this regard, the allocation of capital to the Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the Regulatory Capital and the Economic Capital, also in accordance with the criteria of the "use test" established by the supervisory provisions.
Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.
First verification occurs as part of the process of defining budget targets: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are measured and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.
Compliance with capital adequacy is obtained via various levers, such as the pay-out 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 the loan policy on the basis of counterparty risk.
This dynamic management approach is aimed at identifying the risk capital raising instruments and hybrid capital instruments most suitable to the achievement of the objectives.
Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.
A further step in the preventive analysis and control of the Group's capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

As already mentioned, 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 Economic Capital, defined as the maximum "unexpected" loss that the Group may incur over a period of one year, is a key measure for determining the Group's financial structure and risk tolerance and for guiding its operations, ensuring the balance between risks assumed and shareholder return.
The level of absorption of Economic Capital is estimated on the basis of the current situation and also at a forecast level, according to the definition of Risk Appetite approved by the Group, based on the budget assumptions and the projected economic scenario.

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 following graphs illustrate the breakdown of the Group’s Economic Capital by Business Unit and by type of risk.

Absorption of 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.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the requirements laid down by the Second Pillar, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the corporate bodies – with the figures of the previous years on a consolidated basis. The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2017 and the forecasts over a four-year period (in line with the period of the 2018-2021 Business Plan presented on 6 February 2018), and the final document is due to be sent to the Supervisor by 30 April 2018. The results of the ICAAP process confirm the Group's capital adequacy: the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

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.

Quantitative disclosure

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.

As already illustrated in the Section on "Own Funds", 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[1].

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%[2], 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.

[1] 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).

[2] 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).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs	MINIMUM CAPITAL REQUIREMENTS
			31.12.2017	31.12.2017
	1	**Credit risk (excluding CCR)**	**224,426**	**17,954**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*89,908*	*7,193*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,319*	*105*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*129,078*	*10,326*
Article 438(d)	*5*	*Of which capital instruments subject to internal models*	*4,121*	*330*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,922**	**634**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,852*	*148*
Article 438(c)(d)	*8*	*Of which original exposure*	*-*	*-*
	9	*Of which the standardised approach*	*-*	*-*
	10	*Of which internal model method (IMM)*	*4,652*	*372*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*473*	*38*
Article 438(c)(d)	*12*	*Of which CVA*	*945*	*76*
Article 438(e)	**13**	**Settlement risk**	**1**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,247**	**260**
	15	*Of which IRB approach*	*237*	*19*
	16	*Of which IRB supervisory formula approach (SFA)*	*663*	*53*
	17	*Of which internal assessment approach (IAA)*	*-*	*-*
	18	*Of which standardised approach*	*2,347*	*188*
Article 438 (e)	**19**	**Market risk**	**17,832**	**1,426**
	20	*Of which the standardised approach*	*2,607*	*208*
	21	*Of which IMA*	*15,225*	*1,218*
Article 438(e)	**22**	**Large exposures**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**18,597**	**1,488**
	24	*Of which basic indicator approach*	*759*	*61*
	25	*Of which standardised approach*	*2,325*	*186*
	26	*Of which advanced measurement approach*	*15,513*	*1,241*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**14,800**	**1,184**
Article 500	28	Floor adjustment	-	-
	29	**TOTAL**	**286,825**	**22,946**

EU CR8 - RWA flow statements of credit risk exposures under the IRB approach in the fourth quarter

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 30 September 2017**	**129,184**	**10,335**
2	Asset size	6,172	493
3	Asset quality	-2,039	-164
4	Model updates	3,132	251
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	269	22
8	Other	-93	-7
9	**RWAs as at 31 December 2017 (*)**	**136,625**	**10,930**

(*) As at 31 December 2017, the RWA referred to IRB models amounted to 136,625 million euro and is attributable to the Foundation IRB approach for 1,319 million euro (Row 3 EU OV1), to the Advanced IRB approach for 129,078 million euro (Row 4 EU OV1), to equities measured using the IRB approach for 4,121 million euro (Row 5 EU OV1), and amounts below the deduction thresholds for 2,107 million euro (Row 27 EU OV1).

With regard to the changes in RWAs related to the exposures subject to credit risk measured using internal models (for which the risk-weighted amount is determined in accordance with part three, title II, chapter 3, of the CRR, and the related capital requirement is determined in accordance with Article 92, paragraph 3, letter a), the following amounts are reported: 129,184 million euro as at 30 September 2017 and 136,625 million euro at the end of December 2017. The increase of 7,441 million euro between the two periods can be broken down into the following effects: +6,172 million euro due to volumes (Asset Sizes); +3,132 million euro deriving from the adoption of new internal models (Model updates), as a result of the extension of ISP's internal models to the portfolios acquired from Veneto Banca and Banca Popolare di Vicenza (measured using the standard approach as at September 2017) which was partially offset by the completion of the re-rating of the new PD and LGD, following the model change from the second quarter of the year; and +269 million euro attributable to foreign exchange movements for exposures in original currency other than the euro. The above effects were partially offset by a reduction in RWAs, of -2,039 million euro, due to the improvement in the credit quality assigned to the counterparties present in the portfolio.

EU CCR7 - RWA flow statements of CCR exposures under the IMM in the fourth quarter

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2017**	**4,316**	**345**
2	Asset size	74	6
3	Credit quality of counterparties	422	34
4	Model updates (IMM only)	-161	-13
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	1	-
8	Other	-	-
9	**RWAs as at 31 December 2017**	**4,652**	**372**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the Internal model method - IMM, in accordance with part three, title II, chapter 6, of the CRR) the following amounts are reported: 4,316 million euro as at September 2017 and 4,652 million euro as at December 2017. The increase of 336 million euro between the two periods can be broken down into the following effects: +74 million euro due to volumes (Asset Sizes); +422 million euro due to the deterioration in the credit quality assigned to the counterparties; and +1 million euro due to foreign exchange movements. These were only partially offset by the effect, amounting to -161 million euro, on the corporate counterparties, measured using the advanced approach, following the adoption of the new internal models (Model Updates).

EU MR2-B – RWA flow statements of market risk exposures under the IMA in the fourth quarter

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 30 September 2017**	**3,642**	**9,094**	**2,040**	**-**	**65**	**14,841**	**1,187**
1a	*Regulatory adjustment*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
1b	*RWAs at the previous quarter-end (end of the day)*	*3,882*	*9,678*	*1,789*	*-*	*55*	*15,404*	*1,232*
2	Movement in risk levels	-567	852	66	-	21	371	30
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	1	10	1	-	-	13	1
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at the end of the reporting period (end of the day)*	*2,635*	*8,747*	*1,630*	*-*	*84*	*13,095*	*1,048*
8b	*Regulatory adjustment*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
8	**RWAs as at 31 December 2017**	**3,076**	**9,956**	**2,107**	**-**	**86**	**15,225**	**1,218**

The RWAs relating to market risks remained in line with the previous quarter. The VaR figures were down (-566 million euro) as a result of the reduction in credit spread volatility. The Stressed VaR figure (+862 million euro) was negatively affected by the calibration of the reference period for Intesa Sanpaolo. The extension of the internal model to the former Venetian banks resulted in a marginal increase in RWAs (+13 million euro).

Specific countercyclical capital buffer of the institution

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 31 December 2017 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) no. 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions’ obligation to hold a countercyclical capital buffer pursuant to Article 440 of the same CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the specific countercyclical ratio of the institution consists in the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the 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%.
The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) no. 575/2013. The following portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

In reference to 31 December 2017:

- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (1.25%), Iceland (1.25%), Czech Republic (0.50%) and Slovakia (0.50%);
- at consolidated level, Intesa Sanpaolo’s specific countercyclical ratio amounts to 0.019%.

Amount of the specific countercyclical capital buffer of the institution

(millions of euro)

Total risk exposure	286,825
Specific countercyclical ratio of the institution	0.019%
Specific countercyclical capital buffer requirement of the institution	54

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the specific countercyclical capital buffer of the institution as at 31 December 2017.

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 1 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	80,790	264,985	1,010	344	2,561	980	11,850	74	211	12,133	72.25	-
ABU DHABI	25	981	-	-	-	-	29	-	-	29	0.17	-
ALBANIA	511	28	-	-	-	-	31	-	-	31	0.19	-
ALGERIA	10	-	-	-	-	-	1	-	-	1	0.00	-
SAUDI ARABIA	28	130	-	-	-	-	7	-	-	7	0.04	-
ARGENTINA	2	18	-	-	-	-	1	-	-	1	0.01	-
AUSTRALIA	3	644	-	9	-	-	35	-	-	36	0.21	-
AUSTRIA	98	258	-	6	-	-	16	1	-	17	0.10	-
AZERBAIJAN	-	299	-	-	-	-	23	-	-	23	0.14	-
BAHAMAS	123	64	-	-	-	-	8	-	-	8	0.05	-
BELGIUM	62	600	-	3	-	-	30	-	-	30	0.18	-
BELIZE	1	2	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	95	241	-	-	-	-	24	-	-	24	0.14	-
BOLIVIA	2	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	824	2	-	-	-	-	66	-	-	66	0.39	-
BRAZIL	158	333	-	2	-	-	27	1	-	28	0.17	-
BULGARIA	2	31	-	-	-	-	2	-	-	2	0.01	-
CANADA	100	92	-	-	-	-	6	-	-	6	0.03	-
CAYMAN ISLANDS	183	294	-	-	-	11	29	-	-	29	0.17	-
CZECH REPUBLIC	246	648	-	-	-	-	58	-	-	58	0.35	0.50
CHILE	5	75	-	-	-	-	4	-	-	4	0.02	-
CHINA	262	740	-	-	-	-	114	-	-	114	0.68	-
CYPRUS	80	310	-	-	-	-	19	-	-	19	0.11	-
COLOMBIA	1	40	-	-	-	-	2	-	-	2	0.01	-
SOUTH KOREA	6	11	-	-	-	-	1	-	-	1	0.00	-
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	8,261	174	74	-	-	-	481	-	-	480	2.86	-
DENMARK	30	13	-	3	-	-	2	1	-	3	0.02	-
DOMINICAN REPUBLIC	-	15	-	-	-	-	1	-	-	1	0.01	-
ECUADOR	3	509	-	-	-	-	14	-	-	14	0.08	-
EGYPT	2,019	103	-	-	-	-	152	-	-	152	0.90	-
ESTONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
ETHIOPIA	113	1	-	-	-	-	9	-	-	9	0.05	-
FINLAND	39	197	-	7	-	-	9	-	-	9	0.05	-
FRANCE	376	2,795	49	147	-	5	145	12	-	157	0.93	-
GABON	37	-	-	-	-	-	3	-	-	3	0.02	-
GERMANY	464	3,295	11	246	9	3	144	5	-	149	0.89	-
GHANA	-	61	-	-	-	-	4	-	-	4	0.03	-
JAPAN	22	795	-	27	-	-	29	-	-	29	0.17	-
JORDAN	2	-	-	-	-	-	-	-	-	-	0.00	-
GREECE	1	34	-	4	-	1	1	-	-	1	0.01	-
GUERNSEY	19	-	-	-	-	-	2	-	-	2	0.01	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 2 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
HONG KONG	46	205	-	7	-	-	9	-	-	9	0.06	1.25
INDIA	3	67	-	-	-	-	5	-	-	5	0.03	-
INDONESIA	2	55	-	-	-	-	6	-	-	6	0.03	-
IRELAND	400	219	131	4	4	44	38	33	2	73	0.44	-
ISLE OF MAN	-	3	-	-	-	-	-	-	-	-	0.00	-
ISRAEL	7	37	-	-	-	-	2	-	-	2	0.01	-
JERSEY	54	80	-	-	-	-	9	-	-	9	0.06	-
KAZAKHSTAN	16	2	-	-	-	-	-	-	-	-	0.00	-
KENYA	1	1	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	-	356	-	-	-	-	9	-	-	9	0.06	-
LIBERIA	34	15	-	-	-	-	5	-	-	5	0.03	-
LIBYA	5	4	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	6	-	-	-	-	-	-	-	-	-	0.00	-
LUXEMBOURG	1,708	1,822	57	41	4	-	342	24	-	365	2.18	-
MACAO	-	11	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	7	-	-	-	-	-	-	-	-	0.00	-
MALTA	22	38	-	-	-	-	4	-	-	4	0.03	-
MARSHALL ISLANDS	40	170	-	-	-	-	26	-	-	26	0.15	-
MAURITIUS ISLANDS	-	50	-	-	-	-	2	-	-	2	0.01	-
MEXICO	97	825	-	5	-	-	38	1	-	39	0.23	-
REPUBLIC OF MOLDOVA	-	22	-	-	-	-	4	-	-	4	0.03	-
MONGOLIA	-	121	-	-	-	-	13	-	-	13	0.08	-
MONTENEGRO	1	-	-	-	-	-	-	-	-	-	0.00	-
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	11	1	-	-	-	-	1	-	-	1	0.00	-
NORWAY	102	72	-	1	-	-	4	-	-	4	0.03	2.00
NEW ZEALAND	2	-	-	-	-	-	-	-	-	-	0.00	-
OMAN	34	32	-	-	-	-	3	-	-	3	0.02	-
THE NETHERLANDS	505	3,406	207	187	-	16	211	3	-	214	1.27	-
PANAMA	85	45	-	-	-	-	9	-	-	9	0.05	-
PARAGUAY	3	-	-	-	-	-	-	-	-	-	0.00	-
PERU	6	137	-	-	-	-	8	-	-	8	0.05	-
POLAND	546	393	-	-	-	-	56	-	-	56	0.33	-
PORTUGAL	136	332	65	4	-	14	47	1	-	49	0.29	-
PUERTO RICO	-	30	-	-	-	-	5	-	-	5	0.03	-
PRINCIPALITY OF MONACO	1	8	-	-	-	-	-	-	-	-	0.00	-
QATAR	140	146	-	-	-	-	5	-	-	5	0.03	-
UNITED KINGDOM	773	8,060	43	252	-	1	487	6	-	493	2.93	-
ROMANIA	997	127	-	-	-	-	60	-	-	60	0.35	-
RUSSIA	1,372	603	-	-	-	-	74	-	-	75	0.44	-
SAN MARINO	5	13	-	-	-	-	1	-	-	1	0.00	-
SERBIA	3,078	169	-	-	-	-	186	-	-	186	1.11	-
SINGAPORE	68	264	-	-	-	-	14	-	-	14	0.08	-
SLOVAKIA	3,060	10,178	-	-	-	-	510	-	-	510	3.03	0.50
SLOVENIA	999	836	-	-	-	-	104	-	-	104	0.62	-
SPAIN	154	2,025	49	26	-	43	108	7	3	118	0.70	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 3 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
UNITED STATES OF AMERICA	395	6,793	13	145	-	81	288	9	3	299	1.78	-
SOUTH AFRICA	1	192	-	-	-	-	9	-	-	9	0.06	-
SWEDEN	62	130	-	11	-	-	9	-	-	9	0.05	2.00
SWITZERLAND	319	792	-	205	-	-	43	1	-	45	0.27	-
TAIWAN	1	-	-	-	-	-	-	-	-	-	0.00	-
THAILAND	-	8	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	4	2	-	-	-	-	-	-	-	-	0.00	-
TURKEY	122	1,431	-	-	-	-	57	-	-	57	0.34	-
UKRAINE	45	9	-	-	-	-	3	-	-	3	0.02	-
HUNGARY	2,750	354	-	4	-	-	192	-	-	193	1.14	-
URUGUAY	4	128	-	-	-	-	3	-	-	3	0.02	-
VENEZUELA	23	2	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	-	99	-	-	-	-	7	-	-	7	0.04	-
VIETNAM	-	8	-	-	-	-	1	-	-	1	0.00	-
TOTALE	**113,251**	**319,753**	**1,709**	**1,690**	**2,578**	**1,199**	**16,396**	**179**	**219**	**16,794**	**100.00**	

Non-deducted participations in insurance undertakings

The Intesa Sanpaolo Group has not exercised the option provided by Article 49 of the CRR regarding the treatment of positions in insurance undertakings. As a result, the related disclosure (EU INS1) is not applicable at Group level.

Section 5 - Liquidity Risk

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

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

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 Guidelines for Group Liquidity Risk Management 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.

In June 2017, the EBA also issued the specific "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013" (EBA/GL/2017/01), with additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

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 Guidelines for Group Liquidity Risk Management 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 of: (i) the stock of HQLA to (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: 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 within the risk limits set out in the current Group Liquidity Policy for all of 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 Central Banks eligible and liquid reserves, 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 own portfolio and 88% of the unencumbered. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Own Portfolio		Unencumbered (net of haircut)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash and Deposits held with Central Banks (HQLA)	43,343	33,521	43,343	33,521
Highly liquid securities (HQLA)	62,663	68,799	42,821	56,741
Other eligible and/or marketable reserves	65,215	47,811	11,710	5,838
Total Group Liquidity Buffer	**171,221**	**150,131**	**97,874**	**96,100**

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.

The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations (CRR and CRD IV) and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations starting from the LCR recorded at the end of 2017.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	Quarter ending	December 31st 2017	December 31st 2017
	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUIDIT ASSETS			
1	**Total high-quality liquid assets (HQLA)**		**74,568**
CASH-OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**172,880**	**12,517**
3	*Stable deposits*	*116,423*	*5,821*
4	*Less stable deposits*	*56,457*	*6,696*
5	**Unsecured wholesale funding**	**85,608**	**42,115**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*18,527*	*4,629*
7	*Non operational deposits (all counterparties)*	*65,017*	*35,422*
8	*Unsecured debt*	*2,064*	*2,064*
9	**Secured wholesale funding**		**1,848**
10	**Additional requirements**	**49,259**	**10,006**
11	*Outflows related to derivative exposure and other collateral requirements*	*2,893*	*2,746*
12	*Outflos related to loss of funding on debt products*	*20*	*20*
13	*Credit and liquidity facilities*	*46,346*	*7,240*
14	**Other contractual funding obligations**	**38**	**34**
15	**Other contingent funding obligations**	**117,397**	**-**
16	**TOTAL CASH OUTFLOWS**		**66,520**
CASH-INFLOWS			
17	Secured lending (e.g. reverse repos)	26,595	1,629
18	Inflows from fully performing exposures	23,570	14,638
19	Other cash inflows	21,909	7,815
19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restriction or which are denominated in non-convertible currencies)		-
19b	(Excess inflows from related specialised credit institution)		-
20	**TOTAL CASH INFLOWS**	**72,074**	**24,082**
20a	*Fully exempt inflows*	*-*	*-*
20b	*Inflows subject to 90% cap*	*-*	*-*
20c	*Inflows subject to 75% cap*	*72,074*	*24,082*
21	**LIQUIDITY BUFFER**		**74,568**
22	**TOTAL NET CASH OUTFLOWS**		**42,438**
23	**LIQUIDITY COVERAGE RATIO (%)**		**176%**

(a) Only the portion of reserves held by affiliates based in a third country subject to capital controls that is intended to cover net cash outflows in that same third country is recognised (all excess amounts are therefore excluded from consolidation).

Group liquidity management model and interaction between affiliates

Integrated management is a key factor in the successful governance of liquidity risk. The existence of integrated liquidity management models is also recognised by the current European legislation, which provides the possibility of being exempted from individual compliance with the LCR requirement.

In this context, and in view of the centralised liquidity management model adopted by the Intesa Sanpaolo Group, the ECB has accepted the application for exemption from the individual compliance with the LCR requirement and the related reporting obligations (see Part 6, CRR) for all the Italian banks of the Group.

Intesa Sanpaolo is therefore required to comply with the provisions of Part 6 of the CRR, on a consolidated basis and at Italian liquidity sub-group level (see Bank of Italy Circular no. 285 of 17 December 2013 – Part II, Chapter 11, Section III), and at individual level for the international affiliates based in the European Union.

All the international subsidiary banks of the Group comply with the individual LCR requirements, as they were above the minimum regulatory amounts required at the end of 2017. To this end, and based on the particular characteristics of each international jurisdiction, adequate liquid reserves are maintained that are readily available at local level. For affiliates resident in a third country subject to restrictions on the free transferability of funds, the calculation of the Group LCR can only include the reserves held there to meet liquidity outflows in that third country (accordingly, all surplus amounts are excluded from the consolidation).

Currency mismatch in the Liquidity Coverage Ratio

The Intesa Sanpaolo Group operates primarily in euro. The EU regulations require the monitoring and reporting of the "LCR in foreign currency" when the aggregate liabilities held in a foreign currency are "material", i.e. equal to or greater than 5% of the total liabilities held by the institution.

As at 31 December 2017, the material currency at consolidated level for the Group was the US dollar (USD). Intesa Sanpaolo has an LCR position in USD of over 100% and has ample highly liquid US dollar (EHQLA) liquidity reserves, mainly consisting of unrestricted deposits held at the Federal Reserve.

Concentration of funding

Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing transactions with the Eurosystem (TLTRO II). The "Guidelines for Group Liquidity Risk Management" require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Derivatives transactions and potential collateral calls

Intesa Sanpaolo enters into derivatives contracts with central counterparties and third parties (OTC) covering various risk factors, arising, for example, from changes in interest rates, exchange rates, securities prices, commodity prices, etc. As market conditions change, these risk factors generate an impact on the Group's liquidity, affecting potential future exposures in derivatives, for which the provision of collateral in the form of cash or other liquid collateral is typically required. The quantification of the potential liquidity absorption, generated by the need for additional collateral in the event of adverse market movements, is measured both through historical analysis of the net collateral paid (Historical Look Back Approach), and by using advanced internal counterparty risk models. These figures are calculated from the potential outflows of the various liquidity indicators, contributing to the determination of the minimum Liquidity Buffer to be held to cover the estimated outflows.

Other liquidity risks not captured in the LCR calculation, but relevant to the Group's liquidity profile

Participation in payment, settlement and clearing systems requires the development of appropriate strategies and procedures for the control of intraday liquidity risk.

Intraday liquidity risk is the risk of not having sufficient funds to meet payment obligations by the deadlines set, within the business day, in the various systems referred to above (with potentially significant negative consequences also at a systemic level).

Intesa Sanpaolo actively manages its intraday liquidity positions to ensure that its settlement obligations are met in a timely manner, thereby contributing to the smooth operation of the payment circuits across the entire system. Intraday liquidity management necessarily involves careful and continuous monitoring of intraday cash flows exchanged at the various settlement systems used by the Group. To cover intraday liquidity risk, at the Parent Company and at the other Banks/Group companies that participate directly in the payment systems, a minimum portfolio of eligible assets is held in a central bank as an immediately available reserve (in euro or in foreign currency). The control functions also monitor specific indicators of the availability of reserves at the start of the day and their ability to cover any unexpected peaks in collateral. In particular, the Intraday liquidity usage ratio, which measures the relationship between the maximum cumulative net outflows and the amount of available reserves at the ECB at the start of the day (see BCBS - "Monitoring tools for intraday liquidity management", April 2013), is extremely low, confirming the careful management of intraday liquidity risk.

Section 6 - Credit risk: general disclosure

Risk management strategies and processes

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 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 and Management Powers and Credit Rules Lending 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 companies which exceeds certain thresholds;
- the "Rules on the management of the Most Significant Transactions", aimed at governing transactions that may entail a potential significant change in the Group's risk profile;
- the "Rules on Credit Risk Appetite" that regulate the application of the CRA, whose purpose is to achieve sustainable growth of loans.

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.

Structure and organisation of the relevant risk management function

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 Banca dei Territori 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 pre-set intervals according to the nature and extent of the risks.

Scope of application and characteristics of the risk measurement and reporting system

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 uniform 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 Bad 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": the Danger Rate is a multiplying correction factor, used to recalibrate Bad 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 Bad Loan status (Unlikely to pay or Past Due positions).

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 has also received the authorisation from the ECB for the use of the Credit Conversion Factor (CCF) 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 in development. 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, with the elimination of the sub-segmentation between Micro and Core customers. The model change is scheduled for 2018;
- for the Retail Mortgage segment (residential mortgages for individuals), a specific rating model is currently being used for this product type 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 2017, 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 residential 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 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 Banks segment, from the standpoint of determining probability of default, the key decision 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;
- in the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of financial statement assessments (notching). As regards the LGD estimate of the Public Sector Entities segment, the methodological framework is substantially similar to that used for the development of the LGD models of the already validated segments.

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 values at the reporting date of June 2012.

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, calculated 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 intercepting 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 interception system in the operational processes of prevention and management will take place during 2018, replacing the previous IRIS indicator and the other objective difficulty criteria (repayment arrears, past due instalments etc.).

From 8 December 2017, the risks of the exposures related to 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.

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.

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.

Policies for hedging and mitigating risk

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.
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 for credit and debt positions to be netted against one another, if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA 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 Section 12 - Securitisations.
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.

EU CRB-B – Total and average of net amount of on-balance sheet and off-balance sheet exposures

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2017 and the average net amount for the period (financial year), with breakdown by exposure classes, for the IRB and Standardised approaches.

(millions of euro)

		Net value of exposures as at 31 December 2017	Average net exposures over the period
1	**Central governments or central banks**	**-**	**-**
2	**Institutions**	**66,130**	**49,191**
3	**Corporates**	**319,830**	**304,090**
4	*Of which: Specialised lending*	13,646	13,947
5	*Of which: SMEs*	79,049	76,229
6	**Retail**	**108,711**	**99,901**
7	*Secured by real estate property*	90,913	82,377
8	*SMEs*	5,162	5,229
9	*Non-SMEs*	85,751	77,148
10	*Qualifying revolving*	-	-
11	*Other retail*	17,798	17,524
12	*SMEs*	17,798	17,524
13	*Non-SMEs*	-	-
14	**Equity**	**1,908**	**1,803**
15	**Total IRB approach**	**496,579**	**454,985**
16	**Central governments or central banks**	**129,001**	**127,958**
17	**Regional governments or local authorities**	**1,129**	**4,105**
18	**Public sector entities**	**1,635**	**3,029**
19	**Multilateral development banks**	**349**	**394**
20	**International organisations**	**137**	**158**
21	**Institutions**	**7,397**	**21,186**
22	**Corporates**	**42,796**	**39,301**
23	*Of which: SMEs*	11,055	10,060
24	**Retail**	**40,739**	**34,939**
25	*Of which: SMEs*	7,049	3,974
26	**Secured by mortgages on immovable property**	**8,568**	**5,297**
27	*Of which: SMEs*	1,828	1,313
28	**Exposures in default**	**3,710**	**3,732**
29	**Items associated with particularly high risk**	**1,243**	**689**
30	**Covered bonds**	**539**	**622**
31	**Claims on institutions and corporates with a short-term credit rating**	**-**	**-**
32	**Collective investments undertakings**	**2,237**	**2,506**
33	**Equity exposures**	**5,626**	**5,992**
34	**Other exposures**	**16,380**	**12,158**
35	**Total standardised approach**	**261,486**	**262,066**
36	**TOTAL**	**758,065**	**717,051**

EU CRB-C – Geographical breakdown of on-balance sheet and off-balance sheet exposures *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2017, with breakdown by exposure classes and by geographical areas, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2017											
		EUROPE	of which: France	of which: United Kingdom	'of which: the Netherlands	of which: Spain	of which: Turkey	of which: Hungary	of which: Italy	of which: Luxembourg	of which: Germany	of which: Croatia	of which: Slovakia
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	43,749	4,768	1,591	819	527	4,748	14	25,204	244	1,218	92	14
3	Corporates	283,767	6,776	10,366	5,464	4,799	1,856	258	227,686	3,295	7,804	223	4,584
4	Retail	108,638	14	69	13	5	1	1	102,251	7	17	1	6,111
5	Equity	1,515	-	-	-	-	-	-	1,453	37	-	-	-
6	**Total IRB Approach**	**437,669**	***11,558***	***12,026***	***6,296***	***5,331***	***6,605***	***273***	***356,594***	***3,583***	***9,039***	***316***	***10,709***
7	Central governments or central banks	115,711	3,271	817	101	14,783	511	1,946	80,793	597	5,461	1,895	641
8	Regional governments or local authorities	1,129	112	-	-	142	-	8	144	-	29	131	153
9	Public sector entities	1,532	25	-	-	36	282	-	489	-	-	535	10
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	5,528	532	380	100	112	69	173	1,265	892	797	78	73
13	Corporates	40,595	381	882	563	110	3	2,130	22,107	983	506	6,121	665
14	Retail	39,974	3	7	1	2	-	595	34,151	12	3	1	2,194
15	Secured by mortgages on immovable property	8,563	1	6	-	-	-	542	6,462	-	1	820	-
16	Exposures in default	3,614	-	1	-	-	-	93	2,835	28	-	319	74
17	Items associated with particularly high risk	1,243	-	-	-	-	-	50	1,175	-	-	3	-
18	Covered bonds	524	75	-	27	20	-	105	86	34	25	-	-
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	2,189	6	37	-	-	-	2	1,648	436	-	-	-
21	Equity exposures	5,505	5	4	-	-	-	1	5,358	121	-	2	-
22	Other exposures	16,153	-	1	-	-	-	88	12,579	421	-	2,014	314
23	**Total Standardised Approach**	**242,260**	***4,411***	***2,135***	***792***	***15,205***	***865***	***5,733***	***169,092***	***3,524***	***6,822***	***11,919***	***4,124***
24	**TOTAL**	**679,929**	***15,969***	***14,161***	***7,088***	***20,536***	***7,470***	***6,006***	***525,686***	***7,107***	***15,861***	***12,235***	***14,833***

EU CRB-C – Geographical breakdown of on-balance sheet and off-balance sheet exposures *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2017				
		AMERICA	*of which: United States*	A S I A	REST OF THE WORLD	Total
1	Central governments or central banks	-	*-*	-	-	-
2	Institutions	8,201	*2,120*	11,225	2,955	66,130
3	Corporates	25,850	*20,214*	8,601	1,612	319,830
4	Retail	31	*21*	33	9	108,711
5	Equity	48	*47*	345	-	1,908
6	**Total IRB Approach**	**34,130**	***22,402***	**20,204**	**4,576**	**496,579**
7	Central governments or central banks	8,273	*7,941*	1,912	3,105	129,001
8	Regional governments or local authorities	-	*-*	-	-	1,129
9	Public sector entities	-	*-*	-	103	1,635
10	Multilateral development banks	-	*-*	-	349	349
11	International organisations	-	*-*	-	137	137
12	Institutions	919	*728*	781	169	7,397
13	Corporates	661	*244*	437	1,103	42,796
14	Retail	16	*13*	6	743	40,739
15	Secured by mortgages on immovable property	3	*1*	1	1	8,568
16	Exposures in default	1	*-*	-	95	3,710
17	Items associated with particularly high risk	-	*-*	-	-	1,243
18	Covered bonds	15	*-*	-	-	539
19	Claims on institutions and corporates with a short-term credit rating	-	*-*	-	-	-
20	Collective investments undertakings	43	*-*	-	5	2,237
21	Equity exposures	10	*9*	88	23	5,626
22	Other exposures	19	*18*	2	206	16,380
23	**Total Standardised Approach**	**9,960**	***8,954***	**3,227**	**6,039**	**261,486**
24	**TOTAL**	**44,090**	***31,356***	**23,431**	**10,615**	**758,065**

In the table, only the countries towards which the Group has exposures that exceed the threshold of 6 billion euro (which in any case represent more than 90% of total exposures) are shown individually. The most significant remaining countries not shown are:

1) for Europe: Serbia, Russia, Switzerland, Slovenia and Ireland;
2) for the Americas: Brazil, Mexico and Canada;
3) for Asia: China, Abu Dhabi, Qatar, India and Hong Kong.

EU CRB-D – Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2017, with a breakdown by exposure classes and by industry, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2017										
		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communications	Financial Institutions
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	2	1	1	-	-	-	60,348
3	Corporates	4,310	8,540	85,324	16,194	2,795	26,043	36,174	12,009	3,921	14,183	9,922
4	Retail	2,581	31	4,206	50	70	3,280	5,947	705	1,750	413	-
5	Equity	-	101	-	15	-	240	5	123	1	20	960
6	**Total IRB Approach**	**6,891**	**8,672**	**89,530**	**16,259**	**2,867**	**29,564**	**42,127**	**12,837**	**5,672**	**14,616**	**71,230**
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	-	18	26	41	10	469	-	22	-	5	24
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	349
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	-	-	-	7,397
13	Corporates	682	325	3,545	857	129	1,569	3,502	725	645	587	16,083
14	Retail	527	16	1,352	44	56	824	2,143	356	389	144	-
15	Secured by mortgages on immovable property	269	2	359	23	8	241	503	65	204	46	-
16	Exposures in default	50	5	405	7	7	414	371	104	179	22	70
17	Items associated with particularly high risk	-	-	-	-	-	33	-	-	50	-	1,103
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	539
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	2,237
21	Equity exposures	1	-	72	-	-	3	16	10	-	41	3,042
22	Other exposures	-	-	126	-	-	1	1	-	-	-	-
23	**Total Standardised Approach**	**1,529**	**366**	**5,885**	**972**	**210**	**3,554**	**6,536**	**1,282**	**1,467**	**845**	**30,844**
24	**TOTAL**	**8,420**	**9,038**	**95,415**	**17,231**	**3,077**	**33,118**	**48,663**	**14,119**	**7,139**	**15,461**	**102,074**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 7,853 million euro.

EU CRB-D – Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2017										
		Governments and Central Banks	**Households**	**Real estate activities**	**Professional, scientific and technical activities**	**Administrative and support service activities**	**Public administration and defence, compulsory social security**	**Education**	**Human health services and social work activities**	**Arts, entertainment and recreation**	**Other services**	**Total**
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	4	38	-	5,736	-	-	-	-	66,130
3	Corporates	-	-	16,150	26,528	5,492	6	232	2,451	997	48,559	319,830
4	Retail	-	83,830	1,130	2,020	525	3	191	1,013	275	691	108,711
5	Equity	9	3	219	208	4	-	-	-	-	-	1,908
6	**Total IRB Approach**	**9**	**83,833**	**17,503**	**28,794**	**6,021**	**5,745**	**423**	**3,464**	**1,272**	**49,250**	**496,579**
7	Central governments or central banks	129,001	-	-	-	-	-	-	-	-	-	129,001
8	Regional governments or local authorities	1,129	-	-	-	-	-	-	-	-	-	1,129
9	Public sector entities	-	-	2	10	99	788	40	29	-	52	1,635
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	349
11	International organisations	-	-	-	-	-	-	-	-	-	137	137
12	Institutions	-	-	-	-	-	-	-	-	-	-	7,397
13	Corporates	-	7,207	2,392	1,290	941	9	44	147	80	2,037	42,796
14	Retail	-	32,467	714	675	153	1	43	286	71	478	40,739
15	Secured by mortgages on immovable property	-	6,219	143	207	50	-	10	89	19	111	8,568
16	Exposures in default	9	1,318	523	82	38	-	4	11	13	78	3,710
17	Items associated with particularly high risk	-	-	24	30	3	-	-	-	-	-	1,243
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	539
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	2,237
21	Equity exposures	2,033	212	9	162	3	-	1	21	-	-	5,626
22	Other exposures	-	-	74	-	-	23	147	-	-	8,155	8,527
23	**Total Standardised Approach**	**132,172**	**47,423**	**3,881**	**2,456**	**1,287**	**821**	**289**	**583**	**183**	**11,048**	**253,633**
24	**TOTAL**	**132,181**	**131,256**	**21,384**	**31,250**	**7,308**	**6,566**	**712**	**4,047**	**1,455**	**60,298**	**750,212**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 7,853 million euro.

EU CRB-E – Breakdown of on-balance sheet exposures by residual maturity

This table reports the net amount of the on-balance sheet exposures as at 31 December 2017, with breakdown by exposure classes and by residual maturity, for the IRB and Standardised approaches.

(millions of euro)

		NET EXPOSURE VALUE AS AT 31 DECEMBER 2017					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	4,985	8,974	2,214	9,991	25	26,189
3	Corporates	7,535	46,883	60,205	41,894	24	156,541
4	Retail	2,488	3,290	8,816	87,093	-	101,687
5	Equity	-	-	708	-	1,004	1,712
6	**Total IRB approach**	**15,008**	**59,147**	**71,943**	**138,978**	**1,053**	**286,129**
7	Central governments or central banks	4,355	13,093	35,408	26,986	45,651	125,493
8	Regional governments or local authorities	125	115	209	424	1	874
9	Public sector entities	51	147	287	777	-	1,262
10	Multilateral development banks	-	-	15	194	-	209
11	International organisations	-	51	27	59	-	137
12	Institutions	1,202	1,477	1,863	485	332	5,358
13	Corporates	3,744	7,314	12,547	7,179	235	31,019
14	Retail	5,932	3,283	10,547	12,035	204	32,001
15	Secured by mortgages on immovable property	42	87	784	7,538	-	8,451
16	Exposures in default	174	751	789	1,388	196	3,298
17	Items associated with particularly high risk	23	205	376	454	37	1,095
18	Covered bonds	-	5	243	291	-	539
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-
20	Collective investments undertakings	367	103	626	11	9	1,116
21	Equity exposures	-	-	-	-	5,626	5,626
22	Other exposures	521	1,458	4,985	42	9,214	16,220
23	**Total standardised approach**	**16,536**	**28,089**	**68,706**	**57,863**	**61,505**	**232,698**
24	**TOTAL**	**31,544**	**87,236**	**140,649**	**196,841**	**62,558**	**518,827**

Section 7 - Credit risk: credit quality

Qualitative disclosure

Definitions of "non-performing" loans and "past due" loans

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" of the 2017 Financial Statements, 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.

The paragraphs below contain the definitions of the various categories of "non-performing" loans.

Bad loans

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank Irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;

Unlikely to pay

Exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security.

The Intesa Sanpaolo Group's policy - in addition to what is expressly and specifically indicated by Circular 272 - envisages that exposures classified as "unlikely to pay" also include non-performing past due or overdrawn loans subject to restructuring and which, following restructuring, no longer have past due days[3]. As envisaged by the reference regulations, classification in the non-performing category is maintained for twelve months following completion of restructuring;

Past due exposures

On- and off-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis.

This is irrespective of whether any collateral or guarantees have been established to cover the exposures.

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[3] Maintenance of the restructured exposures in the categories of non-performing loans follows the provisions of the EBA's ITS, according to which a loan that is granted "forbearance measures" must be included under "non-performing" exposures for at least twelve months from the restructuring. This provision is valid solely for restructuring with borrowers having "non-performing" status upon restructuring or that become non-performing directly following restructuring.

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.

Forborne exposures

The concept of forbearance has also been introduced into supervisory regulations. In this context, the notion of “forborne assets”, introduced by European provisions, transversally applies to the loan classification macro-categories (performing and non-performing).
Forborne exposures are subdivided into:

– non-performing exposures subject to forbearance measures, which correspond to the “Non-performing exposures with forbearance measures” pursuant to the aforementioned ITS. These exposures represent a feature, depending on the case, of bad loans, unlikely to pay loans or non-performing past due exposures; therefore, they do not form their own category of non-performing loans;
– other exposures subject to forbearance measures, which correspond to the “Forborne performing exposures” pursuant to the ITS.

The definition of “forborne exposures” is directly connected to that of forbearance measures.
The latter represent forbearance measures for a borrower that is facing, or is about to face, difficulties in meeting their payment obligations (troubled debt).
The term “forbearance measures” indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). “Forbearance measures” include contractual modifications, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender believes the borrower to be in financial difficulty (the so-called “embedded forbearance clauses”).

Description of the methods adopted to calculate the adjustments

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.
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.

Quantitative disclosure

The quantitative information on the credit quality of the exposures is provided below. For additional information see Part E of the Notes to the Consolidated Financial Statements.

EU CR1-A – Credit quality of on-balance sheet and off-balance sheet exposures by exposure class and instrument as at 31 December 2017

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
1	**Central governments or central banks**	-	-	-	-	-	-	-
2	**Institutions**	460	65,882	212	-	16	6	66,130
3	**Corporates**	37,299	301,092	18,561	-	5,012	1,060	319,830
4	*- Of which: Specialised lending*	*2,558*	*12,266*	*1,178*	-	*116*	*32*	*13,646*
5	*- Of which: SMEs*	*22,592*	*68,699*	*12,242*	-	*2,798*	*783*	*79,049*
6	**Retail**	**9,446**	**104,030**	**4,765**	**-**	**525**	**156**	**108,711**
7	Secured by real estate property	4,376	87,899	1,362	-	78	17	90,913
8	*- SMEs*	1,273	4,330	441	-	36	-8	5,162
9	*- Non-SMEs*	3,103	83,569	921	-	42	25	85,751
10	Qualifying revolving	-	-	-	-	-	-	-
11	Other retail	5,070	16,131	3,403	-	447	139	17,798
12	*- SMEs*	5,070	16,131	3,403	-	447	139	17,798
13	*- Non-SMEs*	-	-	-	-	-	-	-
14	**Equity**	**133**	**1,775**	**-**	**-**	**-**	**-**	**1,908**
15	**Total IRB approach**	**47,338**	**472,779**	**23,538**	**-**	**5,553**	**1,222**	**496,579**
16	Central governments or central banks	-	129,011	10	-	-	-5	129,001
17	Regional governments or local authorities	-	1,133	4	-	-	-	1,129
18	Public sector entities	-	1,642	7	-	-	-1	1,635
19	Multilateral development banks	-	349	-	-	-	-	349
20	International organisations	-	137	-	-	-	-	137
21	Institutions	-	7,403	6	-	-	-1	7,397
22	Corporates	-	43,009	213	-	-	-8	42,796
23	*- Of which: SMEs*	-	11,117	62	-	-	-	11,055
24	Retail	-	40,984	245	-	-	11	40,739
25	*- Of which: SMEs*	-	7,103	54	-	-	-	7,049
26	Secured by mortgages on immovable property	-	8,611	43	-	-	-1	8,568
27	*- Of which: SMEs*	-	1,840	12	-	-	-	1,828
28	Exposures in default (***)	7,915	-	4,205	-	532	448	3,710
29	Items associated with particularly high risk	-	1,319	76	-	-	4	1,243
30	Covered bonds	-	539	-	-	-	-	539
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-
32	Collective investments undertakings	-	2,237	-	-	-	-	2,237
33	Equity exposures	-	5,626	-	-	-	-	5,626
34	Other exposures	-	16,394	14	-	-	-	16,380
35	**Total standardised approach**	**7,915**	**258,394**	**4,823**	**-**	**532**	**447**	**261,486**
36	**Total**	**55,253**	**731,173**	**28,361**	**-**	**6,085**	**1,669**	**758,065**
37	Of which: Loans (****)	51,891	414,065	27,898	-	6,085	1,731	438,058
38	Of which: Debt securities	64	73,485	49	-	-	4	73,500
39	Of which: Off-balance-sheet exposures	3,165	236,487	414	-	-	-66	239,238

(*) Includes the specific credit risk adjustments on non-performing assets and portfolio adjustments on performing assets.

(**) The reference period is the second half of 2017.

(***) With regard to the standardised approach, the gross value of defaulted exposures may be broken down as follows by original portfolio (prior to classification as defaulted): 11 million euro attributable to the Central governments and central banks portfolio, 84 million euro attributable to the Public sector entities portfolio, 4 million euro attributable to the Entities portfolio, 3,088 million euro attributable to the Corporate portfolio, 4,715 million euro attributable to the Retail portfolio and 13 million euro attributable to the Collective investment undertakings portfolio.

(****) In addition to Loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

EU CR1-B – Credit quality of on-balance sheet and off-balance sheet exposures by industry or counterparty types as at 31 December 2017

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
1	Agriculture, forestry and fishing	1,573	7,672	825	-	156	29	8,420
2	Mining and quarrying	316	8,878	156	-	22	21	9,038
3	Manufacturing	11,290	90,342	6,217	-	1,859	367	95,415
4	Electricity, gas, steam and air conditioning supply	812	16,712	293	-	63	-4	17,231
5	Water supply; sewerage, waste management and remediation activities	253	2,999	175	-	51	-7	3,077
6	Construction	12,291	26,808	5,981	-	864	341	33,118
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	6,080	46,286	3,703	-	831	203	48,663
8	Transport and storage	2,098	13,185	1,164	-	338	50	14,119
9	Accommodation and food service activities	1,725	6,193	779	-	53	45	7,139
10	Information and communication	536	15,204	279	-	80	1	15,461
11	Financial Institutions	842	101,790	558	-	92	32	102,074
12	Governments and Central Banks	16	132,186	21	-	19	-5	132,181
13	Households	5,966	128,285	2,995	-	301	333	131,256
14	Real estate activities	7,022	17,322	2,960	-	424	140	21,384
15	Professional, scientific and technical activities	1,513	30,455	718	-	744	69	31,250
16	Administrative and support service activities	770	6,985	447	-	138	40	7,308
17	Public administration and defence, compulsory social security	20	6,554	8	-	-	-1	6,566
18	Education	57	687	32	-	6	1	712
19	Human health services and social work activities	295	3,878	126	-	5	7	4,047
20	Arts, entertainment and recreation	331	1,263	139	-	23	10	1,455
21	Other services activities	1,447	59,636	785	-	16	-3	60,298
22	**TOTAL (***)**	**55,253**	**723,320**	**28,361**	**-**	**6,085**	**1,669**	**750,212**

(*) Includes the specific credit risk adjustments on non-performing assets and portfolio adjustments on performing assets.

(**) The reference period is the second half of 2017.

(***) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 7,853 million euro.

EU CR1-C – Credit quality of on-balance sheet and off-balance sheet exposures by geography as at 31 December 2017

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES (a+ b -c-d)
		Defaulted exposures (a)	Non-defaulted exposures (b)					
1	**EUROPE**	**54,726**	**653,227**	**28,024**	**-**	**6,025**	**1,661**	**679,929**
2	*of which: France*	*23*	*15,966*	*20*	*-*	*14*	*-6*	*15,969*
3	*of which: United Kingdom*	*4*	*14,176*	*19*	*-*	*4*	*-15*	*14,161*
4	*of which: Netherlands*	*2*	*7,096*	*10*	*-*	*-*	*4*	*7,088*
5	*of which: Spain*	*36*	*20,515*	*15*	*-*	*-*	*-3*	*20,536*
6	*of which: Turkey*	*-*	*7,497*	*27*	*-*	*-*	*3*	*7,470*
7	*of which: Hungary*	*251*	*5,963*	*208*	*-*	*1*	*25*	*6,006*
8	*of which: Italy*	*52,358*	*499,606*	*26,278*	*-*	*5,829*	*1,613*	*525,686*
9	*of which: Luxembourg*	*80*	*7,072*	*45*	*-*	*21*	*-3*	*7,107*
10	*of which: Germany*	*109*	*15,819*	*67*	*-*	*1*	*9*	*15,861*
11	*of which: Croatia*	*672*	*12,000*	*437*	*-*	*1*	*-1*	*12,235*
12	*of which: Slovakia*	*362*	*14,851*	*380*	*-*	*119*	*42*	*14,833*
13	**AMERICA**	**276**	**43,962**	**148**	**-**	**35**	**19**	**44,090**
14	*Of which: United States*	*59*	*31,322*	*25*	*-*	*34*	*-9*	*31,356*
15	**ASIA**	**44**	**23,420**	**33**	**-**	**25**	**-6**	**23,431**
16	**REST OF THE WORLD**	**207**	**10,564**	**156**	**-**	**-**	**-5**	**10,615**
17	**TOTAL**	**55,253**	**731,173**	**28,361**	**-**	**6,085**	**1,669**	**758,065**

(*) Includes the specific credit risk adjustments on non-performing assets and portfolio adjustments on performing assets.

(**) The reference period is the second half of 2017.

In the table, only the countries towards which the Group has exposures that exceed the threshold of 6 billion euro (which in any case represent more than 90% of total gross exposures) are shown individually. The most significant remaining countries not shown are:
1) for Europe: Serbia, Russia, Switzerland, Slovenia and Ireland;
2) for the Americas: Brazil, Mexico and Canada;
3) for Asia: China, Abu Dhabi, Qatar, India and Hong Kong.

EU CR1-D – Ageing of on-balance sheet past-due exposures as at 31 December 2017

This table reports the on-balance-sheet exposures that are more than zero days past due, regardless of their risk status. The values shown in the table include the amount of the debt not yet past due.

(millions of euro)

		GROSS CARRYING VALUES					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	4,738	1,666	11,040	652	2,295	41,158
2	Debt securities	5,127	-	35	-	-	54
3	**TOTAL EXPOSURES**	**9,865**	**1,666**	**11,075**	**652**	**2,295**	**41,212**

EU CR1-E – On-balance-sheet and off-balance-sheet non-performing and forborne exposures as at 31 December 2017

(millions of euro)

	Debt securities	Loans and advances	Off-balance-sheet exposures
GROSS CARRYNG VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES	**73,940**	**464,447**	**241,171**
Of which performing but past due > 30 days and <= 90 days	-	4,546	-
Of which performing forborne	95	7,860	446
Of which non-performing	88	52,574	2,818
Of which defaulted / impaired	*88*	*52,574*	2,818
Of which forborne	*23*	*11,351*	*327*
ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK	**136**	**27,994**	**328**
On performing exposures	90	1,336	91
Of which forborne	*1*	*102*	-
On non-performing exposures	46	26,658	237
Of which forborne	-	*3,797*	*1*
COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	**-**	**-**	**-**
On non- performing exposures	1	19,641	804
Of which forborne	-	*11,557*	*227*

EU CR2-B – Changes in gross non-performing on-balance sheet exposures as at 31 December 2017

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 31 December 2016**	**58,413**
2	Transfers from performing exposures categories	4,614
3	Return to non-defaulted status	-2,294
4	Amounts written off	-5,608
5	Other changes	-2,463
6	**Closing balance as at 31 December 2017**	**52,662**

EU CR2-A - Changes in adjustments to non-performing on-balance sheet exposures as at 31 December 2017

(millions of euro)

		Accumulated specific credt risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 31 December 2016**	**28,430**	**-**
2	Increases due to credit risk adjustments	5,250	-
3	Decreases due to recoveries on valuation/collection	-2,141	-
4	Decreases due to sale/write-off	-5,524	-
5	Transfers from other non-performing exposures categories	-	-
6	Impact of exchange rate differences	-10	-
7	Business combinations	171	-
8	Other adjustments	528	-
9	**Closing balance as at 31 December 2017**	**26,704**	**-**

Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting (ECAI): Standard & Poor’s ratings Services, Moody’s Investors Service, Fitch Ratings and DBRS Ratings. These agencies are valid for all Group banks and are the same as those used at the end of 2016.
In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used to determine its capital requirements; when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

List of the external Rating Agencies

Portfolio	ECA/ECAI			
Exposures to or secured by governments and central banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings
Exposures to or secured by international organisations(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings
Exposures to or secured by multilateral development banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings
Exposures to or secured by corporates and other entities (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings
Exposures to UCI (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Ratings
Position on securitisations with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	
Position on securitisations different from those with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	

(*) Ratings characteristics: solicited/unsolicited.

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with EU Regulation 575/2013 (CRR) the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation. The risk weighting assigned to the exposures has been determined, in general for all the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Regulation are met, through the use of the issuer rating. The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

Quantitative disclosure

In this Section, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

- amount of on-balance sheet and off-balance sheet exposures, “without” the Credit Risk Mitigation (CRM), which does not take into account the decrease in exposure or portfolio transfer arising from application of collateral and personal guarantees and before the application of the Credit Conversion Factors (CCF) to off-balance-sheet exposures;
- Amount of the same exposures “with” the Credit Risk Mitigation effect and after the application of the Credit Conversion Factors.

The above information is listed in the “with” and “without” credit risk mitigation tables and associated with the risk weightings defined by the current Prudential Supervisory regulations.

The column “Deducted” of the following tables EU CR5 and EU CR5bis reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own Funds).

EU CR4 – Standardised approach - Credit risk exposure and CRM effects as at 31 December 2017

(millions of euro)

	EXPOSURE CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central government or central banks	125,493	3,508	141,976	1,262	20,390	14%
2	Regional government or local authorities	874	255	1,016	152	475	41%
3	Public sector entities	1,263	372	689	145	724	87%
4	Multilateral development banks	209	140	233	1	-	0%
5	International organisations	137	-	143	-	-	0%
6	Institutions	5,358	2,039	5,743	440	3,116	50%
7	Corporates	31,019	11,777	22,761	3,311	25,295	97%
8	Retail	32,001	8,738	30,097	865	22,388	72%
9	Secured by mortgages on immovable property	8,451	117	8,450	61	3,188	37%
10	Exposures in default	3,298	412	3,184	158	3,568	107%
11	Exposures associated with particularly high risk	1,094	149	1,092	87	1,770	150%
12	Covered bonds	539	-	539	-	130	24%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	1,116	1,121	925	603	1,474	96%
15	Equity	5,626	-	5,626	-	10,189	181%
16	Other items	16,220	160	16,221	151	9,757	60%
17	**TOTAL**	**232,698**	**28,788**	**238,695**	**7,236**	**102,464**	**42%**

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 31 December 2017 *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	125,019	-	-	-	301	-	1,362	-	-
2	Regional government or local authorities	-	-	-	-	764	-	164	-	-
3	Public sector entities	39	-	-	-	78	-	17	-	-
4	Multilateral development banks	234	-	-	-	-	-	-	-	-
5	International organisations	143	-	-	-	-	-	-	-	-
6	Institutions	-	104	-	-	2,126	-	2,578	-	-
7	Corporates	-	-	-	-	342	-	338	51	-
8	Retail	-	-	-	-	-	-	-	-	30,962
9	Secured by mortgages on immovable property	-	-	-	-	-	6,068	2,443	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	282	128	-	105	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	5,188	-	-	-	1,784	-	-	-	-
17	**TOTAL**	**130,623**	**104**	**-**	**282**	**5,523**	**6,068**	**7,007**	**51**	**30,962**

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 31 December 2017 *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	OF WHICH UNRATED
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	14,441	80	2,035	-	-	-	1,160	**143,238**	*126,956*
2	Regional government or local authorities	240	-	-	-	-	-	-	**1,168**	*892*
3	Public sector entities	700	-	-	-	-	-	-	**834**	*145*
4	Multilateral development banks	-	-	-	-	-	-	-	**234**	*226*
5	International organisations	-	-	-	-	-	-	-	**143**	*137*
6	Institutions	1,315	60	-	-	-	-	-	**6,183**	*1,788*
7	Corporates	25,232	109	-	-	-	-	821	**26,072**	*9,320*
8	Retail	-	-	-	-	-	-	-	**30,962**	*30,961*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**8,511**	*7,971*
10	Exposures in default	2,888	454	-	-	-	-	-	**3,342**	*3,341*
11	Exposures associated with particularly high risk	-	1,179	-	-	-	-	-	**1,179**	*1,179*
12	Covered bonds	24	-	-	-	-	-	-	**539**	*105*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	1,299	50	-	-	-	179	-	**1,528**	*1,527*
15	Equity	2,584	-	3,042	-	-	-	1,729	**5,626**	*5,626*
16	Other items	9,400	-	-	-	-	-	-	**16,372**	*16,372*
17	**TOTAL**	**58,123**	**1,932**	**5,077**	**-**	**-**	**179**	**3,710**	**245,931**	**206,546**

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 31 December 2017 *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	110,606	-	-	-	301	-	783	-	-
2	Regional government or local authorities	-	-	-	-	723	-	164	-	-
3	Public sector entities	57	-	-	-	122	-	122	-	-
4	Multilateral development banks	349	-	-	-	-	-	-	-	-
5	International organisations	137	-	-	-	-	-	-	-	-
6	Institutions	-	104	-	-	3,010	-	2,986	-	-
7	Corporates	-	-	-	-	290	-	538	-	-
8	Retail	-	-	-	-	-	-	-	-	40,739
9	Secured by mortgages on immovable property	-	-	-	-	-	6,100	2,468	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	282	129	-	104	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	5,188	-	-	-	1,784	-	-	-	-
17	**TOTAL**	**116,337**	**104**	**-**	**282**	**6,359**	**6,100**	**7,165**	**-**	**40,739**

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 31 December 2017 *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL
		100%	150%	250%	370%	1250%	Others	Deducted	
1	Central governments or central banks	15,196	80	2,035	-	-	-	1,160	**129,001**
2	Regional government or local authorities	242	-	-	-	-	-	-	**1,129**
3	Public sector entities	1,334	-	-	-	-	-	-	**1,635**
4	Multilateral development banks	-	-	-	-	-	-	-	**349**
5	International organisations	-	-	-	-	-	-	-	**137**
6	Institutions	1,208	89	-	-	-	-	-	**7,397**
7	Corporates	41,856	112	-	-	-	-	821	**42,796**
8	Retail	-	-	-	-	-	-	-	**40,739**
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**8,568**
10	Exposures in default	3,058	652	-	-	-	-	-	**3,710**
11	Exposures associated with particularly high risk	-	1,243	-	-	-	-	-	**1,243**
12	Covered bonds	24	-	-	-	-	-	-	**539**
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**
14	Collective investment undertakings	2,008	50	-	-	-	179	-	**2,237**
15	Equity	2,584	-	3,042	-	-	-	1,729	**5,626**
16	Other items	9,408	-	-	-	-	-	-	**16,380**
17	**TOTAL**	**76,918**	**2,226**	**5,077**	**-**	**-**	**179**	**3,710**	**261,486**

Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches

Qualitative disclosure

Credit risk – disclosure for portfolios treated under IRB approaches

The rollout plan for the internal models

The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn divided into a Foundation Internal Rating Based (FIRB) approach and an Advanced Internal Rating Based (AIRB) approach that differ in the risk parameters that banks are required to estimate. Under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach the latter are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As illustrated in the first Section of this document (paragraph "Basel 3 regulations and the Internal Project"), the Group is also proceeding with development of the rating models for the various segments and the extension of the scope of companies for their application are continuing in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:
- exposures to central governments and central banks;
- exposures to the banking Group;
- exposures to minor operational units;
- non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the Corporate segment and the Residential Mortgages segment

Structure of the internal rating systems (PD)

The main features of the rating systems used are as follows:
- the rating is determined at counterparty level;
- the rating is based at Group level, and is the same for each counterparty, even when it is shared by several entities of the Group;
- the definition of default used corresponds to unlikely-to-pay, bad and past due loans (see Section 7), also taking into account the cure rate (return to performing) for the technical default loans, and is the same across the Group and within its various uses (development, backtesting, disclosure, etc.);
- the data used for the estimate relate as far as possible to the entire Group; where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
- the length of the time series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the Group for the future;
- the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. revenue, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
- the models incorporate financial, performance and qualitative components. With regard to the models for the Corporate, Banks and Public Sector Entities segments, the manager must also provide an independent assessment of the counterparty's creditworthiness and if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;

– the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

The output PD of the models is mapped on the internal Master Scale, which is broken down into a different number of classes depending on the model type.

The table below illustrates the correspondence between the (n) internal rating classes and the ratings by the major agencies: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings. As indicated in the table, compared to the counterparties rated with Large Corporate and Corporate models where there is full correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on Rating and, therefore, on their reported PD.

Correspondence between internal rating classes and ratings by the major agencies

<table>
<tr><th colspan="2">External ratings of the main agencies</th><th>Large Corporate</th><th>Corporate</th><th>Specialized Lending</th><th>Public Entities</th><th>Banks</th><th>Sme Retail</th><th>Mortgage</th></tr>
<tr><th>S&P's
Fitch
DBRS</th><th>Moody's</th><th colspan="7">Internal class</th></tr>
<tr><td rowspan="4">AAA</td><td rowspan="4">Aaa</td><td rowspan="4">I1a</td><td rowspan="4">-</td><td rowspan="4">-</td><td>I1a</td><td>I1a</td><td rowspan="4">-</td><td rowspan="4">-</td></tr>
<tr><td>I1b</td><td></td></tr>
<tr><td>I1c</td><td></td></tr>
<tr><td>I1d</td><td></td></tr>
<tr><td rowspan="2">AA+</td><td rowspan="2">Aa1</td><td rowspan="2">I1b</td><td rowspan="2">-</td><td rowspan="2">I1</td><td>I1e</td><td>I1b</td><td rowspan="2">-</td><td rowspan="2">MT1</td></tr>
<tr><td>I1f</td><td>I1c</td></tr>
<tr><td>AA</td><td>Aa2</td><td>I1c</td><td>-</td><td>I2</td><td>I2</td><td>I1d</td><td>I3</td><td>-</td></tr>
<tr><td>AA-</td><td>Aa3</td><td>I1d</td><td>I1</td><td>I3</td><td>I3</td><td>I1e</td><td>I4</td><td>MT2</td></tr>
<tr><td>A+</td><td>A1</td><td>I2</td><td>-</td><td>---</td><td>-</td><td>I1f</td><td>-</td><td>-</td></tr>
<tr><td>A</td><td>A2</td><td>I3</td><td>I2</td><td>I4</td><td>I4</td><td>I2</td><td>I5</td><td>MT3</td></tr>
<tr><td>A-</td><td>A3</td><td>I4</td><td>I3</td><td>I5</td><td>I5</td><td>I3</td><td>I6</td><td></td></tr>
<tr><td>BBB+</td><td>Baa1</td><td>I5</td><td>I4</td><td>I6</td><td>I6</td><td>I4</td><td>-</td><td>MT4</td></tr>
<tr><td>BBB</td><td>Baa2</td><td></td><td>I5</td><td>M1</td><td>M1</td><td>I5</td><td>M1</td><td></td></tr>
<tr><td>BBB-</td><td>Baa3</td><td>I6</td><td>I6</td><td>M2</td><td>M2</td><td>I6</td><td>M2</td><td>MT5</td></tr>
<tr><td rowspan="2">BB+</td><td rowspan="2">Ba1</td><td>M1</td><td>M1</td><td>M3</td><td>M3</td><td>M1</td><td>M3</td><td>MT6</td></tr>
<tr><td>M2</td><td>M2</td><td>-</td><td>-</td><td>-</td><td>--</td><td>-</td></tr>
<tr><td>BB</td><td>Ba2</td><td>M3</td><td>M3</td><td>M4</td><td>M4</td><td>M2</td><td>M4</td><td>MT7</td></tr>
<tr><td rowspan="2">BB-</td><td rowspan="2">Ba3</td><td rowspan="2">M4</td><td rowspan="2">M4</td><td rowspan="2">R1</td><td>R1</td><td>M3</td><td rowspan="2">R1</td><td rowspan="2">MT8</td></tr>
<tr><td>R2</td><td></td></tr>
<tr><td rowspan="2">B+</td><td rowspan="2">B1</td><td>R1</td><td rowspan="2">R1</td><td rowspan="2">R2</td><td rowspan="2">R3</td><td rowspan="2">R1</td><td rowspan="2">R2</td><td rowspan="2">-</td></tr>
<tr><td>R2</td></tr>
<tr><td rowspan="2">B</td><td rowspan="2">B2</td><td rowspan="2">R3</td><td>R2</td><td>R3</td><td rowspan="2">R4</td><td rowspan="2">R2</td><td rowspan="2">R3</td><td rowspan="2">MT9</td></tr>
<tr><td>R3</td><td>R4</td></tr>
<tr><td rowspan="2">B-</td><td rowspan="2">B3</td><td rowspan="2">R4</td><td rowspan="2">R4</td><td rowspan="2">-</td><td rowspan="2">R5</td><td>R3</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>R4</td></tr>
<tr><td rowspan="2">CCC</td><td rowspan="2">Caa1</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">-</td><td rowspan="2">R5</td><td>R4</td><td rowspan="2">-</td></tr>
<tr><td>R5</td></tr>
</table>

Structure of the internal rating systems (LGD)

The model for the estimation of the LGD is made up of the following elements:

– estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio (at least 10-year time series), or the "workout LGD", determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event; the procedure allows avoidance of the instability of estimates that would result from the use of the cell averages, despite the presence of consistent time series data, on the relatively unpopulated individual subsets;

– application of a correction factor, known as "Danger Rate": this is a multiplying correction factor (estimated on a time series starting from 2008), aimed at recalibrating the Non-Performing LGD with the information available on other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;

- application of other correction factors, known as “Final Settlement Component”: this component is used as an add-on to the recalibrated estimate of the Danger Rate in order to take account of the loss rates associated with positions not evolved to the Bad status;
- consideration of the Incomplete Workout (see dedicated section).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Factoring, Leasing and Public Entities).

Use of the rating systems (PD and LGD)

The ratings are decisive in the credit granting process and its monitoring and management, as well as the credit risk appetite, pricing, financial statement processes, calculation of economic capital, value governance, and reporting, as described below.

Credit granting

The granting of credit involves the use of the rating as an essential reference for the various phases of the process of approving a line of credit for a counterparty. In particular, the rating determines:

- the assignment of the Credit Strategies which govern the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing;
- the exercise of the powers assigned, for which the Risk Weighted Asset was taken as a parameter to define the credit granting limits of each decision-making Body.

The methodology includes PD and LGD among the main reference drivers and allows a more accurate grading of the delegated risk, allowing low-risk customers to expand their operations and, simultaneously, bringing the riskier positions to the attention of the higher delegated Bodies.

Credit Risk Appetite

Starting from 2015, within the scope of the Group RAF a specific RAF on Credit Risk Appetite has been introduced, aimed at outlining the bank’s risk tolerance.

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 the related control;
- further rationalisation of the cascading of limits on the Divisions and Group companies.

Credit monitoring and management

Customer credit risk is continuously monitored. In particular, 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 intercepting 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 interception system in the operational processes of prevention and management will take place during 2018, replacing the previous IRIS indicator and the other objective difficulty criteria (repayment arrears, past due instalments, etc.).

The activities involve the re-examination of the positions intercepted via the updating of the rating and the establishment of operational procedures. The monitoring PD is calculated centrally on a monthly basis, using the same engine as the online PD, and is therefore capable of capturing the changes in the counterparty’s credit rating because it is able to make use of both the updated financial and behavioural information. The comparison between the online PD and the monitoring PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the online rating becomes “non-performing” and must be re-assigned.

Pricing

The Group has a model to calculate the correct pricing of credit risk, able to quantify the minimum spread with respect to the internal rate of transfer of funds that the business must implement in order to ensure the coverage of the expected loss, the cost of capital and all the items that enable the generation of value.

Financial Statement Processes

The ratings and LGD contribute to the preparation of the Financial Statements and the drafting of the Notes to the financial statements through: the collective valuation of performing loans, transforming the expected loss into incurred loss in accordance with the IAS/IFRS; the fair value measurement of derivatives and financial assets available for sale; and the drawing up of tables of distribution of assets by rating class and the presentation of the banking book at fair value in the Notes to the financial statements.

The LGD is also used in preparing the Financial Statements through the statistical valuation of Past Due Loans by over 90 days, irrespective of the amount of the exposure, and of loans classified as unlikely-to-pay and bad loans, up to an on-balance sheet exposure of two million euro.

Calculation of economic capital and value governance

In accordance with the provisions of the Pillar 2, the methods used to estimate the Economic Capital are based on internal rating models (for the PD component, as well as the LGD and EAD). Through the regulatory and economic capital, the internal ratings contribute to the determination of the Group's value creation during both the assignment of targets to the Business Units and the operational performance measurement.

Reporting

The rating and the LGD form the basis of the management reporting and are spread across the risks of the loan portfolio.
For management reporting, the Enterprise Risk Management Department produces the Risks Tableau de Bord on a quarterly basis. This provides an overall view of the Group's risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 3 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and specific measurement criteria for each individual risk (e.g. sensitivity and expected loss) and the monitoring of limits defined within the scope of the Risk Appetite Framework.

Development of internal rating models

The Internal Credit Risk Measurement Systems are composed of: models; assignment, management and monitoring processes; and IT infrastructure. Changes therefore include both variations in statistical mathematical methods or the databases used for the estimation, which lead to changes in calculation models, and, more generally, changes in the measurement and monitoring of risks.
The adoption, extension, management and control of the Internal Systems involves a series of structured phases shared within the Group and arranged as follows:

- definition of the Internal System and activation of the strategic management for the adoption of the Internal Systems;
- development and adoption of the Internal System;
- extension of the Internal System;
- management, maintenance and updating of the Internal System, including the significant amendments to the Internal System already authorised;
- internal verifications, consisting of periodic validation and internal auditing.

Specifically, once the strategic guidelines and the related Project for adopting Internal Systems and developing processes and methodologies subject to validation and internal review have been defined and approved by the Board of Directors, the development of the models and their organisational and IT implementation is carried out by means of processes and IT systems supporting the model.

In particular, this phase involves the following activities:

- development of the model's methodological framework by the Credit Risk Management Head Office Department;
- development of the organisational choices for the adoption of the models in the business processes and support to the competent functions in the preparation of internal regulations to be issued for the implementation of the Project by the Personnel and Organisation Head Office Department in coordination with the Credit Risk Management Head Office Department and the other competent functions and/or structures;
- development and configuration of the information systems supporting the models and processes in question by the ISGS ICT Head Office Department in coordination with the Credit Risk Management Head Office Department; with regard to market and counterparty risks, the development of the risk calculation engine is the responsibility of the Credit Risk Management Head Office Department, in coordination with the ISGS ICT Head Office Department for system aspects and integration with the rest of the corporate ICT System;
- preliminary checks by the Internal Validation function based on documentation on the design and development of the system and the sending of information to the Credit Risk Management Head Office Department, the Internal Auditing Head Office Department, the competent Management Committees and the Risks Committee;
- presentation by the Credit Risk Management Head Office Department – with the help, where necessary, of the other development functions – of the structure of the Internal System to the competent Management Committees for assessment prior to its submission to the corporate bodies and subsequent approval by those bodies.

If the model is developed independently by the local risk management functions of the individual subsidiaries, the coordination between the local risk management and control functions and the Parent Company is specifically governed by the internal regulations.

The process for managing and recognising credit risk mitigation techniques

The proper monitoring of credit risk mitigation instruments is ensured by a detailed management system which identifies roles, responsibilities, rules, processes and support instruments, in charge of verifying compliance with general and specific requirements set forth by regulatory provisions for the various approaches. The general and specific requirements may be summarised as:

- technical and legal requirements: aimed at ensuring the legal certainty and the effectiveness of the guarantees, and specific to the characteristics of the individual types of guarantee;
- specific requirements: established for each type of guarantee in relation to its specific features, they are aimed at ensuring that the credit protection is highly effective;
- organisational requirements: general requirements aimed at ensuring an efficient system for the management of credit risk mitigation techniques that oversees the entire process of acquisition, valuation, control and implementation of the Credit Risk Mitigation (CRM) instruments.

For each type of guarantee, analyses are carried out to verify the eligibility of the protection instrument in the various regulatory approaches. Through these analyses, each type of guarantee can be classified, ex ante, into one of the following categories:

- eligible for CRM purposes: these are types of guarantees which, in general, comply with the generic and specific requirements detailed by regulations;
- non eligible for CRM purposes: these are types of guarantees which do not meet the generic and/or specific requirements set forth by regulations.

As highlighted in Section 10 of this document, 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.

If the individual guarantees acquired are of an admissible type, they 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. 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 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. For further details, reference is made to the description provided in Section 6 - Credit risk - General information.

Control and auditing of the rating systems

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.

The function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation Sub-Department, which operates independently from the functions that manage the development activities and from the function responsible for the internal audit. Specifically, this sub-department is responsible for continuously and interactively validating risk measurement and management systems in order to assess their compliance with regulatory provisions, operational company demands and the reference market.
Therefore, with regard to the macro processes of adoption, extension, management and control of the internal measurement systems for credit risk, the following activities are assigned exclusively to the Internal Validation Sub-Department:

- preparation of the annual validation report to be presented to the Board of Directors to accompany the resolution for the certification of ongoing compliance of the internal system with the regulatory requirements, detailing any issues/areas for improvement;
- preparation of the validation report in the event of substantial or ex ante changes to internal systems to be submitted to the competent bodies for their approval, with details of any issues/areas for improvement;
- periodical analyses of the consistency of the corrective measures in case of critical issues/areas of improvement of the system highlighted by the same Internal Validation function, the Internal Auditing function and the Supervisory Authority, based on the progress report provided by the Credit Risk Management Head Office Department;
- initial and ongoing validation for Italian and international subsidiaries that do not have a local validation function;
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies;
- calculation of the central tendency for the development and updating of the internal rating models;
- contribution to the disclosure process pursuant to Pillar 3.

The internal auditing function for the Intesa Sanpaolo Group is assigned to the Internal Auditing Department. This department conducts assessments of the entire process of adoption, extension, management and control of the internal measurement systems for credit risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.
Specifically, this department is responsible for assessing the effectiveness of the overall structure of the control system overseeing the process of measurement, management and control of the Group’s exposure to credit risk also through the regular audit of the internal validation process for the related models developed in accordance with Basel 3 and the Prudential Supervisory regulations.
The Internal Auditing Department is therefore responsible for the activities of:

- internal audit aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- assessment of the effectiveness of the overall structure of internal controls:
  - audit of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency of the results);
  - audit of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- verifications of the completeness and reliability of the IT system;
- drafting of the relevant report accompanying the application for authorisation to the Supervisor;
- self-assessment of the Group’s ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3;
- drafting of the annual internal auditing report with presentation to the competent Corporate Bodies, also in relation to the corrective action plan in case of critical issues/areas of improvement highlighted by the same Internal Auditing, Internal

Validation function and the Supervisory Authority, based on the progress report periodically provided by the Credit Risk Management Department;
- steering and practical coordination of auditing departments in the subsidiaries, to guarantee control consistency with the actions of the Parent Company.

The macro process of adoption, extension, management and control of the Internal Systems involves a series of structured phases shared within the Group and arranged as follows:
- definition of the Internal System and activation of the strategic management for the adoption of the Internal Systems;
- development and adoption of the Internal System;
- extension of the Internal System;
- management, maintenance and updating of the Internal System, including the significant amendments to the Internal System already authorised;
- internal verifications, consisting of periodic validation and internal auditing.

Description of the regulatory Corporate segment internal rating systems (PD)

The regulatory Corporate segment consists of companies or groups of companies with exposure of the Banking group of over 1 million euro or with consolidated revenues of over 2.5 million euro.
Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial institutions. The second refers to “specialised lending” and in particular to project finance, asset finance and, more generally, real estate development initiatives.
Specific models for the Slovak and Slovenian market are in use at the subsidiaries VUB and Banka Intesa Sanpaolo d.d.

The Corporate model

The Corporate rating model applies to the Italian Corporate customers, from the manufacturing, commercial, services, long-term production and real estate sectors, and can be used for both standalone and consolidated financial statements with a turnover of less than 500 million euro.
The definition of default (impairment) used comprises Past Due, Unlikely to Pay and Bad loans, including “technical defaults”, defined as loans past due by at least 180 days and returned to performing status without loss within 3 months.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.

The calculation of the Quantitative Rating of each customer uses statistical integration to combine the financial module – which is optimised by business sector and takes account of the differences in terms of balance sheet structure – and the performance module which, through the Central Risk Unit data, serves to monitor behaviour with respect to the counterparty's income. The time series data used for the estimate cover the period from 2009 to 2014.
The qualitative module of the rating is divided into two components: an automatic module (which considers success factors and competitive positioning) and a qualitative questionnaire whose result is assessed by weighting. The integration of the qualitative module also takes place in two phases: the components are statistically integrated and the result of the integration is combined with the quantitative rating; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership of a certified segment, membership or not of a group, and the presence of financial activities.
The reference period for the calibration covers the years 2005 to 2014.

The Large Corporate model

The Large Corporate rating model applies to the Italian Corporate customers with a turnover of more than 500 million euro and International Corporate customers with any level of turnover. It uses both stand-alone and consolidated financial statements.
The definition of default (impairment) used comprises Past Due, Unlikely to Pay and Bad loans, including “technical defaults”, defined as loans past due by at least 180 days and returned to performing status without loss within 3 months.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.
The calculation of the Quantitative Rating of each customer uses a matrix integration to combine the financial module, calculated based on the financial statements, and the performance module, calculated based on market data.
The time series used for the estimate cover the period from 2009 to 2014.
The integration of the qualitative module takes place in two phases: the financial/performance rating is first statistically integrated with part of the qualitative questionnaire; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership or not of a group.
Finally, the rating calculated up to that point is integrated by matrix with the rating for the country of residence to take account of possible country risk.
The reference period for the calibration covers the years 2005 to 2014.

The Banks model

The key decision in determining the PD for the banks model was differentiating 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.

Public Entities model
For the estimate of the PD for the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of financial statement assessments (notching).

The Specialised Lending models
The Specialised Lending segment is covered by various models for the different exposure categories, in particular Project Finance, Real Estate and Asset Finance.

a) The Project Finance model
The model is used to assess the exposures of vehicle companies whose sole purpose is to implement and manage a specific project (large infrastructures, systems, etc.). The model consists of a quantitative model, which unlike the standard econometric models, is based on a Monte Carlo simulation of the future cash flows, using the project's prospective economic and financial information. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

b) Commercial Real Estate
This model assesses the medium and large-sized real estate projects designated for sale and/or letting, carried out by special purpose vehicles as well as by property funds. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from rent and/or sales are impacted by the trends in historical market data. The model includes a qualitative questionnaire used to complete the analysis of the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

c) The Real Estate Development (RED) model
This model is used to assess smaller real estate development transactions, aimed exclusively at the sale by special purpose vehicles. The model is the result of a series of statistical developments of the instrument, originally created by experts and supported by the available quantitative data.
It consists of a quantitative module containing the figures of the initiative and a qualitative module used to complete the analysis of the main project risks.

d) Asset Finance
This model is used to assess transactions involving the purchase of ships, with a mortgage-type interest over the asset financed, to be leased to a third party that does not belong to the Borrower's group. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from leasing are impacted by the trends in market data. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

e) Leveraged & Acquisition Finance
This model is used to assess extraordinary finance transactions aimed at corporate acquisitions carried out predominantly with debt capital (high financial leverage); although it does not fall under the regulatory categories of Specialised Lending, it shares the key characteristics of these models. The model consists of a quantitative module based on a Monte Carlo simulation of the future cash flows using the prospective economic and financial information following the acquisition. The model includes a qualitative questionnaire deriving from the corporate models, in which the analyst adds additional information in a structured manner. The model's outputs are the PD and LGD parameters, used for reporting purposes.

The Corporate models used by Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg
The banks use the Parent Company's Large Corporate model, validated in March 2017, which applies to the international counterparties and resident counterparties with a turnover of more than 500 million euro, according to the type of exposures held.

The Corporate models used by VUB

a) The Internationally Active Large Corporate (IALC) model
The Internationally Active Large Corporate model coincides with the Large Corporate Model used by the Parent Company, except for a different calibration adopted to the scope of application of the model, which refers to counterparties with turnover under 40 million euro.
The model consists of a quantitative section and a qualitative section, both of which are statistically estimated and integrated with one another according to a matrix-based approach. The manager may override the integrated rating.

b) The Small and Medium Enterprises (SME) model
VUB's SME model, internally estimated by the Slovak subsidiary, is divided into two modules. The first module is statistical in nature and consists of a component relating to the characteristics of the counterparty, such as geographical location, number of employees, age and legal nature, as well as a financial component, differentiated according to the accounting structure (ordinary or simplified accounting schemes). The second model, which considers performance variables, is statistically integrated with the first. The model rating is aligned with the Parent Company's Master Scale.

c) The Specialised Lending models

The models adopted for Specialised Lending are partly derived from the Parent Company, adapting them to the local situation, and produce a slotting class as the output (with the exception of real estate initiatives designated for sale).

The Corporate model used by Banka Intesa Sanpaolo d.d

Banka Intesa Sanpaolo d.d's Corporate model, which is estimated internally by the Slovenian subsidiary, consists of 3 modules. The first two, statistical, modules are composed of a financial component, based on the financial statement data published by the counterparties, and a behavioural component, consisting of internal and external data on the performance of the exposures. The third, qualitative, module is determined on an experiential basis and considers the geographical location, qualitative and prospective data of the reference business, ageing and socio-environmental risk data. The rating, determined by means of an ad hoc calibration on a Master Scale specific to the model, may still be subject to a penalty as a result of past-due unpaid amounts in the last 6 months.

Description of the regulatory Retail Mortgage segment internal rating systems (PD)

The internal mortgage rating system currently being used is a specific rating model for this product type, which processes information relating to both the customer and the contract. It is divided into an Acceptance Model, applied upon initial disbursement, and a Performance Model, used for subsequent assessment during the lifetime of the mortgage.

The Acceptance Model consists, in turn, of two modules: the personal characteristics module which uses the socio-demographic information of all applicants; and the contractual module which uses the specific information regarding the mortgage agreement. The rating deriving from the integration of the two modules may be modified using notching matrices: by the internal performance indicator of the counterparty's level of risk, if present, and by several indicators of reliability not included in other modules.

The rating calculated according to the Acceptance Model remains in effect for the first year of the life of a mortgage, unless there is a deterioration in the internal risk performance. In such cases, the Performance rating enters into effect in advance of usual practice, where worse than the Acceptance rating. From the second year, the Performance rating is always activated and is calculated on a monthly basis with the greatest weighting given to the performance related component provided by the internal performance indicator, which, by definition, is always calculated. The Acceptance rating is still included within the explanatory variables of the Performance model when the mortgage is in its second or third year of life, whereas its weighting is cleared to zero starting from the fourth year.

In 2017, the new Retail rating model was estimated, which is being validated and is currently awaiting authorisation by the Regulator. Once it has been validated, the new Retail rating model will replace the model for residential mortgages to private individuals, whereas in 2017 it already replaced the Other Retail exceptions management model that covered all the other products aimed at private individuals.

The new Retail rating model aims to cover the entire retail customer portfolio (including the Venetian Banks) and adds significant new elements including in particular a counterparty-based approach instead of a product approach. Another significant change is the differentiation of the models based on customer type.

VUB Retail Mortgage PD Model

The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company, as part of the specific Project.

The PD model was updated during 2015, to include a more recent time series and a wider central trend. It basically consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information including operations, non-payment, use of credit lines and duration of relationship with the Bank.

These modules are subsequently integrated statistically with additional information on the customer's risk status. Finally, the model assigns a rating based on an internal scale related to that of the Parent Company.

Description of the regulatory Retail SME segment internal rating systems (PD)

The Retail SME rating models are applied to the entire Small Business Retail population, identified on the basis of two criteria defined at the regulatory level (exposure of the banking group under 1 million euro) and at the Intesa Sanpaolo Group level (with individual or economic group revenue of under 2.5 million euro).

The counterparties are subdivided into Micro Business and Core Business, based on objective criteria envisaged by the process; the definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans, net of technical defaults.

Both models comprise a quantitative module and a qualitative module.

The former is differentiated based on the variables "existing customer/new customer" (according to the presence of the internal performance indicator on counterparty risk) and legal form (firm or partnership/joint-stock company). In fact, the information used to assess creditworthiness varies depending on the type of customer. A combination of the different basic calculation modules provides the quantitative score.

These basic modules consider personal details, financial statement data for joint-stock companies, the tax return for sole proprietorships and partnerships, risks to the Group and to the credit system and, finally, data on the financial assets of the customer and of joint and related parties, which allow significant refinement in the treatment of new customers and borrowers.

The qualitative module, on the other hand, is based on a qualitative questionnaire. The weights of questions and answers, have been statistically estimated. It differs in terms of number of questions and weight between the Micro and Core rating model, in order to more accurately grasp the segments specificities.

Furthermore, a specific set of questions has been drawn up for new customers and newly-formed counterparties, with the objective of enhancing the specific soft information known by the manager and their contribution, in terms of experience, to the assessment for this type of counterparty.

A statistically estimated matrix combines and integrates the quantitative rating and the qualitative score.
The process for assignment of the Small Business Core rating envisages that, after calculation of the integrated rating, the Manager expresses an overall assessment of the customer risk under the override procedure, determining the final rating.
The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.
In the first half of 2013, a number of measures were implemented for SME Retail rating models in order to incorporate the most recent time series. The main adjustments, already applied for the June 2013 report, mainly involved the following:

- updating of the time series;
- calculation of new Central Trends (with long-term default rates of the portfolio referring to the period 2006-2012) and consequent recalibration of the models;
- revision of the internal Master Scale by updating the PD class.

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 new model has not maintained the separation between Core and Micro counterparties. The model change is scheduled for 2018.

Description of the LGD model for the Corporate, SME Retail and Mortgage, Banks and Public Entities segments

The data for the estimate of the various elements of the LGD model has been subject to normalising: censoring of LGD negative values and percentile treatment of LGD values over 100%, filtering of exposures of small amounts and the exclusion of positions with information gaps.
The Incomplete Workout phenomenon is then considered in the estimation model. This phenomenon regards default positions still active at the observation date, but with an age of more than 10 years. For these positions, the residual exposure at the observation date is considered to be completely unrecoverable.
The time factor is taken into consideration by discounting at a risk-free rate all cash movements, recoveries and charges occurring from the time of default to the time of closure (or return to performing status) of the position. The rates are then increased by a spread determined according to the segment, in order to include a premium that takes account of the risk implicit in the volatility of recoveries.
In order to comply with regulatory provisions that require the adjustment of LGD estimates for an economic downturn, it was decided to incorporate this element in the discounting process.
Finally, as regards the econometric estimation of the Bad Loan LGD Model, starting with a long list of variables, using univariate statistical analyses, the short list was defined, based on the contribution of the single variables in the valuation of the loss rate. For the Corporate segment the following bases of analysis were significant: geographical area, presence/absence of personal guarantee, presence/absence of mortgage, type of relationship, and legal form. For the Retail SME segment, the following were significant: geographical area, type of relationship, presence/absence of personal guarantee, presence/absence of mortgage, amount of real estate coverage and exposure level. For the Retail Mortgage segment, the geographical area and amount of real estate coverage were significant. The model applied to the small set of variables involves the use of a multivariate regression, in order to capture the joint capacity of the explanatory variables in the valuation of the loss rate. The outcome of the multivariate model is the estimate of the Non-Performing LGD, determined in relation to the significant bases of analysis. The Danger Rate model and the Final Settlement Corrections are then applied to these results.
Bankruptcy revocatory actions for transactions implemented prior to the bankruptcy date, indicated as “pursuant to Art. 67 of the Bankruptcy Law” and similar articles, are included in the “boundary” category between credit risk and operational risk. Considering the significant dependence on operations of credit risk, as well as the consolidated orientation deriving from comparison with other Italian Groups and Banks, Intesa Sanpaolo decided to include Bankruptcy Revocatory Actions in the area of credit risk. Revocatory actions which are not attributable to credit risk are managed in the area of operational risk.
The calculation of the Loss Given Default (LGD) for the Banks segment 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.
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.

The LGD model for the Corporate segment of Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg

In the same way as for the PD model, the Parent Company’s LGD grid has been extended to the two banks.

The LGD models for the Corporate segment of the Leasing and Factoring products

The LGD Corporate models developed for Leasing and Factoring products have the same methodological layout used in the LGD Corporate model of Intesa Sanpaolo's banking products, duly customised in order to take into account the specific characteristics of the two products. The main differences are highlighted below.
For the “Bad Loans” model, the length of the time series used is impacted by restrictions related to the actual availability of data and is based on a 9-year time series, while the “Danger Rate” model, which meets the need to represent the structure of the Group for the future, is based on observation of defaults in the most recent periods (observations since 2009 for Leasint and 2010 for Mediofactoring), also due to changes in the non-performing loan management processes of the two product companies, now merged into Mediocredito.
Management of the Incomplete Workout differs from the Parent Company’s model in the choice of maximum duration of non-performing status, due to the specific nature of the products, and is 6 years for leasing and 8 years for factoring. The particularly rigorous approach used for leasing has reduced the need to introduce precautionary margins, especially for the real estate sector, characterised by few defaults and limited losses.

The statistical analyses carried out indicate that the bases of analysis that are significant for Leasing are product type (real estate, instrumental, naval-aviation and railway, and motor vehicles) and the regulatory segment (Corporate and SME Corporate). The following were significant for Factoring: product type (with recourse, without recourse), geographical area (Italy, Foreign) and regulatory segment (Corporate, SME Corporate).

LGD model for the VUB mortgage segment
The LGD model was developed based on a "workout" approach, analysing the losses sustained by the Bank on the historical defaults. LGD is therefore determined based on the recovery rates achieved during the default period, taking into consideration direct and indirect costs and recovery times. Assessment of the loss rates was carried out for each individual transaction. The model classifies the data into two groups, according to two risk factors: LTV (residual debt at default over the value of the guarantee provided) and PPI (purchasing power index of the geographical area in which the collateral is situated).

Description of the EAD model for the Corporate segment
The CCF grid for the Large Corporate and Corporate models was estimated on the defaults used for the development of the PD and LGD models, by means of regressive and cell average techniques depending on appropriately selected risk drivers, including the type of margin (revocable or irrevocable), the various technical forms of credit facility and the size of the margin.

Quantitative disclosure
The table below shows the scope of companies for which the Group, as at 31 December 2017, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the "Corporate" (Foundation and Advanced IRB), Retail Mortgages (IRB[4]) SME Retail (IRB), Banks and Public Entities (Advanced IRB) regulatory segments and for Banking Book equity exposures (IRB).

Scope of companies for application of the IRB approaches

<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

As at 31 December 2017, the Group EAD value for the components subject to credit risk within the IRB models was 58.35% (57.74% Advanced IRB and 0.61% Foundation IRB), whereas it was around 41.65% for the standardised approach.
Within the exposures under the standard models, around 18% came under the roll-out plan.

[4] Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the Foundation and the Advanced IRB approach.

The breakdown of the percentages by exposure class is shown below.

Advanced IRB approach (57.74%)	
4.90%	Supervised intermediaries, public sector and local authorities and other entities
1.93%	Specialised lending
11.42%	SMEs
21.43%	Other corporates
14.53%	Exposures secured by properties: individuals
0.15%	Specialised lending: slotting criteria
0.94%	Exposures secured by properties: SMEs
2.44%	Other retail exposures: SMEs

Basic IRB approach (0.61%)	
0.08%	SMEs
0.21%	Other corporates
0.32%	Equity

Standardised Approach (41.65%)	
24.26%	Central governments or central banks
0.20%	Regional governments or local authorities
0.14%	Public sector entities
0.04%	Multilateral development banks
0.02%	International organisations
4.42%	Corporates
1.05%	Institutions
5.24%	Retail
1.44%	Secured by mortgages on immovable property
0.57%	Exposures in default
0.20%	Exposures associated with particularly high risk
0.09%	Covered bonds
0.95%	Equity instruments
0.26%	Units or shares of collective investment undertakings
2.77%	Other exposures

Exposure classes involved ina roll-out plan (17.69%)	
0.80%	Institutions
0.14%	Regional governments or local authorities
2.75%	Corporates
8.10%	Retail
0.45%	Units or shares of collective investment undertakings
1.61%	Secured by mortgages on immovable property
0.17%	Covered bonds
0.28%	Exposures associated with particularly high risk
0.01%	Public sector entities
0.80%	Exposures in default
0.01%	Equity instruments
2.57%	Other exposures

The EAD values of exposures as at 31 December 2017 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2017	31.12.2016
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	459	195
- Other corporates	1,210	779
Total credit risk (IRB)	**1,669**	**974**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2017	31.12.2016
Exposures to or secured by corporates:		
- Specialised lending	12,072	14,056
- SMEs (Small and Medium Enterprises)	67,828	64,831
- Other corporates	128,966	115,924
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	36,545	-
Total credit risk (Advanced IRB approach)	**245,411**	**194,811**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2017	31.12.2016
Retail exposures:		
- Exposures secured by residential property: SMEs	5,565	5,880
- Exposures secured by residential property: private individuals	85,791	72,719
- Other retail exposures: SMEs	14,398	14,504
Total credit risk (IRB)	**105,754**	**93,103**

(millions of euro)

Regulatory portfolio	Exposure value 31.12.2017
Exposures in equity instruments subject to the PD/LGD approach	742
Total credit risk (IRB)	**742**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	31.12.2017	31.12.2016
Exposures to securitisations (RBA - SFA)	6,473	5,145
Total credit risk (IRB)	**6,473**	**5,145**

For detailed information on exposures to securitisations, see the specific section.

The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

Below is a breakdown by geographical area of the exposures subject to IRB approaches broken down by major countries for which the exposures cumulated on all portfolios exceed the 2 billion threshold (consistent with the provisions of EBA GL/2016/11 and GL/2014/14) and which represent, overall, approximately 94% of the Group's total IRB exposures.

Exposure values: PD and LGD by geographical area (IRB Approaches)

(millions of euro)

Regulatory portfolio	31.12.2017			31.12.2016
	Exposure value	Weighted average PD (*) (%)	Weighted average LGD (%)	Exposure value
- Retail exposures	**105,754**			**93,103**
1. Italy	99,275	10.59	18.8	87,821
2. United States of America	21	2.75	13.0	15
3. Slovakia	6,132	2.07	24.1	5,025
4. France	14	6.35	13.4	10
5. Netherlands	13	2.76	13.2	10
6. United Kingdom	69	3.66	13.8	47
7. Germany	17	7.79	14.3	12
8. Spain	5	6.12	13.3	3
9. Turkey	-	-	-	-
10. Brasil	1	1.44	15.4	-
11. Other countries	207	X	X	160
- Exposures to or secured by corporates	**210,535**			**195,785**
1. Italy	164,386	22.64	32.7	150,446
2. United States of America	6,707	1.74	34.0	9,522
3. Slovakia	4,045	3.45	39.3	3,808
4. France	2,746	1.70	35.7	3,461
5. Netherlands	3,393	1.51	32.8	2,807
6. United Kingdom	7,951	1.79	32.9	4,357
7. Germany	3,272	4.11	34.0	3,455
8. Spain	1,978	3.55	33.4	2,266
9. Turkey	1,428	0.49	33.9	-
10. Brasil	324	33.35	33.8	-
11. Other countries	14,305	X	X	15,663
- Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities	**36,545**			**-**
1. Italy	18,850	3.08	22.5	X
2. United States of America	623	0.07	63.0	X
3. Slovakia	6	0.34	39.8	X
4. France	4,301	0.15	36.7	X
5. Netherlands	254	1.29	34.7	X
6. United Kingdom	3,269	0.09	21.4	X
7. Germany	895	0.18	36.5	X
8. Spain	352	0.15	25.0	X
9. Turkey	1,449	1.34	47.5	X
10. Brasil	2,468	1.64	44.9	X
11. Other countries	4,078	X	X	X
- Equity exposures	**742**			**-**
1. Italy	741	13.73	90.0	X
2. United States of America	-	-	-	X
3. Slovakia	-	-	-	X
4. France	-	-	-	X
5. Netherlands	-	-	-	X
6. United Kingdom	-	-	-	X
7. Germany	-	-	-	X
8. Spain	-	-	-	X
9. Turkey	-	-	-	X
10. Brasil	-	-	-	X
11. Other countries	1	X	X	X

(*) The PD values presented refer to both performing and defaulted exposures.

Please note that portfolios "Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities" and "Equity Exposures" have received the authorisation to use internal ratings-based approaches starting from June 2017..

EU CR7 - IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 31 December 2017

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**1,319**	**1,319**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	399	399
5	Corporates – Specialised lending	-	-
6	Corporates – Other	920	920
7	**Exposures under AIRB**	**135,306**	**135,306**
8	Central governments and central banks	-	-
9	Institutions	14,431	14,431
10	Corporates – SMEs	31,782	31,782
11	Corporates – Specialised lending	9,222	9,222
12	Corporates – Other	57,947	57,947
13	Retail – Secured by real estate SMEs	749	749
14	Retail – Secured by real estate non-SMEs	12,550	12,550
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	2,398	2,398
17	Retail – Other non-SMEs	-	-
18	Equity IRB	6,227	6,227
19	Other non credit obligation assets	-	-
20	**TOTAL**	**136,625**	**136,625**

The column relating to RWAs before the effect of the credit derivatives was defined as being equivalent to the column relating to the RWAs, in view of the immateriality for the Group of the effects resulting from the use of credit derivatives as risk mitigation techniques.

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2017 *(Table 1 of 2)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Exposures to or secured by Supervised Intermediaries, Public sector and local authorities and Other entities												
0,00 to <0,15	5,921	14,946	3%	6,400	0.06	992	42.5	613	1,408	22%	2	
0,15 to <0,25	5,521	4,965	14%	5,755	0.20	1,044	23.8	1,109	1,494	26%	3	
0,25 to <0,50	3,393	3,627	12%	3,838	0.35	672	28.4	941	1,443	38%	4	
0,50 to <0,75	1,880	1,630	36%	1,899	0.54	461	12.6	1,570	518	27%	2	
0,75 to <1,25	2,406	3,273	3%	2,545	0.81	557	22.2	1,285	1,286	51%	4	
1,25 to <2,50	5,952	8,289	8%	6,558	1.57	674	37.0	719	6,175	94%	38	
2,50 to <5,00	377	1,823	43%	955	3.00	289	30.9	621	1,078	113%	10	
5,00 to <10,00	365	1,150	4%	413	6.45	178	40.2	769	701	170%	11	
10,00 to <20,00	138	191	2%	141	13.82	114	26.4	1,037	203	144%	6	
20,00 to <100,00	34	1	0%	34	27.14	13	11.1	1,819	24	70%	1	
100,00 (default)	400	60	5%	403	100.00	267	60.4	689	101	25%	235	
Subtotal	26,387	39,955	9%	28,941	2.24	5,261	31.6	862	14,431	50%	316	212
Exposures to or secured by corporates:												
- Specialised lending												
0,00 to <0,15	-	-	-	-	-	-	-	-	-	-	-	
0,15 to <0,25	108	15	18%	111	0.23	36	37.1	1,806	68	61%	-	
0,25 to <0,50	339	561	14%	296	0.36	74	25.6	1,284	122	41%	-	
0,50 to <0,75	812	290	18%	866	0.55	179	22.5	1,503	410	47%	1	
0,75 to <1,25	849	208	17%	883	0.83	303	25.3	1,564	533	60%	2	
1,25 to <2,50	2,400	855	20%	2,538	1.62	763	22.6	1,517	1,670	66%	10	
2,50 to <5,00	1,491	376	20%	1,560	3.72	731	23.5	1,424	1,222	78%	14	
5,00 to <10,00	772	220	15%	783	8.05	196	27.6	1,431	952	121%	18	
10,00 to <20,00	1,185	154	26%	1,224	14.71	304	25.8	1,467	1,678	137%	46	
20,00 to <100,00	608	143	26%	625	34.64	287	28.6	1,241	999	160%	63	
100,00 (default)	2,371	163	97%	2,486	100.00	1,080	42.0	1,125	582	23%	999	
Subtotal	10,935	2,985	23%	11,372	26.89	3,953	28.4	1,310	8,236	72%	1,153	1,133
- SMEs (small and medium enterprises)												
0,00 to <0,15	925	941	23%	1,156	0.13	4,776	30.2	887	206	18%	-	
0,15 to <0,25	2,010	2,213	25%	2,540	0.21	9,014	30.6	845	605	24%	2	
0,25 to <0,50	7,225	6,544	23%	8,241	0.42	29,067	30.6	788	2,708	33%	11	
0,50 to <0,75	5,021	3,746	24%	5,475	0.66	18,499	31.2	795	2,307	42%	11	
0,75 to <1,25	5,207	3,100	23%	5,454	1.15	17,625	31.0	831	2,851	52%	19	
1,25 to <2,50	8,642	3,973	23%	8,855	1.84	27,477	30.6	933	5,362	61%	50	
2,50 to <5,00	4,863	1,773	22%	4,856	3.43	14,537	29.9	964	3,382	70%	50	
5,00 to <10,00	6,419	1,671	21%	6,161	7.39	18,691	29.1	1,065	5,324	86%	132	
10,00 to <20,00	2,129	468	25%	2,120	16.11	5,457	28.5	1,231	2,485	117%	97	
20,00 to <100,00	1,372	457	23%	1,591	31.06	5,063	29.9	1,185	2,251	141%	150	
100,00 (default)	21,925	667	83%	21,456	100.00	28,316	56.6	823	4,700	22%	11,782	
Subtotal	65,738	25,553	25%	67,905	34.35	178,522	38.7	837	32,181	47%	12,304	12,242
- Other corporates												
0,00 to <0,15	11,457	36,066	22%	18,360	0.10	2,356	30.3	760	3,448	19%	6	
0,15 to <0,25	12,284	32,715	35%	22,158	0.22	2,693	29.0	648	6,000	27%	15	
0,25 to <0,50	15,564	25,014	23%	20,647	0.37	6,409	28.4	802	7,793	38%	22	
0,50 to <0,75	15,718	17,585	24%	20,217	0.57	4,183	29.7	685	9,973	49%	34	
0,75 to <1,25	8,069	7,837	24%	8,862	1.01	3,672	28.0	846	5,148	58%	25	
1,25 to <2,50	12,722	8,660	26%	14,699	1.75	5,349	28.9	824	10,681	73%	75	
2,50 to <5,00	3,938	2,927	31%	4,715	3.39	1,812	27.4	900	3,996	85%	44	
5,00 to <10,00	4,297	1,619	34%	4,151	7.16	1,559	26.4	979	4,393	106%	78	
10,00 to <20,00	938	215	37%	853	15.93	375	27.5	1,041	1,245	146%	38	
20,00 to <100,00	1,939	565	34%	2,106	26.34	577	29.7	1,222	3,743	178%	157	
100,00 (default)	10,407	1,742	64%	10,955	100.00	3,585	43.4	756	2,447	22%	4,568	
Subtotal	97,333	134,945	27%	127,723	9.97	32,570	30.2	607	58,867	46%	5,062	5,141

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2017 *(Table 2 of 2)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0,00 to <0,15	472	10	50%	478	0.12	3,122	22.1	-	24	5%	-	
0,15 to <0,25	483	10	52%	489	0.15	3,742	22.2	-	29	6%	-	
0,25 to <0,50	952	14	53%	958	0.31	7,556	22.1	-	92	10%	1	
0,50 to <0,75	360	5	54%	362	0.68	3,004	22.3	-	55	15%	1	
0,75 to <1,25	441	5	52%	444	1.12	3,739	22.2	-	85	19%	1	
1,25 to <2,50	511	8	54%	515	1.85	4,552	23.0	-	123	24%	2	
2,50 to <5,00	454	7	52%	457	3.10	4,072	22.9	-	127	28%	3	
5,00 to <10,00	218	3	53%	220	5.15	1,934	22.9	-	65	30%	3	
10,00 to <20,00	245	5	50%	248	14.91	2,102	22.5	-	90	36%	8	
20,00 to <100,00	120	5	50%	123	45.57	1,082	23.0	-	58	48%	13	
100,00 (default)	1,268	5	51%	1,271	100.00	9,296	34.4	-	1	0%	437	
Subtotal	5,524	77	52%	5,565	25.34	44,201	25.2	-	749	13%	469	441
- Exposures secured by residential properties: individuals												
0,00 to <0,15	18,165	383	94%	18,477	0.09	266,207	14.7	-	606	3%	2	
0,15 to <0,25	11,534	36	50%	11,504	0.24	136,028	12.8	-	716	6%	4	
0,25 to <0,50	22,552	102	82%	22,539	0.45	298,624	13.2	-	2,252	10%	13	
0,50 to <0,75	245	33	100%	278	0.55	4,338	26.7	-	67	24%	-	
0,75 to <1,25	11,825	33	79%	11,763	0.84	121,439	13.8	-	1,914	16%	14	
1,25 to <2,50	11,578	39	77%	11,398	1.87	113,284	13.7	-	3,075	27%	29	
2,50 to <5,00	80	13	100%	93	2.68	1,627	25.2	-	60	65%	1	
5,00 to <10,00	5,038	18	68%	4,801	5.20	48,319	14.0	-	2,393	50%	35	
10,00 to <20,00	1,741	2	50%	1,716	19.87	18,651	13.3	-	1,356	79%	45	
20,00 to <100,00	87	65	100%	152	32.57	1,925	18.7	-	85	56%	5	
100,00 (default)	3,102	1	50%	3,070	100.00	31,965	28.7	-	26	1%	878	
Subtotal	85,947	725	89%	85,791	4.86	1,042,407	14.3	-	12,550	15%	1,026	921
- Other retail exposures: SMEs												
0,00 to <0,15	1,359	1,262	7%	1,316	0.12	55,735	32.6	-	98	7%	1	
0,15 to <0,25	1,243	1,055	6%	1,202	0.15	63,398	33.5	-	108	9%	1	
0,25 to <0,50	2,378	1,760	5%	2,257	0.31	108,910	33.9	-	329	15%	2	
0,50 to <0,75	827	444	6%	790	0.68	38,887	35.1	-	189	24%	2	
0,75 to <1,25	943	441	6%	903	1.11	45,120	35.7	-	276	31%	4	
1,25 to <2,50	1,080	449	8%	1,038	1.85	53,708	36.9	-	390	38%	7	
2,50 to <5,00	1,031	348	7%	984	3.11	54,110	37.3	-	417	42%	11	
5,00 to <10,00	455	140	7%	430	5.16	23,269	37.4	-	193	45%	8	
10,00 to <20,00	478	137	8%	452	14.04	30,452	38.1	-	264	58%	24	
20,00 to <100,00	181	121	7%	165	43.51	20,109	38.7	-	130	79%	27	
100,00 (default)	5,001	70	21%	4,843	100.00	101,926	65.3	-	4	0%	3,163	
Subtotal	14,976	6,227	6%	14,380	35.30	595,624	45.3	-	2,398	17%	3,250	3,403
Exposures in equity instruments subject to the PD/LGD approach												
0,00 to <0,15	-	-	-	-	-	-	-	-	-	-	-	
0,15 to <0,25	-	-	-	-	-	-	-	-	-	-	-	
0,25 to <0,50	-	-	-	-	-	-	-	-	-	-	-	
0,50 to <0,75	-	-	-	-	-	-	-	-	-	-	-	
0,75 to <1,25	-	-	-	-	-	-	-	-	-	-	-	
1,25 to <2,50	59	11	100%	71	1.29	-	90.0	1,825	198	280%	1	
2,50 to <5,00	116	3	100%	119	2.98	-	90.0	1,825	403	337%	3	
5,00 to <10,00	7	9	100%	16	8.51	-	90.0	1,825	71	440%	1	
10,00 to <20,00	61	10	100%	71	18.50	-	90.0	1,825	363	512%	12	
20,00 to <100,00	332	-	-	332	29.21	-	90.0	1,825	1,892	569%	87	
100,00 (default)	133	-	-	133	100.00	-	90.0	1,825	-	0%	120	
Subtotal	708	33	100%	742	33.55	-	90.0	1,825	2,927	394%	224	

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets in accordance with regulations.

EU CR10 - IRB (specialised lending and equities) as at 31 December 2017

(millions of euro)

SPECIALISED LENDING							
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	129	4	70%	133	93	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	302	42	90%	337	303	3
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	208	65	115%	263	303	7
Category 4	Less than 2.5 years	-	-	250%	-	-	-
	Equal to or more than 2.5 years	89	14	250%	115	287	9
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	7	-	-	25	-	12
Total	**Less than 2.5 years**	**-**	**-**		**-**	**-**	**-**
	Equal to or more than 2.5 years	**735**	**125**		**873**	**986**	**32**

EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH						
Categories	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	-	-	290%	-	-	-
Other equity exposures	160	163	370%	323	1,194	96
TOTAL	**160**	**163**		**323**	**1,194**	**96**

There was also an amount of 843 million euro (EAD) relating to the equity exposures subject to fixed weighting factors.

The table above shows the exposures related to specialised lending according to their respective regulatory categories and contractual maturities, as well as the disclosure of the equities calculated based on the simple risk-weight approach. The Specialised Lending segment is covered by various models for the different exposure categories, as detailed in the section “Specialised Lending Models”.

Actual losses and comparison with expected losses

The table below shows the actual losses recognised in the income statement during the last three years on the counterparties in default belonging to the regulatory portfolios for which the Group applies internal methods to calculate the capital requirements for credit risk.

Actual losses by regulatory portfolio

(millions of euro)

Regulatory portfolio	Actual losses		
	2017	2016	2015
Exposures to or secured by corporates (Corporate)	-2,135	-2,223	-2,183
Exposures secured by residential property (Retail mortgages)	-118	-82	-136
Exposures to SMEs (SME retail)	-255	-256	-192

During the 2015-2017 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 3,889 million euro.
The actual losses recorded during the same period, shown in the table above, were in excess of the expected losses, due to the deterioration of the economic environment starting from the end of 2011, showing a significant reduction compared to the 2014-2016 three-year period.

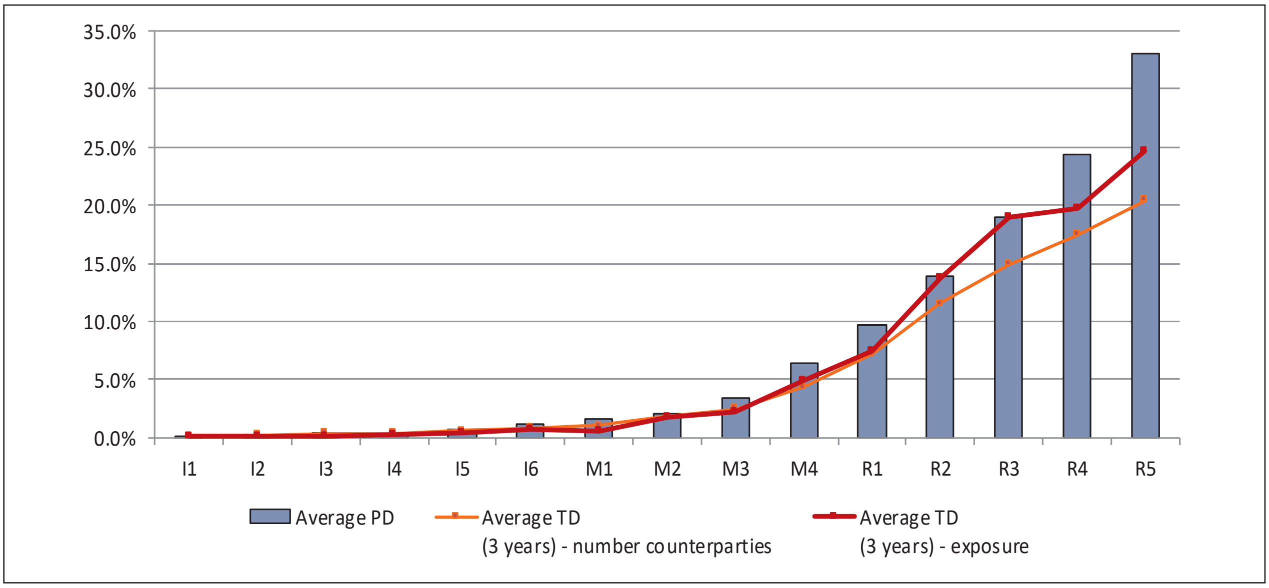
It should be noted that in recent years there has been an increase in negative movements within the non-performing loan category: in particular, over the entire period of observation compared to the previous periods there were increases towards the bad loans category (albeit with a slowdown in more recent years) and decreases in returns to performing status. It was also necessary to make significant adjustments to existing non-performing positions that worsened following the crisis in the financial markets and in the real estate sector and, then, the recession that hit most of the countries where the Group operates, primarily Italy. The total amount of actual losses over the last three years, therefore, was significantly impacted by the losses sustained on non-performing loans in prior periods, not included in the expected losses calculated for the performing portfolio at the beginning of the year.

Expected losses in 2015-2017 for residential mortgages amounted to a total of 410 million euro, above the actual loss figure.

Finally, the SME Retail asset class shows an expected loss of 471 million euro, well below the actual losses and showing a substantially stable trend.

Comparison of PD and DR figures by rating class for the Corporate regulatory segment

As part of its ongoing validation work, the Credit Risk Internal Systems Unit of the Internal Validation Sub-Department periodically (on a half-yearly basis) compares the default rates[5] recorded on the models validated for IRB purposes with the average PDs by individual rating class. For the Corporate Domestic regulatory segment, the chart below shows the comparison by individual rating class between PD and default rates (calculated in terms of number of counterparties and exposure). The values were obtained from rating calculation simulations using the new model (adopted from 2017) for the Corporate portfolio on the three reference dates considered (December 2014, December 2015 and December 2016).



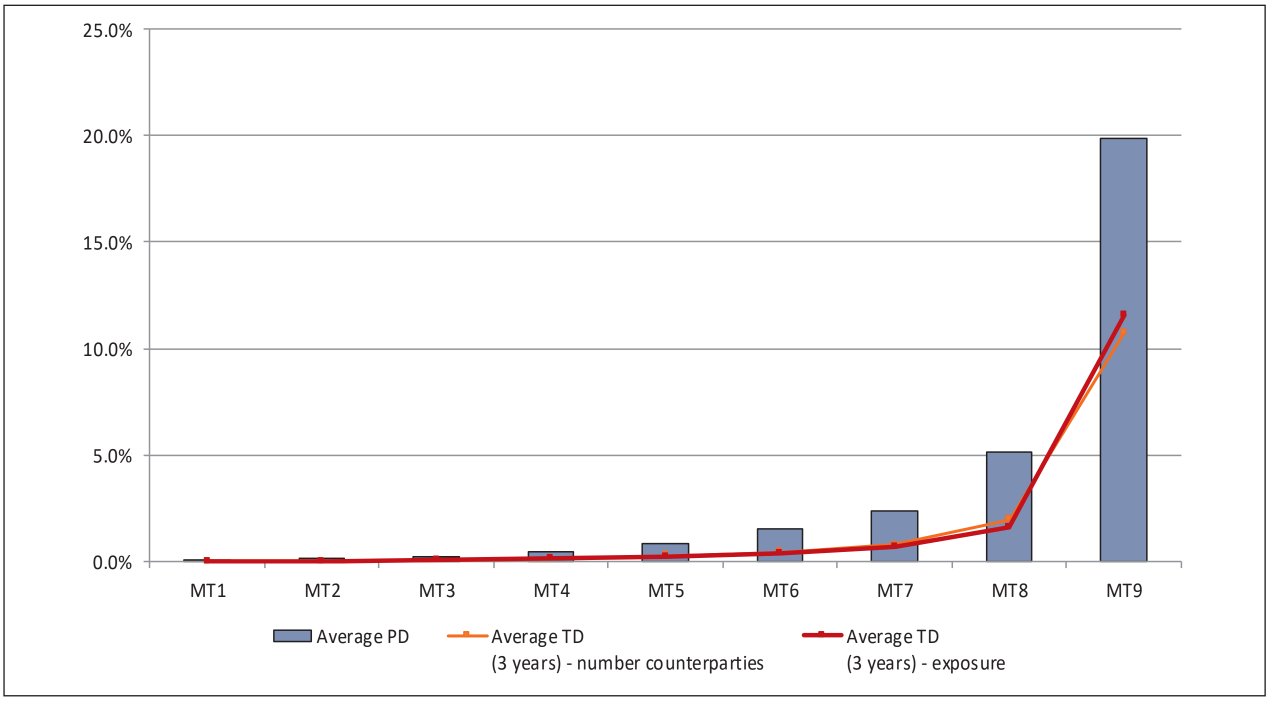
The default rate curves, calculated as the average on the performing reference dates of December 2014 – 2015 – 2016 (2015, 2016, 2017 default windows), shows a monotonic increase as the rating class worsens, however with values that are never higher than the respective PD values for each rating class.

[5] The definition of default, considered for the population of the charts and the EU CR9 table below, is not the same for each portfolio model. Indeed, the definition of default used for the portfolio estimation is considered for each portfolio model: also including 180 days and 90 days past due loans (for Corporate) or only consisting of bad loans and substandard loans (for SME Retail and Residential Mortgages to Private Individuals).

The default rates by exposure, in the final part of the curve, are higher than the default rates by number of counterparties, with a slightly more irregular trend (less exponential).
The performance of the model in terms of discriminating power is satisfactory, with an accuracy ratio for the last year of just under 66%.

Comparison of PD and DR figures by rating class for the Residential Mortgages for Private Individuals regulatory segment

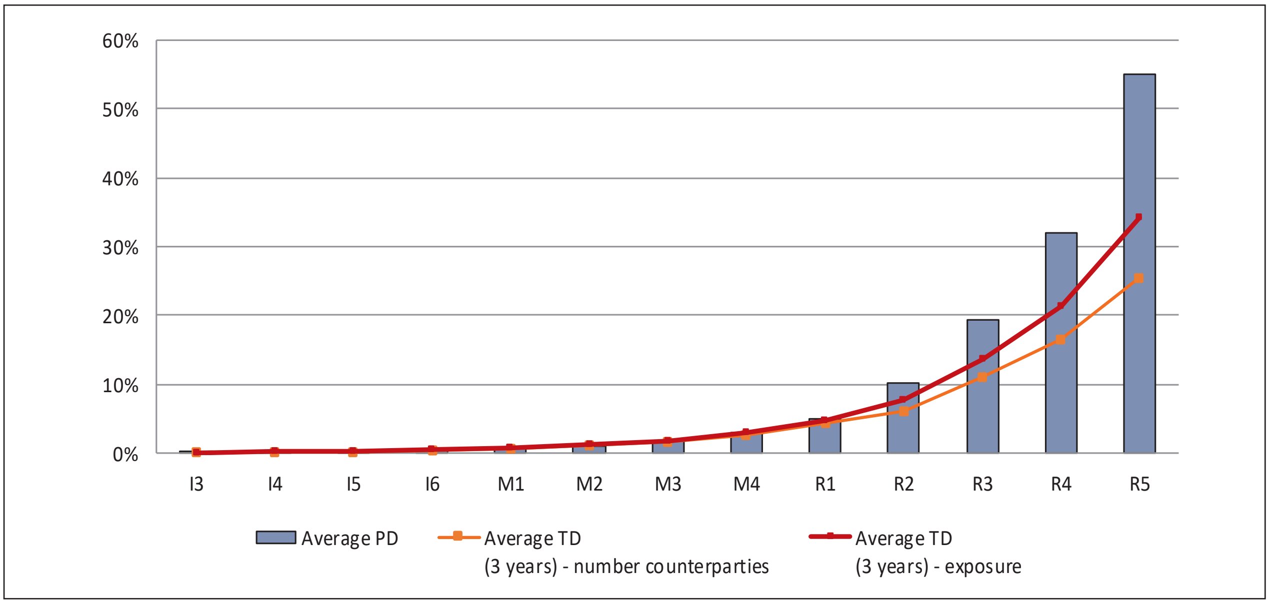
The same distribution by rating class as shown for the Performance portfolio is presented for the Model for Residential Mortgages for private individuals. The scope also includes performing mortgage relationships within IRB validated scope and with valid Performance rating.



There is a monotonic increase in the default rate as the rating class worsens, with similar values among the two default rate curves. The class PDs are higher, for all the classes, than the respective default rates.
At almost 80%, the discriminating power of the Residential Mortgages for Private Individuals model is also above the acceptance threshold.

Comparison of PD and DR figures by rating class for the SME Retail regulatory segment

For the assessment of the counterparties in the SME Retail segment, the same distribution of PD and DR is reported by rating class referred to the IRB validated portfolio.



The default rates appear to be generally in line with the theoretical PDs in the I and M bands, and slightly higher in the R band; moreover, they feature a substantially monotonic trend that increases along the rating classes. The two default rate curves have very similar values in the I and M bands, whereas in the R band the default rates by exposure are several percentage points higher than the default rates by number of counterparties. The performance of the models in terms of discriminating power is overall satisfactory. Accuracy ratio levels fall between 49% and 71% by customer type and the duration of the relationship with the Bank (with an overall value of almost 69%).

Comparison of PD and DR figures by exposure class

The table below compares the PD and default rates, breaking down the portfolio by exposure class and PD scale as at the reporting date (31/12/2016).
The breakdown between the following portfolio models was considered for the exposure scale:
- Corporate (in this case, also including Large counterparties[6]);
- SME Retail (Core + Micro);
- Residential Mortgages to Private Individuals.

The following authorised AIRB portfolio models, however, have not been considered for the analysis:
- Banks and Public Entities, subject to a recent internal re-estimate and consequent model change/*ex-ante* notification by the first half of 2018;
- Structured Finance and RED, because their small number would not have provided significant data for the PD and default rate comparison.

The analysis therefore considered the most significant exposure classes or those that have not been recently re-estimated, for which consistent historical average default rates are available.
The table below shows the breakdown, in terms of RWAs as at 31 December 2017[7], of the exposure classes considered in the analysis:

Exposure class	RWA
Corporate (including Large Corporate)	60.79%
Sme Retail (Core + Micro)	2.27%
Retail Mortgage	9.17%
Other (including defaulted exposures)	27.77%

Although it is numerically less significant, the Corporate exposure class is the most impacted class in terms of RWAs.
For the PD scale, on the other hand, the PD classes obtained from the allocation of the counterparties to the specific rating classes of each regulatory segment were aggregated in accordance with the EBA guidelines[8]. The classes of the PD scale shown in the table, which are therefore unique for each exposure class, include seven classes for performing counterparties and one class for non-performing counterparties as at the reporting date. Only counterparties with an available rating have been considered for the comparison between PD and DR: as already noted, the samples considered for the Corporate exposure class were obtained from calculation simulations or from partial extractions of development samples used in the estimation of the respective models.
The external rating equivalent column is not populated because these exposure classes do not refer to shadow rating models and therefore do not allow an unequivocal association between the rating classes of the "original" master scales and the agency external rating.
The comparison between the PD and DR for each exposure class considers the average PDs (arithmetic and weighted through EAD) as at the reporting date of 31/12/2016 and the average historical default rate (in terms of number of counterparties), obtained as an average over the last five years (2012, 2013, 2014, 2015 and 2016).

Looking at the comparison per individual exposure class, we can see that:
- for Corporate, the PD values (both simple and weighted) per individual PD class and total are in line or slightly lower than the historical average DR (influenced by the high-risk values, close to 6% in 2012 and 2013)[9];
- for SME Retail, the arithmetic and total weighted average PD is substantially in line with the total DR, whereas in the comparison of the individual PD classes it is significantly higher than the historical average DR solely for the last performing class (in line with the pattern shown in the related chart above[10]);
- for Residential Mortgages to Private Individuals, as already shown in the chart above, the PD values (both simple and weighted) per individual PD class and total are higher than the historical average DR.

[6] Given their small number, the Large Corporate counterparties have been considered together with the Corporate model.

[7] Figures taken from the reporting source at the reporting date 31/12/2017.

[8] Reference to "EBA/GL/2016/11, version 2".

[9] The comparison between PD and the default rate for the last three years (2014-2015-2016), as illustrated in the chart above, shows PD values that are on average higher than the average default rates.

[10] The last PD class (PD >= 10% is comprised of the counterparties from the SME Retail R2, R3, R4 and R5 rating classes).

EU CR9 – IRB approach – Backtesting of PD per exposure class

(millions of euro)

Exposure class	PD range	External rating equivalent (*)	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Corporate (including Large Corporate)	0,00 to <0,15	-	0.1	0.14	1,930	2,730	4	1	0.23
	0,15 to <0,25	-	0.22	0.21	4,152	5,359	13	2	0.25
	0,25 to <0,50	-	0.39	0.42	14,090	16,845	46	10	0.39
	0,50 to <0,75	-	0.64	0.67	9,242	10,273	40	10	0.76
	0,75 to <2,50	-	1.59	1.59	20,222	23,762	223	52	1.52
	2,50 to <10,00	-	6	5.97	16,884	16,321	649	96	5.8
	10,00 to <100,00	-	18.73	18.98	4,174	3,254	531	44	17.89
	100,00 (default)	-	100	100	24	44	30	6	100
	Total	**-**	**2.82**	**3.22**	**70,718**	**78,588**	**1,536**	**221**	**3.99**
Sme Retail (Core + Micro)	0,00 to <0,15	-	0.12	0.12	35,269	37,435	14	1	0.06
	0,15 to <0,25	-	0.15	0.15	37,701	38,999	46	4	0.14
	0,25 to <0,50	-	0.31	0.31	63,282	64,546	202	23	0.39
	0,50 to <0,75	-	0.68	0.68	22,140	22,469	146	17	0.82
	0,75 to <2,50	-	1.52	1.53	57,337	57,379	801	116	1.63
	2,50 to <10,00	-	3.73	3.74	48,260	47,062	1,530	168	3.85
	10,00 to <100,00	-	19.59	18.43	20,406	18,896	2,076	190	12.17
	100,00 (default)	-	100	100	40	33	30	6	100
	Total	**-**	**2.46**	**2.43**	**284,435**	**286,819**	**4,845**	**525**	**2.41**
Retail Mortgage	0,00 to <0,15	-	0.09	0.09	138,879	167,423	44	17	0.03
	0,15 to <0,25	-	0.24	0.24	105,480	117,681	71	16	0.08
	0,25 to <0,50	-	0.45	0.45	272,058	268,397	576	281	0.2
	0,50 to <0,75	-	-	-	0	0	0	0	-
	0,75 to <2,50	-	1.19	1.23	150,999	148,480	972	525	0.51
	2,50 to <10,00	-	5.16	5.16	29,211	27,332	905	411	2.08
	10,00 to <100,00	-	19.84	19.84	20,483	16,603	2,134	373	14.59
	100,00 (default)	-	100	100	62	90	66	29	100
	Total	**-**	**1.43**	**1.27**	**717,172**	**746,006**	**4,768**	**1,652**	**0.76**

(*) The column regarding the external rating equivalent has not been populated since these exposure classes are not subject to shadow rating approaches, and an unambiguous association between the "original" master scale rating class and external agency rating is therefore not possible.

Section 10 – Credit Risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

The Group entered into (bilateral) netting agreements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).
For derivative contracts, this takes place through the signature of ISDA agreements, which enable the management and mitigation of the credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital. An average of around 82% of the derivative contracts were netted the reporting date.
The Group also establishes margin agreements to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement/OSLA/GMSLA).
For OTC derivatives, the Group uses netting services provided by central counterparties or clearing brokers, also for the purpose of complying with the clearing requirements established by the EMIR. This is a clearing service for the more standardised OTC derivative contracts (e.g. plain vanilla interest rate derivatives and CDS Indexes). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house or clearing broker, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. The central counterparty or the broker provide for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other. Around 46% of the deals in derivatives were collateralised (with a central counterparty or on a bilateral basis) at the reporting date, mainly using cash or investment-grade government securities.
With regard to the SFTs, around 98% of the deals were margined, through cash or securities, with central or bilateral counterparties.
In addition to the reduction in operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), central counterparties offer the typical advantages of centralised netting and collateralisation agreements. Moreover, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.
For more detailed information, reference should be made to the quantitative disclosure indicated in the Section on Counterparty risk of this document.

Policies and processes for collateral evaluation and management

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 – differentiated according to pledged and mortgage collateral. 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 a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee. Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. Mitigating factors are defined based on elements that contribute to reducing the potential losses for the Bank in the case of default of the counterparty. For operational purposes, the extent of the mitigating factors is determined based on a series of factors. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of elements mitigating credit risk.
Guarantees received are included in the calculation of the Loss Given Default, based on (i) the initial value; (ii) the strength of said value over time; and (iii) the ease of realisation.
The guarantees received with the highest impact include:

- pledges on financial assets, differentiated based on the underlying (cash, OECD government bonds, financial instruments issued by the Bank, shares and bonds quoted on regulated markets, mutual funds, etc.);
- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.);

provided that:

- they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
- they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

During the credit granting phase, 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 or set of financial instruments accepted as collateral.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.
With regard to real estate collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.
Assets are evaluated, prior to the decision to grant the credit, using both 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 and experience and the characteristics of absolute professional independence. 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' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.
The experts are required to produce estimates on the basis of standardised expert technical reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.
In order to ensure that the valuation criteria and approaches are consistent, a property valuation code ("Property Valuation rules for credit purposes") is in force, which ensures the comparability of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis. 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 (the "Appraisals Portal") covering the entire technical 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.
During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.
The value of the real estate collateral is updated on a monthly basis by using the prices/coefficients acquired from an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real estate assets.
The revaluation takes place by adopting four main methods:

- Survey value index method:
  the method uses real estate price revaluation indexes to be applied to the survey value of the property in question. It is the main revaluation method, adopted when the survey value is considered reliable through specific tests.
- Comparables method
  the method assumes market values per square metre and applies them on the basis of the size (in square meters) of the property. The method is used when the survey value is not considered to be reliable. It is also used as "backtesting" implied in the survey value.
- Financing value index method:
  the method applies the price revaluation indexes to 125% of the original value of the financing (thus it is prudentially assumed that the financing was originally disbursed with the maximum LtV of 80%). The method is applied in the presence of subdivisions or if the survey value is not reliable and it is impossible to apply the comparables.
- Cost method:
  in case of properties under construction, market practices suggest a valuation based on the estimate of the overall costs incurred in correspondence with the work progress made on the property in question.

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.
The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.
To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property's reconstruction cost.

Main types of guarantor and credit derivative counterparty and their creditworthiness

With regard to the transactions in credit derivatives, there were no transactions to report as at 31 December 2017. Credit derivatives received as collateral, although present, were immaterial.

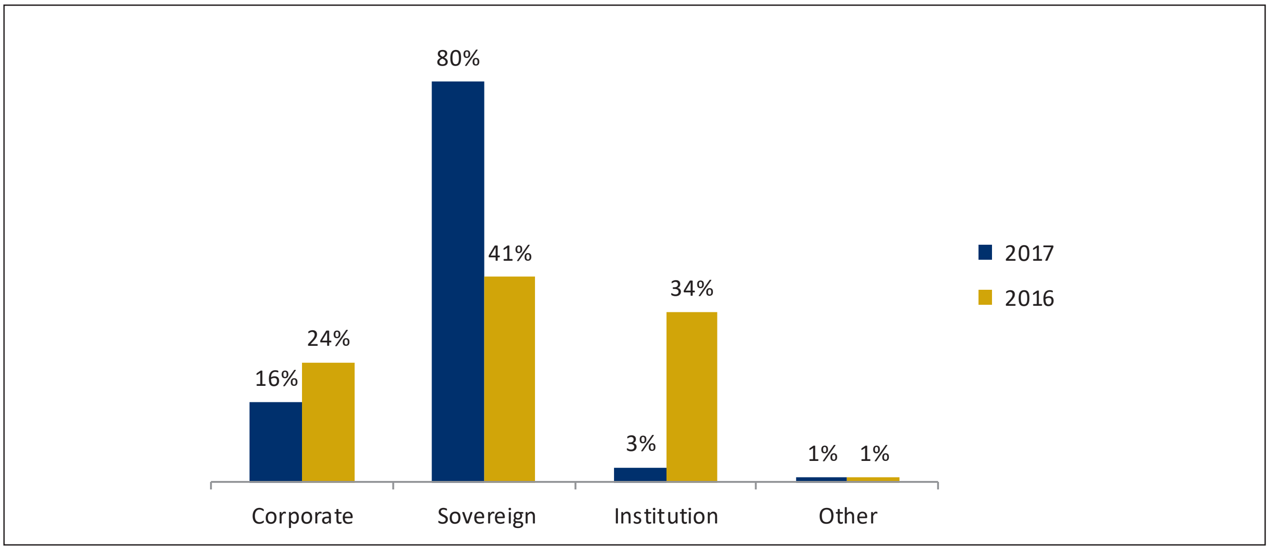
Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.
The share associated with Sovereign guarantors (primarily the Italian government) accounts for 80% of the total amount (41% in December 2016), while the Corporate and Bank/Public Entity guarantors represent 16% and 3% respectively (24% and 34% in December 2016).
Compared to the previous year, this breakdown shows a significant increase in the Sovereign portfolio due to the increase in personal guarantees issued by the Italian government in relation to the acquisition by Intesa Sanpaolo of certain assets and

liabilities of the former Venetian Banks. It also shows a significant decrease in the guarantees given by Banks/Public Entities, mainly due to lack of use of the personal guarantee within the Rosneft transaction, because it was no longer cost effective with respect to the underlying transaction.
There were no other material concentrations of guarantors.

Personal guarantees by type of guarantor

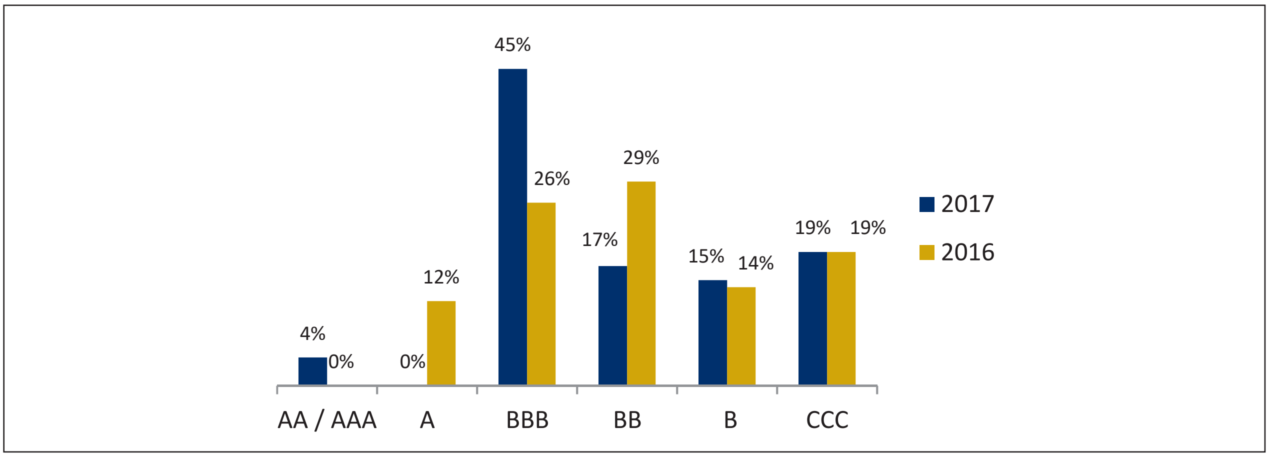


For this measurement, the Public Entities are shown in the Banks/Public Entities portfolio. The figures as at 31 December 2016 have been pro-forma adjusted to enable consistent comparison of the performance.

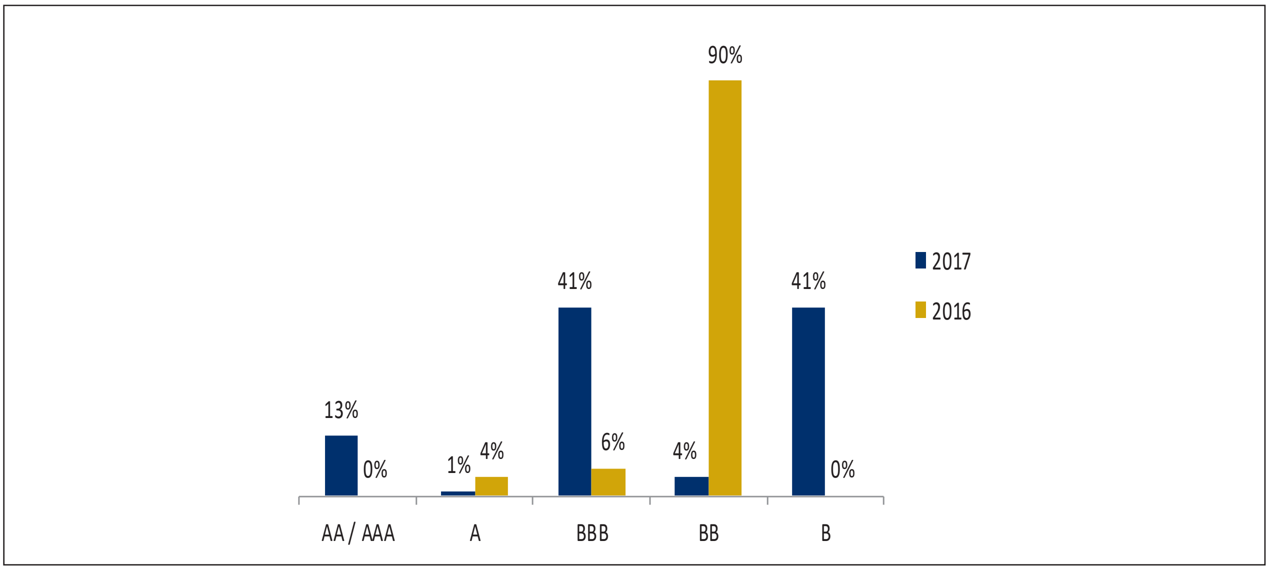
Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 91% investment grade.
The breakdown by rating class shows Corporate guarantors classified as investment grade with a share of 49% (38% in December 2016) and Bank/Public Entity guarantors classified as investment-grade with a share of 55% (10% in December 2016, calculated using the agency ratings, because the Banks and Public Entities were measured using the standard approach in the previous measurement).
With regard to other segment personal guarantees, the breakdown by rating class shows guarantors classified as investment grade with a share equal to 99%, in line with the figures of December 2016.
Corporate and Bank/Public Entity guarantors are assigned ratings from the internal model, while guarantors of other segments are assigned agency ratings.

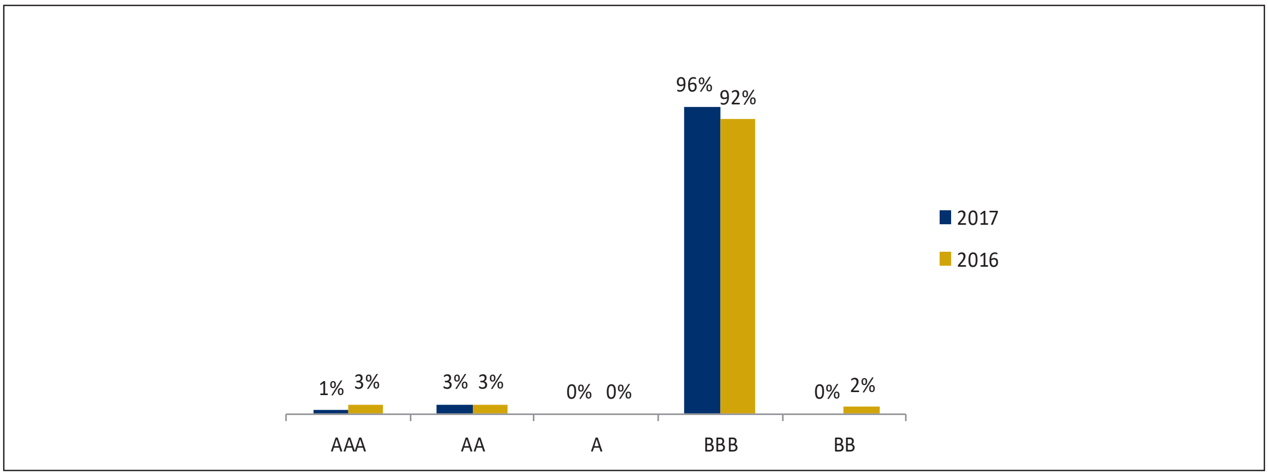
Corporate personal guarantees by guarantor rating classes



Bank/Public Entity personal guarantees by guarantor rating classes



Other segment personal guarantees by guarantor rating classes



Financial collateral
The majority of the financial collateral eligible for risk mitigation relates to repurchase agreements. The main issuers have ratings in the high investment grade area. As regards the potential exposure to market risk, which was down sharply on December 2016, please note that all these securities have a maturity of more than 5 years.
Other financial collateral relates to pledges on cash deposits, bonds and funds.

Other collateral
Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank's exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is quantified by means of appropriate analyses within the ICAAP process.

Quantitative disclosure

As required by the applicable regulations, this Section reports the amounts of the exposures, split between secured and unsecured. The secured exposures are also broken down by type of guarantee. In addition, the secured exposures are broken down by calculation method for the capital requirements: standard and foundation IRB.

EU CR3 – CRM techniques – Overview

This table shows the use of the risk mitigation techniques, with details of the net value of both the secured and unsecured exposures for the loans and debt securities. The secured exposures are further broken down according to type of guarantee (collateral, personal guarantees and exposures secured by credit derivatives; with the latter being non-material).

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans (*)	290,943	147,115	127,519	19,596	-
2	Total debt securities	73,458	42	-	42	-
3	**Total exposures as at 31 December 2017 (**)**	**606,349**	**151,716**	**130,472**	**21,244**	**-**
4	*Of which defaulted*	*15,899*	*12,919*	*11,038*	*1,881*	-

(*) In addition to loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

(**) In addition to loans and debt securities, the amount of "Total exposures" includes equity instruments, property and equipment, cash and cash equivalents and off-balance sheet exposures.

Breakdown of collateral, personal guarantees or credit derivatives by exposure class

Value of the guarantees subject to the standard approach

(millions of euro)

Regulatory portfolio	31.12.2017		31.12.2016	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	10	17,195	8	6,358
Exposures to or secured by regional or local authorities	-	152	-	332
Exposures to or secured by public sector organisations	1	8	20	9
Exposures to or secured by multilateral development banks	-	31	-	5
Exposures to or secured by international organisations	-	6	-	-
Exposures to or secured by supervised institutions	141	528	2,371	4,293
Exposures to or secured by corporates and other entities	1,618	197	1,671	49
Retail exposures	929	-	862	-
Exposures secured by real estate	-	-	-	-
Defaulted exposures	42	-	131	-
High-risk exposures	3	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-	-	-
Exposures to UCI	191	-	145	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-
Total	**2,935**	**18,117**	**5,208**	**11,046**

Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor's regulatory portfolio; consequently, the representation of personal guarantees included in the table above is the guarantor's responsibility.
The column "Personal guarantees or credit derivatives" consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.
With regard to the exposures secured by properties, the value of the mortgage collateral is not shown, because – in accordance with the applicable regulations – these exposures are subject to preferential weighting factors. If there is any other collateral, this is shown in the above table.

Value of the guarantees subject to the Foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2017		31.12.2016	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	11	-	11	-
Other corporates	1	-	7	-
Specialised lending - slotting criteria	-	-	-	-
Total	**12**	**-**	**18**	**-**

The secured exposures subject to the Foundation IRB approach relate to VUB Banka and Banka IntesaSanpaolo D.D. (former Banka Koper), which are the only Group companies that still use the Foundation IRB approach after migration by the Group's other companies to the Advanced approaches (AIRB).
Exposures secured by mortgage collateral for private individuals or retail customers, for which the Group applies the IRB approach (other than the Foundation IRB approach), are not included in this Section inasmuch as they are specifically indicated in the Section on the use of the IRB approaches.

Section 11 – Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with the Regulatory provisions, is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.
In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- SFTs – Securities Financial Transactions (repurchase agreements and securities lending);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.

Following the authorisation by the Supervisory Authority, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division have adopted the Internal Models approach for regulatory reporting purposes for the counterparty requirement for OTC - Over the Counter contracts, ETD - Exchange Traded Derivative contracts and SFTs - Securities Financing Transactions.
The internal model is applied in accordance with the Basel 3 instructions, so that the requirement for counterparty risk is calculated as the sum of the default risk and the CVA - Credit Value Adjustment risk. The risk of default is determined starting from an EAD that is the maximum between the EAD calculated according to the current risk parameters and that calculated according to risk parameters based on a stress period.
The CVA Capital Charge is calculated as the sum between the CVA VaR calculated on the movements in credit spreads of counterparties registered in the last year and that calculated on the movements during a stress period that has currently been identified as the 2011-2012 period.
Potential exposure (estimated with the actual average PFE – Potential Future Exposure) has been adopted by Banca IMI, the Parent Company and the banks in the Banca dei Territori Division for the purposes of operational measurement of uses of credit lines for replacement risk, for OTC derivatives and SFTs.
For the rest of the Group, the definition of the use of credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.
Add-ons indicate the maximum potential future exposure (95th percentile), regularly estimated by the Financial and Market Risks Head Office Department - DRFM, by product type and maturity. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, in consideration of the specific elements of the OTC derivative transactions, and transactions for which the exposure may change over time as the underlying risk factors change. PFE measurements are calculated daily by the DRFM, analysed and sent to the monitoring systems for the lines of credit for OTC derivatives and SFTs. The DRFM also provides a daily report on the positions with a use above 70%, to support the facility monitoring activities, with indication of the financial analysis underlying the change of the PFE measurement over time. For entities or instruments outside the scope of application of PFE, the grid for the operational add-ons forms part of the monitoring systems for the lines of credit for OTC derivatives and SFTs that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty.
The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.

In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the "use test" requirement of Basel 3, the Group has adopted an operating model aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. Particular attention was dedicated to the update of the management regulatory framework with regard to the eligibility of collateral for trading in Security Financing Transactions.

The organisational functions involved, as described in the Bank's internal regulations, are:

- the DRFM, 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 following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above, for the Parent Company and Banca IMI:
- 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 at the portfolio level authorised by the Group Financial Risks Committee for OTC derivatives transactions;
- 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);
- backtesting: Basel 3 requires producing backtesting analyses in order to test the appropriateness of the model. Tests are carried out on risk factors, financial instrument and netting set;
- 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.

The backtesting programme, defined on the basis of Basel 3 requirements, provides for the maintenance of historical series of forecasts obtained from the calculation model and its results on:
- risk factors
- financial instruments
- netting set

Through statistical analysis, supported by qualitative analyses for the forecasting horizons for which it is not possible to accumulate sufficient observations, the predictive ability of the model is measured. An internal policy was defined to enable corrective procedures in case the model shows significant limitations in the representation of the underlying risks or the changed market conditions require and adjustment thereof.
The backtesting results are reported in the quarterly disclosure to the Supervisory Authority.

The Parent Company Intesa Sanpaolo, the banks of the Banca dei Territori Division and Banca IMI have adopted a programme of stress tests on the counterparty risk with the objective of assessing the effects connected with the occurrence of extreme scenarios relating to market and credit factors that influence counterparty risk exposures for OTC derivatives and SFTs alike.
The stress tests allow the estimate of potential sudden liquidity needs of the Bank with regard to the collateralised exposures, due to extreme movements of the risk factors underlying transactions in OTC derivatives and SFTs.
The stress test programme allows the identification of the market scenarios the Bank is mostly exposed to and represents a risk analysis tool that complements the management and regulatory metrics.
The stress test programme is based on the application of mono-factor and multi-factor scenarios to the "reference set", which is the set of market data used for the pricing of the financial instruments included within the scope of the internal model. Analysed in addition to the stress on the market risk factors is the effect of the deterioration of the creditworthiness of the counterparty through the joint stress on market and credit variables (PD, LGD).

The generic Wrong-Way Risk (WWR) arises when there is positive correlation between the probability of default of a counterparty and the exposure to the same counterparty.
A methodology is followed to identify the generic WWR, which uses the results from the stress tests conducted as part of the stress testing programme for the counterparty risk, focusing on the counterparties whose credit spread is more historically correlated to the risk factors identified by the stress tests.
The reports and the analysis of the results are aimed at highlighting the most significant effects at portfolio level, of segments of counterparties or individual counterparties.
The specific WWR arises in case of positive correlation between the future exposure towards a counterparty and the probability of its default due to the nature of the transactions with this counterparty, or in case of a legal connection between the counterparty and the issuer of the derivative's underlying.
A methodology is followed to identify the specific WWR without legal connection, which is based on the analysis of the relation between the Mark-To-Market forecasts of the portfolio of a counterparty and the credit spread forecasts of the same counterparty, in the various scenarios of the EPE model, at a certain future moment.
As part of the specific WWR with legal connection, an organisation process has been defined in order to identify, report, authorise and monitor in a specific manner the transactions involving such risk, also for the purposes of the depreciative treatment established by the regulations in terms of capital requirement.
In order to consistently represent and monitor the overall risk profile in terms of counterparty risk generated by transactions in OTC derivative instruments, the Group Financial Risks Committee has approved a structure of specific limits, monitored by the Financial and Market Risk Department (DRFM), for the Parent Company Intesa Sanpaolo, Banca IMI and the Banca dei Territori Division, comprising:
- a regulatory capital limit, calculated with the internal model on the counterparty risk, with the formulas set by the Basel 3 requirements;
- a Credit Portfolio VaR limit that measures the exposure to the default risk of the counterparties of OTC derivative transactions, calculated with internal metrics in terms of unexpected loss over a time period of one year;
- a CVA VaR limit that measures the exposure to the risk of increase in the credit spreads of the counterparties of the OTC derivative transactions, calculated in terms of daily VaR;
- a limit to the additional liquidity linked to derivatives business, which measures the possible greater liquidity requested because of the change in collateralised exposures;
- the limits of unfavourable correlation (generic and specific WWR), which signals a possible higher risk deriving from the correlation between the exposures to replacement risk and the creditworthiness of the counterparty.

These limits (set according to the Bank's risk appetite in terms of counterparty risk and based on the maximum use calculated in stress conditions) enable synthetic and uniform control of the risk exposure levels for the OTC derivative transactions of the portfolios of Intesa Sanpaolo, Banca IMI and the Banca dei Territori Division. Adopting such indicators also results in the consolidation, through a process of subsequent aggregations, of the exposure to different types of risk in the individual activity segments (for both collateralised and non-collateralised counterparties) to obtain the measurement of the overall exposure at Legal Entity, Region, Industry and counterparty level.

The internal counterparty risk model allows the estimate of the liquidity requirement deriving from collateralised OTC derivative instruments (in terms of inflow and outflow of collateral), by predicting the expected variation of the Mark-To-Market. These measures are aimed at feeding the system of the DRFM that measures the liquidity risk (Liquidity Risk System), while guaranteeing the information details needed to develop the various measurement metrics currently set for internal purposes (Liquidity Policy) and for the weekly liquidity report to the Supervisory Authority, and are also the subject of the programme of stress tests on the counterparty risk.

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. Compared to the adjustment of the Mark-To-Market through the calculation of the Credit Risk Adjustment (CRA), as required by IFRS 13 this measurement includes the calculation of own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.
In order to comply with the new standard, a new calculation model was developed – the Bilateral Credit Value Adjustment (bCVA) – which, in addition to the effects of changes in the counterparty credit rating (previously subject to the credit risk adjustment methodology), also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA) and identifies a series of refinements to the previous methodology. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):

– the CVA (negative) takes into account scenarios whereby the Counterparty fails before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative;
– the DVA (positive) takes into account scenarios whereby the Bank fails before the Counterparty and has a negative exposure to the Counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

Compared to the calculation of the CRA, the bCVA model identifies a series of refinements of the pre-existing CRA methodology, including the calculation of the risk exposure valued by incorporating the average of the future exposures (positive/negative Expected Positive/Negative Exposure).
The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

Scope of application and characteristics of the risk measurement and reporting system

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 uses of lines of credit for derivatives. The Financial and Market Risks Department produces daily risk measurement estimates for counterparty risk, for the measurement of the uses of credit lines for OTC derivatives for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division. It should be noted that the PFE method, in simplified form, is used for the banks of the International Subsidiary Banks Division.
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.

Policies for hedging and mitigating risk

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 for credit and debt positions to be netted against one another, if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group establishes collateral agreements, also to comply with the EMIR clearing requirements, 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 replacement 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.

Quantitative disclosure

EU CCR1 – Analysis of CCR exposure by approach as at 31 December 2017

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		533	166			695	223
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				13,988	1.4	19,583	4,652
5	*Of which securities financing transactions*				*2,941*	*1.4*	*4,118*	*375*
6	*Of which derivatives and long settlement transactions*				*11,047*	*1.4*	*15,465*	*4,277*
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						5,044	1,629
10	VaR for SFTs						-	-
11	**TOTAL**							**6,504**

As already illustrated, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division were authorised to use EPE (Expected Positive Exposure) internal models to determine the requirement for counterparty risk.

This approach has been applied since March 2014 to almost the entire trading portfolio (as shown in the table, as at 31 December 2017 approximately 96% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2017 accounting for approximately 4% of overall EAD) and refer to:
- residual contracts of Banca IMI, Intesa Sanpaolo and banks of the Banca dei Territori Division to which EPE is not applied (in compliance with the insignificance of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

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 (including the collateral connected to transactions with central counterparties).

As part of the stress test programme on counterparty risks, it was estimated that a downgrade of Intesa Sanpaolo by the rating agencies would generate additional liquidity outflows (in terms of collateral paid) of 10.7 million euro for Banca IMI (of which 5.1 million euro to vehicles) and 2.1 billion euro for the Parent Company (of which 2 billion euro to vehicles of the Group), linked to contractual clauses that would be activated following this event.

Starting from the reporting as at 31 December 2016, also SFTs were reported with the EPE internal model approach. The existing contracts are all accompanied by margin agreements – GMRA (for repurchase agreements) and GMSLA (for securities lending).

EU CCR2 – CVA capital charge as at 31 December 2017

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,280**	**771**
2	VaR component (including the 3× multiplier)		92
3	SVaR component (including the 3× multiplier)		679
4	**All portfolios subject to the standardised method**	**255**	**174**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,535**	**945**

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 31 December 2017

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	Of WHICH UNRATED
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	5,846	-	-	-	-	-	-	-	95	-	-	5,941	5,847
2	Regional government or local authorities	-	-	-	-	23	-	-	-	-	-	-	23	23
3	Public sector entities	-	-	-	-	-	-	-	-	19	-	-	19	-
4	Multilateral development banks	1,555	-	-	-	-	-	-	-	-	-	-	1,555	1,555
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	6,078	-	-	96	36	-	-	3	-	-	6,213	6,180
7	Corporates	-	-	-	-	-	70	-	-	237	-	-	307	65
8	Retail	-	-	-	-	-	-	-	24	-	-	-	24	24
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**7,401**	**6,078**	**-**	**-**	**119**	**106**	**-**	**24**	**354**	**-**	**-**	**14,082**	**13,694**

EU CCR3 bis – Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 31 December 2017

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	5,846	-	-	-	-	-	-	-	105	-	-	5,951
2	Regional government or local authorities	-	-	-	-	23	-	-	-	-	-	-	23
3	Public sector entities	-	-	-	-	-	-	-	-	19	-	-	19
4	Multilateral development banks	1,555	-	-	-	-	-	-	-	-	-	-	1,555
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	6,078	-	-	115	38	-	-	3	-	-	6,234
7	Corporates	-	-	-	-	-	73	-	-	251	-	-	324
8	Retail	-	-	-	-	-	-	-	29	-	-	-	29
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**7,401**	**6,078**	**-**	**-**	**138**	**111**	**-**	**29**	**378**	**-**	**-**	**14,135**

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2017 *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
0.00 to <0.15	4,491	0.08	141	21.6	370	514	11%
0.15 to <0.25	698	0.17	45	32.8	558	204	29%
0.25 to <0.50	329	0.35	46	31.6	697	125	38%
0.50 to <0.75	161	0.54	6	27.7	1,813	106	66%
0.75 to <1.25	407	0.81	25	21.1	1,531	210	52%
1.25 to <2.50	208	1.59	42	25.9	1,325	157	76%
2.50 to <5.00	262	2.95	15	38.5	476	321	122%
5.00 to <10.00	785	5.76	8	30.9	179	763	97%
10.00 to <20.00	246	15.73	8	30.0	56	370	151%
20.00 to <100.00	-	0.00	-	-	-	-	0%
100.00 (default)	17	100.00	2	25.9	1,499	4	25%
Subtotal	7,604	1.60	338	25.1	359	2,774	36%
Exposures to or secured by corporates:							
- Specialised loans							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	5	0.36	2	22.1	1,466	2	39%
0.50 to <0.75	118	0.54	15	43.3	1,814	122	103%
0.75 to <1.25	140	0.82	14	42.1	1,772	159	113%
1.25 to <2.50	112	1.32	35	36.3	1,538	119	106%
2.50 to <5.00	15	3.14	11	19.5	1,236	9	63%
5.00 to <10.00	78	8.24	11	44.2	1,339	156	201%
10.00 to <20.00	202	13.18	13	28.8	1,773	324	161%
20.00 to <100.00	23	35.79	5	27.2	949	36	156%
100.00 (default)	7	100.00	11	54.5	966	2	24%
Subtotal	700	7.48	117	36.8	1,645	929	133%
- SMEs (small and medium enterprises)							
0.00 to <0.15	2	0.14	135	42.7	610	1	50%
0.15 to <0.25	10	0.21	303	42.6	927	4	40%
0.25 to <0.50	31	0.41	1,214	42.7	680	14	47%
0.50 to <0.75	29	0.67	858	42.7	766	17	60%
0.75 to <1.25	26	1.15	824	42.9	759	19	74%
1.25 to <2.50	91	1.93	1,296	42.7	1,082	90	99%
2.50 to <5.00	35	3.40	614	42.8	970	37	104%
5.00 to <10.00	70	8.08	821	42.8	923	95	135%
10.00 to <20.00	34	15.85	183	42.8	1,151	63	185%
20.00 to <100.00	21	29.70	106	43.1	1,037	44	205%
100.00 (default)	33	100.00	260	48.6	863	8	24%
Subtotal	382	14.15	6,614	43.3	943	392	102%
- Other corporates							
0.00 to <0.15	266	0.09	98	37.5	1,360	81	31%
0.15 to <0.25	549	0.22	148	35.6	1,373	268	49%
0.25 to <0.50	342	0.36	444	36.7	883	174	51%
0.50 to <0.75	534	0.55	317	35.9	1,394	400	75%
0.75 to <1.25	118	0.93	266	35.3	828	85	73%
1.25 to <2.50	207	1.63	373	35.9	1,039	197	95%
2.50 to <5.00	290	3.33	121	37.3	931	338	116%
5.00 to <10.00	93	7.67	108	34.4	1,016	133	143%
10.00 to <20.00	4	18.10	11	39.4	1,002	8	219%
20.00 to <100.00	25	28.76	18	34.7	1,066	52	204%
100.00 (default)	25	100.00	62	39.4	886	6	24%
Subtotal	2,453	2.43	1,966	36.2	1,179	1,742	71%

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2017 *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	2	0.12	343	48.8	-	-	0%
0.15 to <0.25	2	0.15	305	48.5	-	-	0%
0.25 to <0.50	3	0.31	561	48.4	-	1	21%
0.50 to <0.75	2	0.68	187	47.6	-	1	33%
0.75 to <1.25	2	1.09	226	48.1	-	1	41%
1.25 to <2.50	1	1.86	200	48.5	-	1	50%
2.50 to <5.00	1	3.08	188	48.7	-	1	55%
5.00 to <10.00	1	5.10	84	47.4	-	1	57%
10.00 to <20.00	2	14.09	97	47.5	-	1	73%
20.00 to <100.00	1	48.33	57	47.3	-	1	96%
100.00 (default)	1	100.00	95	46.2	-	-	0%
Subtotal	18	12.39	2,343	48.0	-	8	37%

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets according to regulations.

EU CCR6 – Credit derivatives exposures as at 31 December 2017

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	16,264
Credit spread products - On single counterparty	-	-	-
Total rate of return swap - On single counterparty	-	-	-
Other - On single counterparty	-	-	-
Credit default products - On more counterparties (basket)	-	-	70,133
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**86,397**
Fair values			
Positive fair value (asset)	-	-	*1,160*
Negative fair value (liability)	-	-	*-1,275*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 39 billion euro (of which 18 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 47 billion euro (of which 24 billion euro relating to protection sales).

EU CCR5-A – Impact of netting and collateral held on exposure values as at 31 December 2017

This table provides an overview of the impact of the netting and collateral held on exposures whose value is measured in accordance with part three, title II, chapter six, of the CRR, including the exposures resulting from transactions netted through a CCP. For more detailed information on the netting arrangements in accordance with IAS 32, see the disclosure provided in the Notes to the Consolidated Financial Statements - Part B - Information on the consolidated balance sheet - Liabilities – Other information.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	25,138	18,122	7,016	2,946	4,070
2	SFTs	37,272	11,390	25,882	25,679	203
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**62,410**	**29,512**	**32,898**	**28,625**	**4,273**

EU CCR5-B – Composition of collateral for exposures to CCR as at 31 December 2017

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	3,091	12,923	1,491	606
Debt Securities	297	1,444	24	225
TOTAL	**3,388**	**14,367**	**1,515**	**831**

EU CCR8 – Exposures to CCPs as at 31 December 2017

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		618
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	6,078	122
3	i) OTC derivatives	3,070	62
4	ii) Exchange-traded derivatives	-	-
5	iii) SFTs	3,008	60
6	iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	1,139	23
9	Prefunded default fund contributions	1,423	473
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

Section 12 – Securitisations

Qualitative disclosure

Securitisations: objectives and the roles undertaken by the Bank

Originated securitisations
The originated securitisations of the Intesa Sanpaolo Group may be differentiated into:
- securitisations that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position and are not standard securitisations as they do not transfer the risk outside the Group;
- securitisations structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("originated securitisations" and "Asset Backed Commercial Paper programmes") or in order to provide services to customers.

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Standard securitisations
The securitisations in this category are as follows:

- ***Intesa Sec 3***
  Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 performing residential mortgages, issued predominantly in Northern Italy, to private individuals, and guaranteed by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.

- ***Cr Firenze Mutui***
  Banca CR Firenze had structured a securitisation relating to performing mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle had issued securities for 521 million euro. The rating agencies used were S&P, Fitch and Moody's.
  The securitisation transaction was closed in 2017.

- ***Intesa Sec Npl***
  This transaction, completed in 2001, involved the securitisation of bad loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to households and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred "without recourse" to the special purpose vehicle IntesaBci Sec NPL, for a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto and they subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro, both unrated), on the other hand, were subscribed by IntesaBci. The rating agencies used were Fitch and Moody's.

- ***Electricity Securitisation***
  This transaction was conducted in 2011 on a portfolio of trade receivables in the electricity sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
  The risks of the portfolio of receivables were subsequently securitised. Against receivables with a nominal value of around 900 million euro, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.

- ***Gas Securitisation***
  The Gas transaction, involving securitisation of trade receivables in the gas sector for 77 million, was completed in 2011 and entered repayment in May 2014. The capital structure was almost fully repaid. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.

- ***Food & Beverages Securitisation***
  The transaction has been carried out in several tranches starting from 2012, on portfolios of trade receivables in the food & beverages sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2017 the nominal value of the securitised loans amounted to 626 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

- ***Gas 2 Securitisation***
  This transaction was conducted in 2013 for an amount of 35 million euro on a portfolio of trade receivables in the gas sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risks of the portfolio of receivables were subsequently securitised. For this transactions, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. To close the transaction, the Group used the vehicles Hermes Trade Receivables S.a.r.l and Duomo Funding Plc.

- ***Telephony Securitisation***
  These transactions were conducted in 2014 on portfolios of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. 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.
  During 2016 the programme was increased from 150 million euro to 250 million euro. For this transaction, the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., ABS Funding S.A. and Duomo Funding Plc were used.

- ***Tibet Securitisation***
  In 2015 Banca IMI securitised a loan of 203 million euro secured by a mortgage granted in 2014 for the purchase of a prestigious property in Milan.
  The vehicle Tibet CMBS S.r.l. was used in the transaction. The securities issued have the following ratings: Senior AA; 1st Mezzanine A, 2nd Mezzanine A-, and Junior BB.

- ***Fuel Securitisation***
  The transaction has been carried out in several tranches starting from 2015, on portfolios of trade receivables in the oil & refined products originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
  The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2017 the nominal value of the securitised loans amounted to 189 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

- ***Haywave Securitisation***
  In December 2015, Banca IMI assigned to a customer a portion of 37 million of a loan that had been granted in 2014 for the purchase of a portfolio of non-residential properties. The customer made the purchase through the vehicle Haywave SPV Srl, which issued two classes of notes, a Senior and a Junior class. The securities issued are unrated.
  The securitisation transaction was closed in 2017.

- ***Tranched Cover Piemonte Securitisation***
  A tranched cover synthetic securitisation was initiated in 2016 – also under the “GARC” Project – on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme funded by the European Regional Development Fund, for the objective “Regional competitiveness and employment” – Axis 1 – Activity I.4.1 Measure to support access to credit for piedmontese SMEs through the establishment of the Tranched Cover Piemonte Fund. The transaction provided for the granting of a total portfolio of new loans of 60 million euro to around 350 enterprises in Piedmont.

- ***Towers Securitisation***
  In 2016, Intesa Sanpaolo completed a securitisation via the sale without recourse of two portfolios of performing consumer loans for around 2.6 billion euro, through Accedo, a wholly-owned consumer credit company dedicated to consumer credit distribution channels outside the Group. The two portfolios – one relating to loans against one-fifth salary assignments and the other to car and special-purpose loans – were sold to two specially created vehicle companies, independent of the Intesa Sanpaolo Group and managed by a third-party servicer, which funded the purchase price by issuing asset-backed securities. The senior and mezzanine securities of the portfolio consisting of loans against one-fifth salary assignments have a Moody’s rating of Aa2 and A2 respectively.
  The junior tranches were subscribed by the leading investment company Christofferson Robb & Company, whereas the senior and mezzanine tranches were subscribed by a pool of international banks, led by Banca IMI and also made up of Citigroup, Goldman Sachs International and JP Morgan. Accedo subscribed for 5% of each of the tranches issued, in accordance with the CRR Directive.

– ***Automotive, Electronics and Mechanics Securitisation***
The transaction has been carried out in several tranches starting from 2012, on portfolios of trade receivables in the automotive, electronics & mechanics sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2017, the nominal value of the securitised loans amounted to 509 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

– ***Securitisations of the former Veneto Banca and former Banca Popolare di Vicenza***
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", there were several securitisations in place at the two banks in compulsory administrative liquidation and at their respective subsidiaries at the date of execution.

  – ***Securitisations of the former Banca Popolare di Vicenza***
  As at 31 December 2017, there were nine multi-originator securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving Banca Nuova and the former Banca Popolare di Vicenza) named Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, Berica ABS 2, Berica ABS 3, and Berica ABS 4.
  For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.

  – ***Securitisations former Veneto Banca***
  As at 31 December 2017, there were ten securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving the former Veneto Banca and Banca Apulia) named Claris ABS 2011, Claris Finance 2005, Claris Finance 2007, Claris Finance 2008, Claris RMBS 2011, Claris RMBS 2014, Claris Sme 2015, Claris SME 2016 and Apulia Finance n.4, First and Second issue.
  For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.
  The securitisation Claris Finance 2007 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes.

– ***GARC Securitisations***
With regard to the transactions carried out in 2017, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***SME Initiative Italy Securitisation***
With regard to the transactions carried out in 2017, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***Telefonia 2 Securitisation***
With regard to the transactions carried out in 2017, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***Telefonia 3 Securitisation***
With regard to the transactions carried out in 2017, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***K-Equity Securitisation***
With regard to the transactions carried out in 2017, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

Securitisations for which the Group acts a sponsor

– ***Muttley and Setafia Securitisations***
In 2015 Banca IMI sponsored 2 securitisations on trade receivables, in the furniture and furnishing sector for 55 million euro and in the pharmaceutical sector for 80 million euro respectively. Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Muttley and Setafia respectively) which proceeded to securitise the risk by issuing securities. For these transactions, the vehicles Muttley S.r.l., Setafia SPV S.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l, ABS Funding S.A. and Duomo Funding Plc were used. All the securities issued are unrated.

Asset-Backed Commercial Paper (ABCP) programmes

In accordance with IAS/IFRS, Intesa Sanpaolo controls and fully consolidates:

- ***Romulus Funding Corporation***
  a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;

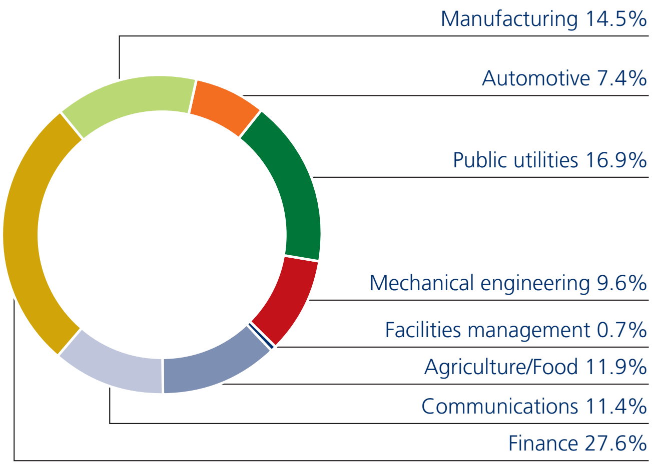
- ***Duomo Funding PLC***
  an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc are asset-backed commercial paper conduits of the Intesa Sanpaolo Group, 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, approximately 4.9 billion euro of the securities issued by Romulus, amounting to 5.1 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo. The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks. 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 to 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 – it consisted of loans to customers of 2.4 billion euro.
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 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%).

Again with regard to the portfolio of eligible assets, the chart below shows the breakdown by economic sector.

Breakdown by economic sector



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.

List of stakes in special purpose vehicles held by the Banking Group

(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. (ex 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	-	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 infragroup relations.

(c) Self-securitisation vehicle described in paragraph 4 of Quantitative Information of section 1.3 Banking Group - Liquidity Risk of Part E of the Notes to the consolidated financial statements at 31 December 2017.

(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 the 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 the 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 of Part E of the Notes to the consolidated financial statements as at 31.12.2017

(l) Vehicle deriving from the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

(m) Vehicle that includes three segments, one of which refers to a retained securitisation (third issue) and two of which to securitisations (first and second 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.

“Third-party” securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank’s assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

Nature of the risks, including liquidity risk, relating to the securitised assets

In addition to credit risk, the securitised assets are subject to other types of risk. These include:
- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. Generally, in any case, the interest rate and exchange rate risks are subject to hedging transactions or are factored in the credit enhancement of the transaction. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third-party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Section on Market risks), as well as their eligibility as high-quality liquid assets (HQLA) in accordance with the rules established by the Delegated Regulation 2015/61 and their eligibility for refinancing with Central Banks and liquidability, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

Exposures to originated and third-party re-securitisations: type of risk

The Group’s re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures (See Quantitative Disclosure of this Section), and progressively declining.

Procedures for monitoring changes in credit and market risk of the securitisations

The ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC are included. As regards monitoring of the management market risk, the ABS risk factor is fully included in the ordinary process laid down by the Market Risk Charter. In particular, for the positions in ABS securities belonging to the trading book and the available-for-sale portfolio, the Financial and Market Risks Head Office Department carries out the calculation of the VaR to monitor the market risks with the “illiquid parameters” method, given the specific characteristics of the risk factor considered, and monitors their absorption according to the set VaR limits. In addition, the exposure to ABS is within the monitoring scope of the issuer risk (credit ceiling and concentration limits), as well as in other possible second level limits.

Furthermore, the Financial and Market Risks Head Office Department carries out the monthly calculation of fair value for accounting purposes for the positions in securitisations held in the trading book and in the available-for-sale portfolio. For the loans and receivables positions, this calculation is carried out for quarterly disclosure purposes for the reclassified securities and every six months for originated loans and receivables.

Finally, the Financial and Market Risks Head Office Department carries out the monthly analytical impairment analysis for the banking book securitisations in order to identify any losses realised and determine a consequent adjustment of the book value. This activity, described in detail below, is based on the analysis of the performance and of any deterioration in the credit standing of the collateral underlying the securitisations.

Risk hedging policies for exposures to securitisations and re-securitisations

Currently, no protection purchase strategies are in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

Securitisations: methods for calculating the risk weighted exposures

Intesa Sanpaolo uses the Standardised approach and, starting from 31 December 2012, the IRB Approach (Rating Based Approach – RBA and Supervisory Formula Approach - SFA) to calculate the capital requirement for credit risk from securitisations with underlying assets for which there is an internal model validated in the corresponding credit risk. The currently validated regulatory segments are: Large Corporate, Corporate, Specialised Lending, Public Sector Entities, Banks, Retail SME and Retail Mortgages. The IRB Approach - RBA is used for third-party securitisations with public rating (Agency Rating). The IRB Approach - SFA is used for originated securitisations.

Securitisations: accounting policies

The securitisation transactions, whose accounting treatment is governed by IAS 39 (in particular in the paragraphs relating to derecognition), are divided into two types depending on whether the underlying assets must be derecognised from the seller’s financial statements or not.

In the event of derecognition
When all the risks and benefits associated with the ownership of the securitised assets are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.
If the total consideration received is not formed by an on-balance sheet sum, but partly by financial assets, the latter are initially recorded at fair value and this fair value is also used for the purpose of calculating the profit or loss on disposal.
If the transferred asset is part of a “greater” financial asset (for example, if only part of the cash flows that derive from a receivable is subject to disposal) and the transferred part meets the requirements for derecognition, the book value of the “greater” financial asset must be divided between the part that continues to be recognised and the part subject to derecognition based on the corresponding fair values at the transfer date.
Moreover, in case of derecognition, any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.
Therefore, in light of the above, the assets sold are derecognised from the balance sheet, and the consideration from the sale, as well as the connected profit or loss, are normally recorded in the financial statements at the date of completion of the sale. More generally, the entry date for the transfer in the financial statements depends on the contractual clauses. For example, if the cash flows from the assets sold are transferred after the execution of the agreement, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows. Instead, in the case a sale is subject to conditions precedent, the assets are derecognised and the profit or loss from the sale is recognised when the condition precedent clause ceases.
The profit or loss, recognised in the income statement, is classified, in principle and net of any other components, as the difference between the consideration received and the book value of the assets sold.

In the event of no derecognition
If a transfer does not require derecognition because the seller essentially maintains all the risks and benefits associated with the ownership of the transferred assets, the seller continues to recognise in its financial statements the assets transferred in total and recognises a financial liability against the consideration received.
A common example of transfer which does not result in derecognition is when the originator sells a loan portfolio to a special purpose vehicle, but subscribes in full for the junior class of securities issued by the latter (therefore retaining the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.
Therefore, in the event of no derecognition, the receivables subject to securitisation continue to be entered in the balance sheet of the seller; furthermore, after the sale, the seller is obliged to record any income from the transferred asset and any charge incurred on the liability entered without any netting of the costs and revenues.
The transferred loan portfolio continues to be classified in the loan category that it originally formed part of and, consequently, if it meets the adequate requirements, it continues to be measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.
In this case too, considering the provisions of IAS 39 on the matter, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained.
It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2 and Intesa Sec Npl), the Group made use of the exemption from compliance with the IAS/IFRS requirements permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recognised in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

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

Assessment of exposures to securitisations - banking book
For securities deriving from securitisations, the need to recognise impairment is assessed if the fair value is lower than the carrying value by a percentage set a priori (20%), or if there is potential evidence of impairment. This process has not changed with respect to the previous year.
If one of these conditions is in place, the securitisation is analysed to check whether the reduction in fair value is due to a generic increase of the spreads on the secondary market or an impairment of the collateral. In the former case the conditions are not met to proceed to the impairment; instead, in the latter the analysis focuses on the performance of the underlying elements, which constitute the vehicle’s assets, and the methods with which such performance is reflected on the subordination characteristics of the securities in the portfolio.
Specifically, the procedure involves the following steps:
- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or, as an extreme measure, the advance termination of the deal. The analysis is based on the periodic reports from the vehicle administrators and rating agencies;
- specifically for junior tranches of securitisations originated by Intesa Sanpaolo, which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to the underlying loans and the features of the payment waterfall.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security in the portfolio. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, it is necessary to check whether the note's credit enhancement can still sufficiently absorb the losses. If this check leads to a negative outcome, the security must be written down.
Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- the fair value is recalculated based on the new rules and the new available cash flows are compared with the credit enhancement of the tranche in the portfolio, in the event of trigger covenants resulting in new payment priorities.

In summary, for all the securitisations classified in the banking book, the impairment analysis is carried out based on the valuation of the collateral to determine the overall flows deriving from the primitive assets. These flows are allocated to the tranches of the securitisation based on all the structuring and performance characteristics of the collateral (waterfall, trigger, CDR, CPR, etc.). The Intex and Bloomberg software is used for the allocation of the cash flows to the individual tranches, except for a small number of private securitisations only, where cash flow models are used. They are developed internally during the structuring of the deal and duly updated with the performance of the collateral.

Assessment of exposures to securitisations - trading book
Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Section 13 - Market risk).

Synthetic securitisations
Synthetic securitisations are usually recognised on the basis of the following rules.
The loans subject to synthetic securitisation continue to be recorded in the assets of the bank (protection buyer) that has retained their full ownership. The premium paid by the bank to the protection seller for the purchase of the protection contract is recorded under commission expense in the income statement, where the premiums relating to the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

Securitisations: recognition criteria for prudential purposes
The prudential regulations on securitisations are governed directly by the CRR, in particular in Part 3, Title II, Chapter 5 and Part 5, and are supplemented by the following Regulations:
- Delegated Regulation 625/2014 of 13 March 2014 which concerns the regulatory technical standards specifying the requirements for investor, sponsor, original lender and originator institutions relating to exposures to transferred credit risk;
- Implementing regulation (EU) no. 602/2014 of 4 June 2014 laying down implementing technical standards for facilitating the convergence of supervisory practices with regard to the implementation of additional risk weights relating to securitisation transactions.
- Implementing regulation (EU) 2016/1801 of 11 October 2016 on laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for securitisation in accordance with Regulation (EU) No 575/2013.

In addition, the issue is further dealt with in the EBA guidelines:
- to define arm's length conditions and when a transaction is not structured to provide implicit support, according to Article 248 of the CRR (EBA GL/2016/08); a subject that is also referred to in the ECB's letter of July 2017, which provides guidance on the additional requirements relating to the notification and the documentation referred to in that article;
- on the significant transfer of risk pursuant to Articles 243 and 244 of the CRR (EBA GL/2014/05); a subject that is also referred to in the ECB's letter of March 2016, which provides additional guidance to the industry regarding the recognition of the significant credit risk transfer.

Although the prudential regulations indicated above present clear analogies with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not material for the purposes of recognition for prudential purposes. Therefore, intermediaries may see situations where the accounting figures and the reports for prudential purposes are different. In the case of the Intesa Sanpaolo Group, this possibility is not significant, because the financial statement criteria and prudential reporting criteria are only different for the Intesa Sec 3 and Claris Finance 2007 transactions (see Quantitative Disclosure below).
Indeed, these transactions are:
- not de-recognised for financial statement purposes, because – in accordance with the applicable accounting standards – the Group has essentially maintained the risks and benefits of the portfolio sold;
- derecognised for prudential supervision purposes, following – based on the prudential rules in effect upon creation of the securitisation – a significant transfer of risk, as the prudential requirement of exposures to the securitisation in the portfolio ("post-securitisation" requirement) was lower – upon structuring of the transaction – than the amount calculated on the securitised assets ("ante-securitisation" requirement) (the "static test").

Quantitative disclosure

The tables below detail the net and gross exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: amount of the positions relating to originated and third-party securitisations

(millions of euro)

	On-balance sheet exposures						Guarantees given					
	Senior Exposure		Mezzanine Exposure		Junior Exposure		Senior Exposure		Mezzanine Exposure		Junior Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**6,299**	**6,252**	**877**	**849**	**3,346**	**3,224**	**-**	**-**	**-**	**-**	**-**	**-**
a) Bad loans	*119*	*89*	*236*	*212*	*115*	*79*	-	-	-	-	-	-
b) Other	*6,180*	*6,163*	*641*	*637*	*3,231*	*3,145*	-	-	-	-	-	-
B. Third party underlying assets	**7,358**	**7,311**	**510**	**483**	**232**	**214**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2017	**13,657**	**13,563**	**1,387**	**1,332**	**3,578**	**3,438**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2016	**11,311**	**11,308**	**879**	**835**	**234**	**213**	**-**	**-**	**-**	**-**	**-**	**-**

	Credit lines						Total					
	Senior Exposure		Mezzanine Exposure		Junior Exposure		Senior Exposure		Mezzanine Exposure		Junior Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets (*)	**2,794**	**2,794**	**-**	**-**	**-**	**-**	**9,093**	**9,046**	**877**	**849**	**3,346**	**3,224**
a) Bad loans	-	-	-	-	-	-	*119*	*89*	*236*	*212*	*115*	*79*
b) Other	*2,794*	*2,794*	-	-	-	-	*8,974*	*8,957*	*641*	*637*	*3,231*	*3,145*
B. Third party underlying assets (**)	**2,414**	**2,414**	**-**	**-**	**-**	**-**	**9,772**	**9,725**	**510**	**483**	**232**	**214**
TOTAL 31.12.2017	**5,208**	**5,208**	**-**	**-**	**-**	**-**	**18,865**	**18,771**	**1,387**	**1,332**	**3,578**	**3,438**
TOTAL 31.12.2016	**4,985**	**4,985**	**28**	**28**	**-**	**-**	**16,296**	**16,293**	**907**	**863**	**234**	**213**

(*) The amount includes 2,751 million relating to lines of credit granted in respect of loans for which the derecognition conditions set out in IAS 39 have not been satisfied.

(**) Including the Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes, the details of which are provided in the following tables regarding third-party securitisations.

With the exception of the synthetic GARC securitisations, the Group's originated securitisations include only traditional transactions and ABCP (Asset Backed Commercial Paper) programmes.

Total amount of assets awaiting securitisation

In 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).
For each of the agreements signed, the loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. As a guarantee for the two portfolios, the Bank has received a total cash collateral amount of 16.4 million euro, into an interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.
The construction of portfolios regarding the first and second agreement was developed starting from 2011 and from 2012 and it was completed, as contractually agreed, on 31 October 2014.

Given the specific investment objectives indicated by the aforementioned agreements and the ongoing difficult economic conditions, applications for special-purpose loans were limited and a limited number of transactions could be carried out (overall, a total of 23 transactions were finalised - including 6 redeemed in advance and 2 in default - with a residual value at 31 December 2017 of 5.1 million euro. There is also a transaction involving an arrangement with creditors which is past due for an amount of 1.6 million euro).
This cash collateral, due to the pledge agreements entered into on 18 April 2016 between the Ministry of Economic Development and MCI and to ministerial decrees no. 3555 and 3556 of 16 June 2016, was decreased on 20 December 2016, replaced by two pledges guaranteeing the residual portfolios, originally totalling 2.1 million euro.
In 2017, the guarantees on these defaults were enforced, extinguishing the pledge guaranteeing the “Patents” portfolio and reducing the pledge guaranteeing the “Designs and models” portfolio, which has a residual amount of 1.6 million euro.

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

(millions of euro)

	On-balance sheet exposures(*)			Off-balance sheet exposures (*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,089	329	17	-	-	-
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	644	29	8	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans (**)	5,640	136	211	2,457	-	-
TOTAL 31.12.2017	**7,373**	**494**	**236**	**2,457**	**-**	**-**
TOTAL 31.12.2016	**7,281**	**501**	**83**	**2,947**	**28**	**-**

(*) Not including on-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised, in the total amount of 10,229 million euro. As at 31 December 2017, off-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised amounted to 2,751 million euro.

(**) Off-balance sheet exposures, composed of "Guarantees issued" and "Lines of credit", have been included in this caption by convention.

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure *(Table 1 of 2)*

(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 for prudential and financial statement purposes	**63**	**-**	**11**	**-**	**22**	**-4**
A.1 Intesa Sec Npl (**)						
- Residential mortgage loans	*-*	*-*	*-*	*-*	*8*	*-4*
A.4 Tibet CMBS S.r.l.	-	-	-	-	-	-
- Other assets	*19*	*-*	*7*	*-*	*-*	*-*
A.5 Towers S.r.l.	-	-	-	-	-	-
- Consumer credit	*44*	*-*	*4*	*-*	*14*	*-*
B. Partly derecognised for prudential and financial statement purposes	-	-	-	-	-	-
C. Not derecognised for prudential and financial statement purposes	**6,189**	**-15**	**838**	**2**	**3,202**	**-5**
C.1 GARC (***)						
- Loans to businesses including SMEs	*4,914*	*-6*	*-*	*-*	*22*	*-*
C.2 Tranched Cover Piemonte (***)						
- Loans to businesses including SMEs	*36*	*-*	*-*	*-*	*1*	*-*
C.3 Sme Initiative Italy (***)						
- Loans to businesses including SMEs	*495*	*-*	*1*	*-*	*10*	*-*
C.4 K Equity (**)						
- Loans to businesses including SMEs	*89*	*-10*	*212*	*-*	*70*	*-*
C.5 Securitisation Food & Beverage						
- Trade receivables	*1*	*-*	*-*	*-*	*-*	*-*
C.6 Securitisation Telefonia						
- Trade receivables	*6*	*-*	*-*	*-*	*-*	*-*
C.7 Securitisation Luce						
- Trade receivables	*24*	*-*	*8*	*-*	*-*	*-*
C.8 Securitisation Automotive, Electronic & Mechanics						
- Crediti al commercio	*2*	*-*	*-*	*-*	*-*	*-*
C.9 Securitisation Fuel (****)						
- Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
C.10 Securitisation Gas (****)						
- Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
C.11 Berica ABS						
- Residential mortgage loans	*90*	*-*	*13*	*-*	*301*	*-*
C.12 Berica ABS 2						
- Residential mortgage loans	*14*	*-*	*-*	*-*	*172*	*-*
C.13 Berica ABS 3						
- Residential mortgage loans	*-*	*-*	*40*	*2*	*115*	*-*
C.14 Berica ABS 4						
- Residential mortgage loans	*35*	*-*	*123*	*-*	*95*	*-*
C.15 Berica 5 RMBS						
- Residential mortgage loans	*14*	*-*	*12*	*-*	*25*	*-*
C.16 Berica 6 RMBS						
- Residential mortgage loans	*38*	*-*	*23*	*-*	*1*	*-*
C.17 Berica 8 RMBS						
- Residential mortgage loans	*5*	*-*	*-*	*-*	*162*	*-*
C.18 Berica 9 RMBS						
- Residential mortgage loans	*47*	*-*	*-*	*-*	*187*	*-*

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure *(Table 2 of 2)*

(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
C.19 Berica 10 RMBS						
- Residential mortgage loans	*-*	*-*	*38*	*-*	*31*	*-*
C.20 Claris ABS 2011						
- Residential mortgage loans	*4*	*-*	*-*	*-*	*611*	*-*
C.21 Claris Finance 2005						
- Residential mortgage loans	*27*	*-*	*-*	*-*	*25*	*-*
C.22 Claris Finance 2007						
- Residential mortgage loans	*50*	*1*	*6*	*-*	*9*	*-*
C.23 Claris Finance 2008						
- Residential mortgage loans	*6*	*-*	*14*	*-*	*85*	*1*
C.24 Claris RMBS 2011						
- Residential mortgage loans	*37*	*-*	*-*	*-*	*186*	*-*
C.25 Claris RMBS 2014						
- Residential mortgage loans	*156*	*-*	*-*	*-*	*176*	*1*
C.26 Claris SME 2015						
- Residential mortgage loans	*78*	*-*	*290*	*-*	*403*	*-5*
C.27 Claris SME 2016						
- Residential mortgage loans	*-*	*-*	*-*	*-*	*393*	*-2*
C.28 Intesa Sec 3						
- Residential mortgage loans	*-*	*-*	*28*	*-*	*50*	*-*
C.29 Apulia Finance n. 4						
- Residential mortgage loans	*21*	*-*	*30*	*-*	*72*	*-*
TOTAL 31.12.2017	**6,252**	**-15**	**849**	**2**	**3,224**	**-9**
TOTAL 31.12.2016	**4,187**	**-**	**345**	**8**	**162**	**-5**

(*) Originated securitisations are included in the banking book, with the exception of exposures of 153 million euro relating to traditional securitisations included in the trading book. By way of addition to the information presented in the table, it should be noted that losses on disposal recognised by the Group on the senior, mezzanine and junior exposures amounted to less than 1 million euro.

(**) The amount refers to non-performing financial assets.

(***) The transactions referred to as "GARC", "Tranched Cover Piemonte" and "SME Initiative Italy" are synthetic securitisations.

(****) The Fuel and Gas securitisations in Banca IMI's portfolio amounted to less than 1 million euro and have thus been presented in the table with nil values.

The exposures in the table above include the transactions named Intesa Sec 3 and Claris Finance 2007, which have not been derecognised for financial reporting purposes, but have been derecognised for prudential purposes.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net Expos.	Adjust./ recoveries	Net Expos.	Adjust./ recoveries	Net Expos.	Adjust./ recoveries	Net Expos.	Adjust./ recoveries	Net Expos.	Adjust./ recoveries	Net Expos.	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes												
A.1 Duomo funding PLC.	-	-	-	-	-	-	**43**	-	-	-	-	-
- Consumer credit	-	-	-	-	-	-	*43*	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes												
C.1 Duomo Funding Plc.	-	-	-	-	-	-	**2,751**	-	-	-	-	-
- trade receivables (*)	-	-	-	-		-	*2,751*	-	-	-	-	-
TOTAL 31.12.2017	-	-	-	-	-	-	**2,794**	-	-	-	-	-
TOTAL 31.12.2016	-	-	-	-	-	-	**2,478**	-	**28**	-	-	-

(*) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39

Securitisations: breakdown of on-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(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	-
- Banking book	5,157	-	2	-	-	-
- Trading book	73	-	5	-	1	-
Securitisations	47	-	-	-	-	-
- Banking book	47	-	-	-	-	-
- Trading book	-	-	-	-	-	-
Consumer credit	72	-	21	-	-	-
- Banking book	12	-	4	-	-	-
- Trading book	60	-	17	-	-	-
Trade receivables	272	-1	-	-	-	-
- Banking book	272	-1	-	-	-	-
- Trading book	-	-	-	-	-	-
Leases	22	-	5	-	14	-
- Banking book	-	-	-	-	5	-
- Trading book	22	-	5	-	9	-
Commercial mortgage loans	52	-	20	-1	8	-
- Banking book	15	-	8	-1	4	-
- Trading book	37	-	12	-	4	-
Residential mortgage loans	1,062	4	233	5	125	-
- Banking book	391	2	63	1	125	-
- Trading book	671	2	170	4	-	-
Loans to businesses (including SME) (****)	554	-9	197	-3	66	-38
- Banking book	328	-10	78	-2	63	-38
- Trading book	226	1	119	-1	3	-
TOTAL 31.12.2017	**7,311**	**-6**	**483**	**1**	**214**	**-38**
- Banking book	**6,222**	**-9**	**155**	**-2**	**197**	**-38**
- Trading book	**1,089**	**3**	**328**	**3**	**17**	**-**
TOTAL 31.12.2016	**7,121**	**7**	**490**	**-5**	**51**	**-**
of which: Banking book	**6,138**	**8**	**172**	**-5**	**15**	**-**
of which: Trading book	**983**	**-1**	**318**	**-**	**36**	**-**

(*) By way of addition to the information presented in the table, it should be noted that, with regard to banking book positions, the losses on disposal recognised by the Group amounted to 5 million euro for senior exposures, 1 million euro for mezzanine exposures and less than 1 million euro for junior exposures.

(**) It should be noted that by convention senior exposures have also been considered to include 330 million euro of mono-tranche securities, which for prudential supervision purposes are not regarded as securitisation positions.

(***) The amount also includes the Romulus securities of 4,944 million euro held in the Banking Group's portfolio and presented by convention among third-party securitisations. These securities are included in portfolio, but are not weighted for supervisory purposes, because the off-balance sheet positions included among third-party underlying assets have already been subject to weighting.

(****) Exposures also include non-performing assets of 66 million euro for senior notes, 75 million euro for mezzanine notes and 63 million euro for junior notes. The item also includes debt securities issued by the securitisation vehicle formed 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 Voluntary Scheme of the Interbank Deposit Protection Fund, of which the Group is a member. The related junior notes have been written off in their entirety.

Securitisations: breakdown of off-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/Exposure	GUARANTEES GIVEN						CREDITI 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 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**	**2,414**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2016	**-**	**-**	**-**	**-**	**-**	**-**	**2,507**	**-**	**-**	**-**	**-**	**-**

Securitisations: weighted amount of securitisation positions based on risk weight bands – Standardised approach

(millions of euro)

Risk weight bands	31.12.2017		31.12.2016	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	10	22	20	47
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	7
Risk weight 50%	3	14	3	25
Risk weight 100%	-	4	-	93
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	105
Risk weight 350%	17	36	18	575
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	288	2,020	520	2,218
Total	**318**	**2,096**	**561**	**3,070**

(*) Weighting factors applied to securitised assets per regulatory requirements in the event of failure of the cap test.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Securitisations: weighted amount of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach)

(millions of euro)

Risk weight bands	31.12.2017		31.12.2016	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	5	76	-	109
Risk weight 12 - 18%	6	53	1	30
Risk weight 20 - 35%	-	103	7	60
Risk weight 40 - 75%	-	127	-	123
Risk weight 100%	-	83	-	97
Risk weight 150%	-	-	-	12
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	24	-	13
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	232	-	153
Risk weight 500%	-	21	-	69
Risk weight 650%	-	40	-	57
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	28	-	-
SFA - Supervisory Formula Approach	663	-	452	-
Total	**674**	**787**	**460**	**723**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations.

Additional information on market risks of the trading book, including the capital requirement in relation to the securitisations included in that book, is set out in the Section of this document on market risks, which also presents separately the requirements relating to exposures to securitisations in the trading book.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	10	-	16	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	3	-	-	-
Risk weight 100%	-	-	-	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	10	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	288	-	2,020	-
Total RWA Banking book as at 31.12.2017	**311**	**-**	**2,036**	**-**
Total RWA Banking book as at 31.12.2016	**554**	**-**	**2,988**	***150***
Capital requirements				
Risk weight 20%	1	-	1	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	-	-
Risk weight 100%	-	-	-	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	1	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	23	-	162	-
Total Requirements Banking book as at 31.12.2017	**25**	**-**	**163**	**-**
Total Requirements Banking book as at 31.12.2016	**44**	**-**	**239**	***12***

(*) Weighting factors applied to securitised assets per regulatory requirements in the event of failure of the cap test.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	-	-	6	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	14	-
Risk weight 100%	-	-	4	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	7	-	36	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Total RWA Trading book as at 31.12.2017	**7**	**-**	**60**	**-**
Total RWA Trading book as at 31.12.2016	**7**	**-**	**82**	**-**
Capital requirements				
Risk weight 20%	-	-	1	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	1	-
Risk weight 100%	-	-	-	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	1	-	3	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Total Requirements Trading book as at 31.12.2017	**1**	**-**	**5**	**-**
Total Requirements Trading book as at 31.12.2016	**1**	**-**	**7**	**-**

(*) Weighting factors applied to securitised assets per regulatory requirements in the event of failure of the cap test.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach- Supervisory Formula Approach)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	4	-	41	-
Risk weight 12 - 18%	5	-	4	-
Risk weight 20 - 35%	-	-	25	*13*
Risk weight 40 - 75%	-	-	39	*11*
Risk weight 100%	-	-	33	*25*
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	17	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	20	-
Risk weight 500%	-	-	21	*21*
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	28	-
SFA - Supervisory Formula Approach	663	-	-	-
Total RWA Banking book as at 31.12.2017	**672**	**-**	**228**	***70***
Total RWA Banking book as at 31.12.2016	**458**	**-**	**323**	***57***
Capital requirements				
Risk weight 7 - 10%	-	-	3	-
Risk weight 12 - 18%	1	-	-	-
Risk weight 20 - 35%	-	-	2	*1*
Risk weight 40 - 75%	-	-	3	*1*
Risk weight 100%	-	-	3	*2*
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	1	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	2	-
Risk weight 500%	-	-	2	*2*
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	2	-
SFA - Supervisory Formula Approach	53	-	-	-
Total Requirements Banking book as at 31.12.2017	**54**	**-**	**18**	***6***
Total Requirements Banking book as at 31.12.2016	**37**	**-**	**26**	***5***

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	1	-	35	-
Risk weight 12 - 18%	1	-	49	-
Risk weight 20 - 35%	-	-	78	-
Risk weight 40 - 75%	-	-	88	-
Risk weight 100%	-	-	50	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	7	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	212	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	40	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
Total RWA Trading book 31.12.2017	**2**	**-**	**559**	**-**
Total RWA Trading book 31.12.2016	**2**	**-**	**400**	***30***
Capital requirements				
Risk weight 7 - 10%	-	-	3	-
Risk weight 12 - 18%	-	-	4	-
Risk weight 20 - 35%	-	-	6	-
Risk weight 40 - 75%	-	-	7	-
Risk weight 100%	-	-	4	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	1	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	17	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	3	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
Total Requirements Trading book as at 31.12.2017	**-**	**-**	**45**	**-**
Total Requirements Trading book as at 31.12.2016	**-**	**-**	**32**	**2**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Exposures to originated and third-party re-securitisations – exposures covered by credit risk mitigation techniques

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Securitisations carried out during the period

– ***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), part 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.

Section 13 - Market risk

MARKET RISK/TRADING BOOK

Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company's Board of Directors, through the attribution of operating limits in terms of VaR to the various Group units.
The overall limits of the Group and of Intesa Sanpaolo and Banca IMI are included in the Group's Risk Appetite Framework. At the same time, the Board of Directors of the Parent Company defines the operating limits in terms of VaR for other companies of the Group which hold smaller trading books whose risk is marginal.
The Group Financial Risk Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the Board of Directors and the Steering Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risk Committee, which discusses the guidelines for the management of market risks.
As part of its functions, the Financial and Market Risks Department is responsible for the:
- calculation, development and definition of the risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).

The structure of the Financial and Market Risks Department is based on the following guidelines:
- structuring of the responsibilities according to the main risk-taking centres and to "Risk Type";
- focusing and specialisation of the resources on the "Risk Owners";
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;
  - the general consistency of the data produced.

Scope of application and characteristics of the risk measurement and reporting system

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.

The regulatory requirements for the trading book are established in Regulation EU 575/2013 (CRR - Part Three, Title I, Chapter 3, in Articles 102, 103, and 104 respectively). The combined provisions of those articles lay down the set of minimum requirements for the identification of the trading strategies and the measurement and control of the associated risks. This set of requirements consists of the need to:
- define, formalise and monitor the trading strategies, both quantitatively and qualitatively;
- ensure a clear reporting line along which powers, responsibilities and information are correctly transferred;
- ensure an effective system of control and limitation of the risks connected with the holding of the trading book;
- ensure that the positions meet the minimum requirements for recognition in the trading book.

Based on the requirements of the applicable regulations, Intesa Sanpaolo has established a policy (in the document “Rules on the identification and management of the prudential trading book”), which identifies the trading book based on the following:
– measurement at fair value through profit and loss of the instruments held for trading
– the strategies defined
– the risk-taking centres identified
– the monitoring, limitation and management of the risks defined in accordance with the internal regulations on market risk.
In particular, the assets classified in the regulatory trading book coincide – apart from some specific exceptions – with the financial assets held for trading (Bank of Italy Circular 262). This association derives from the set of strategies, powers, limits and controls that feed and guarantee the adjacency and consistency between the accounting and prudential portfolios.
A metric of *verification of consistency of the inclusion in the trading book* has also been established, consisting of the indicator of average vintage, which is subject to a monitoring and escalation process, provided for in the above-mentioned internal policy.

The risk indicators used for the trading risks may be divided into six main types:
– Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
– sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
– level measures (such as notional and Mark-to-Market), which are a useful aid to the above indicators as an immediately applicable solution;
– stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
– Incremental Risk Charge (IRC), an additional measure to VaR that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk.
– Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document “Revision to the Basel II market risk framework".

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Financial and Market Risks Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).
This set of information represents an effective means for deciding policies for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.
During the weekly meetings the Financial and Market Risks Department ensures the consistency of the positions with the decisions taken in the Group Financial Risk Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.
More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the main other subsidiaries that carry out retail and corporate banking.
Specifically, in managing interest rate risk in the banking book, the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, positions are adopted that are consistent with the strategic views produced during the regular meetings of the Group Financial Risk Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.
"Structural" foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities and income of branches and banking subsidiaries abroad.
The banking book also includes the exposure to the price risk deriving from the equity investments in companies not consolidated on a line-by-line basis and to the foreign exchange risk represented by equity investments in foreign currency, including Group companies.

Structure and organisation of the associated risk management function

Within the Financial and Market Risks Department, the market risks of the Banking Book and the Liquidity risk (discussed below) are overseen by the Banking Book Financial Risks Sub-Department, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Statutory Bodies, reporting on their progress to Top Management and the Parent Company's operational structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the AVM and Strategies Sub-Department in relation to strategic ALM.

Scope of application and characteristics of the risk measurement and reporting system

The following metrics are used to measure the interest rate risk generated by the banking book:

1. shift sensitivity of economic value (ΔEVE);
2. net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);
   - 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.

Policies for hedging and mitigating risk

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.

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

Risk factors	
Interest rates	Spreads in credit default swaps (CDS)
Equity and market indexes	Spreads in bond issues
Investment funds	Correlation instruments
Foreign exchange rates	Dividend derivatives
Implied volatilities	Asset Backed Securities (ABS)
	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.

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

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 requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on units of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The VaR and the Stressed VaR used to determine the capital requirement, use the same calculation engine and the same pricing libraries for the full evaluation of the managerial measures. With regard to the latter, however, there is no delay factor in the application of the scenarios.
The observation window for the VaR and SVaR is 1 year and the figure is updated on a daily basis.
The daily measures are turned into ten-day measures through the square root of time formula to obtain data that can be used to determine the requirement.

See the paragraph below, for more details on the Incremental Risk Charge.

Effective from June 2014, market risks capital requirements for the Parent Company's hedge fund portfolios is included in the Internal Model.
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.
Following that reduction, the prudential multipliers for both banks were set at 3.4, both for current VaR values and for those in stress conditions.

The requirement as at 31 December 2017 includes the effects from the extension to the trading books of Banca Popolare di Vicenza and Veneto Banca to the scope of Intesa Sanpaolo.

EU MR1 - Market risk under the standardised approach

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	408	33
2	Equity risk (general and specific)	723	58
3	Foreign exchange risk	848	67
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**628**	**50**
9	**Total**	**2,607**	**208**

EU MR2-A – Market risk under the IMA[11]

(millions of euro)

			RWAs	Capital requirements
1		VaR (higher of values a and b)	**3,162**	**253**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		62
	b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		253
2		SVaR (higher of values a and b)	**9,956**	**796**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		206
	b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		796
3		IRC (higher of values a and b)	**2,107**	**169**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		130
	b)	Average of the IRC number over the preceding 12 weeks		169
4		Comprehensive risk measure (higher of values a, b and c)	-	-
	a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		-
	b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		-
	c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		-
5		**Other**	-	-
6		**TOTAL**	**15,225**	**1,218**

Stress VAR

From 31 December 2011, The capital requirement for market risk includes 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 II market risk framework":ed VaR

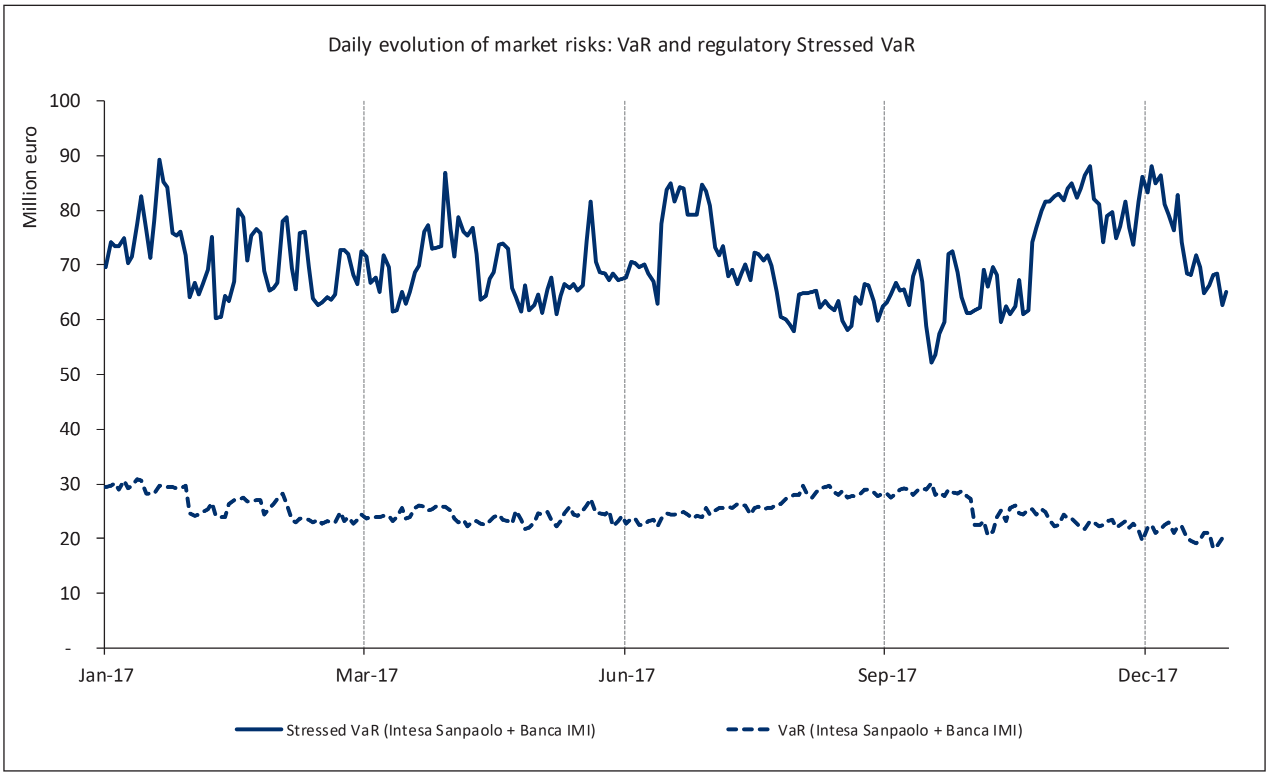
- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

While using the historical simulation approach, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As of publication date of the document, the period relevant to the measurement of stressed VaR was set between

[11] The VaR figure in the table includes illiquid parameters.

1 April 2008 to 31 March 2009 for Intesa Sanpaolo and between 1 July 2011 to 30 June 2012 for Banca IMI.
The graph below shows the trend of the measures.



The table below shows the breakdown of the capital requirements for current and Stressed VaR measures

EU MR3 – IMA values for trading portfolios

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	31
2	Average value	23
3	Minimum value	17
4	Period end	20
SVaR (10 day 99%)		
5	Maximum value	92
6	Average value	74
7	Minimum value	58
8	Period end	65
IRC (99.9%)		
9	Maximum value	233
10	Average value	165
11	Minimum value	123
12	Period end	130
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

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 trading portfolio resulting from an upgrade/downgrade or default 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.This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.
The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.
A regular stress program is applied to the model’s main parameters (correlation, and transition, default and credit spread matrices).

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).

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 59 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 (95 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.

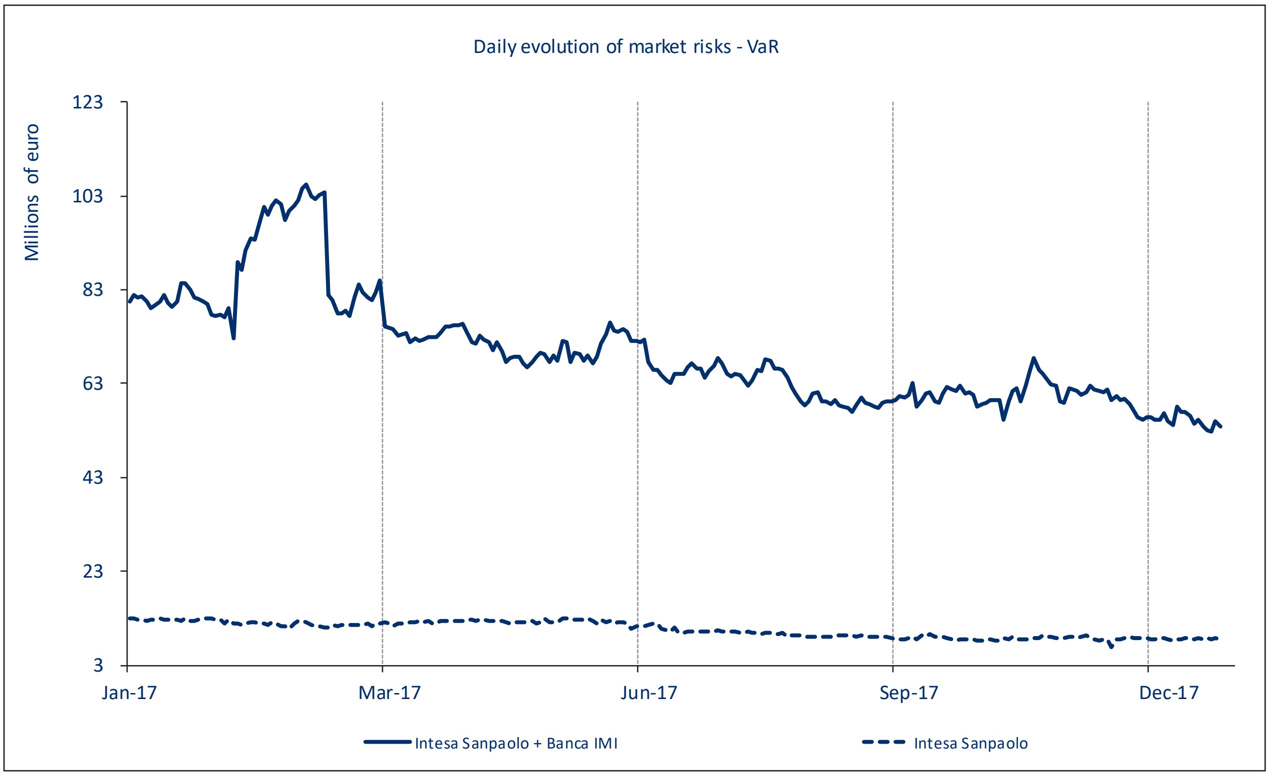
Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2017 and 2016 [(a)]

(millions of euro)

	2,017				2,016		
	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 2016	Shares	Hedge fund	Rates	Credit spread	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		COMMODITY	
	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.

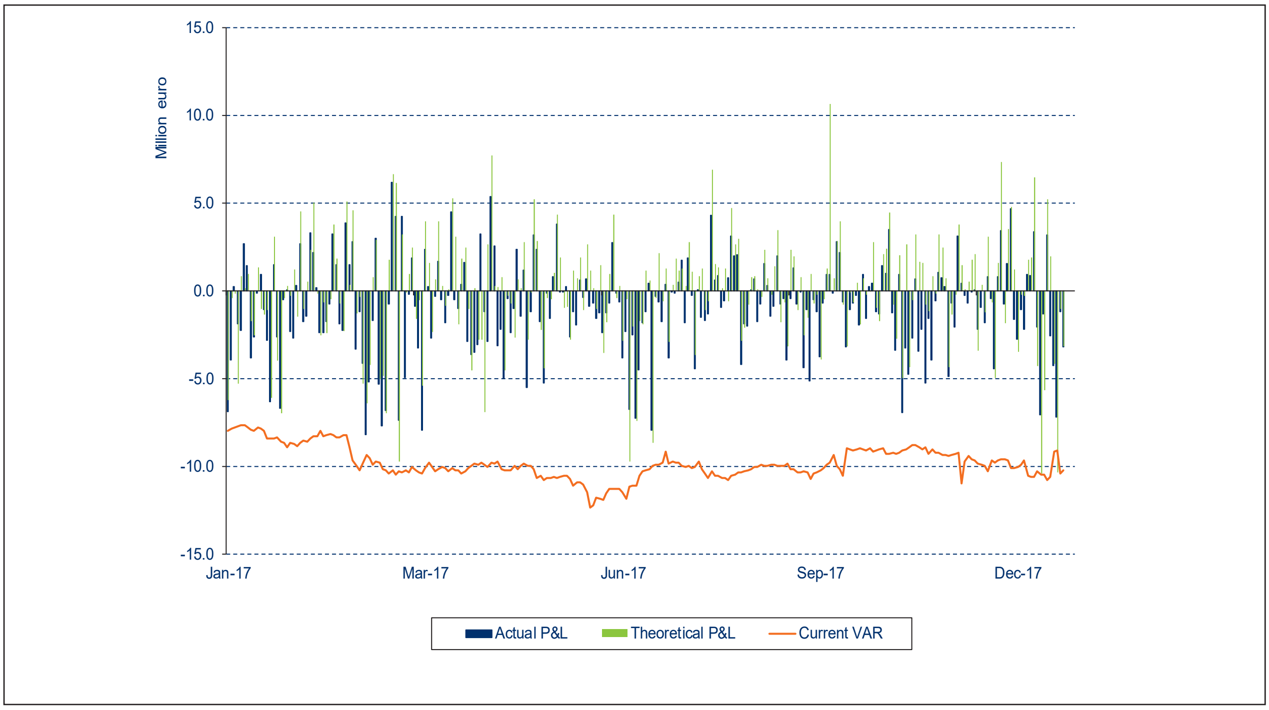
Backtesting
The soundness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
– the daily estimates of value at risk;
– the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting.

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 exceeds VaR more than four occasions, in the year of observation. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series. For the Group, the latter is based on revaluation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation (Theoretical P&L). The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

EU MR4 – Comparison of VaR estimates with gains/losses

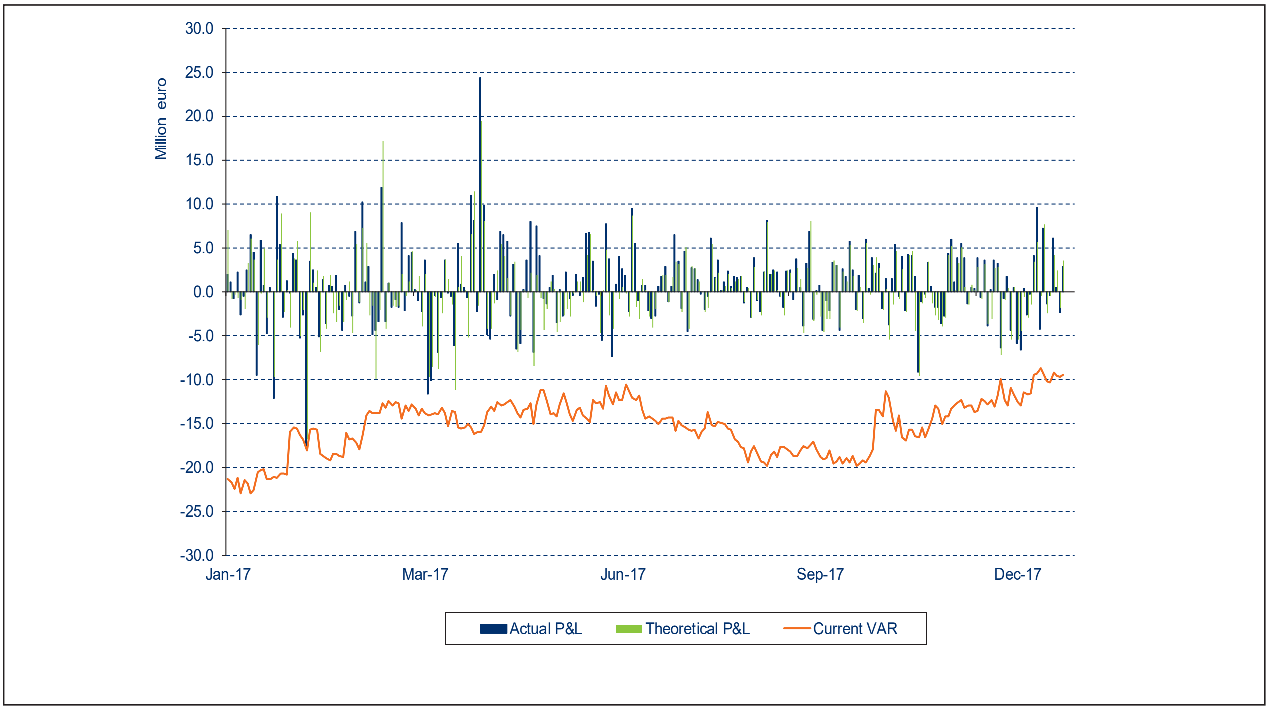
Backtesting in Intesa Sanpaolo

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 Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

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).

Incremental Risk Charge – Summary of 2017 performance

(millions of euro)

	average 4th quarter	4th quarter last one	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	29.0	32.2	27.2	32.3	39.5	66.9	73.9
Banca IMI	136.3	98.2	95.8	201.0	123.7	270.5	337.0
Total	**165.3**	**130.4**	**123.0**	**233.3**	**163.2**	**337.4**	**410.9**

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.

INFORMATION ON FAIR VALUE AND PRUDENT VALUATION

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 Risk Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, 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 Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, 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)[12] 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.

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).

[12] 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.

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[13] are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).
Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.
Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and "quanto" correlation (connected to pay offs and index-linking expressed in different currencies).
The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

Fair value 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.

[13] 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.

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.
    a) 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.
    b) 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.

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 maturities: 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. 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.

V. The measurement of equity instruments

Financial instruments for which fair value is determined using level 2 inputs include:

- 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;
- equity instruments measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Financial instruments for which fair value is determined using level 3 inputs include:

- equity instruments for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equity instruments measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which

estimates the fair value of the various components of the assets of the investee.

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 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.

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 counterparties	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	94	%	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	76.6	%	396	-86
OTC derivatives - JPY swaption	Black model	Historical volatility - swap rate	13.47	56.79	%	1,046	-39

Section 14 – Operational risk

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.

Operational risk management strategies and processes

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.
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.

Organisational structure of the associated risk management function

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).
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.

Scope of application and characteristics of the risk measurement and reporting system

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 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 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 of the characteristic features of the business environment of the Organisational Unit analysed (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.
Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.

Policies for hedging and mitigating risk

The Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, cyber-crimes, forgery, 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.

Methods for calculating Operational Risk

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, has increased due to the inclusion of Banca Nuova, Banca Apulia and Veneto Banka Croatia.

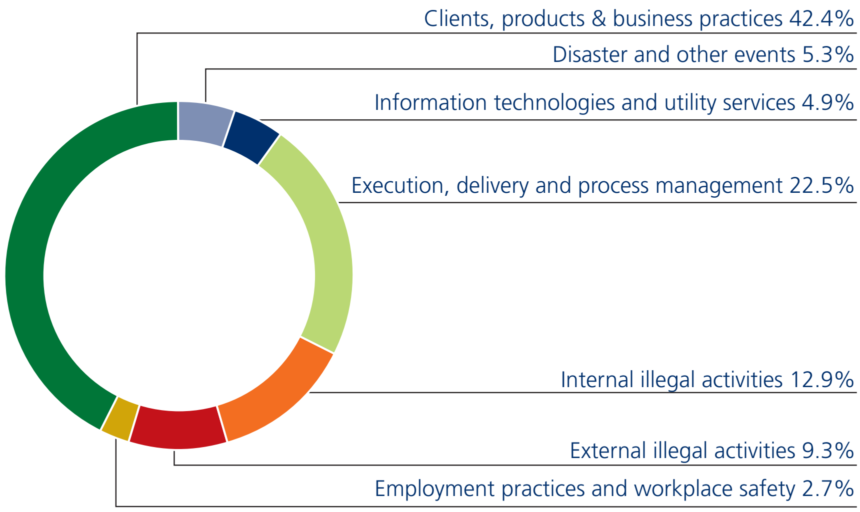
Breakdown of capital requirements by calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,241**
Traditional Standardised Approach (TSA)	**186**
Corporate Finance	17
Trading & Sales	28
Retail Banking	59
Commercial Banking	58
Payment & Settlement	16
Agency Services	1
Asset Management	5
Retail Brokerage	2
Basic Indicator Approach (BIA)	**61**
Total as at 31.12.2017	**1,488**
Total as at 31.12.2016	**1,563**

The following shows the breakdown of capital requirement relating to the AMA Approach by type of event.

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by type of operational event



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.

Section 15 - Equity Exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Exposure in equity instruments not included in the trading book: differentiation of exposures on the basis of the objectives pursued

Investments in equity instruments present in the Intesa Sanpaolo Group - with the exception of wholly-owned subsidiaries and insurance subsidiaries (the latter being deducted in the calculation of Own Funds) - fall into a number of categories, summarised as follows:

- developmental: aimed at the expansion of the business in strategic sectors;
- instrumental/functional: concerning the Bank’s operating and commercial activities;
- institutional: regarding the system, credit consortia, local entities and institutions;
- financial: principally with a view to disposing of assets, including private equity interests;
- secondary: originating from restructuring transactions and other minor shareholdings that do not fall within the preceding categories.

Recognition and valuation of the equity instruments not included in the trading book

The equity exposures not included in the trading book are classified under the balance sheet items Investments in subsidiaries, associates and companies subject to joint control and Assets available for sale, in keeping with IAS/IFRS. They are not, however, except for marginal amounts, included within the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group essentially classifies investments against insurance policies in this category (not included in the scope of this disclosure), and certain debt securities with embedded derivatives or debt securities subject to financial hedging.

For an explanation of the methods for the recognition and measurement of the equity instruments not included in the trading book, please refer to Part A of the Notes to the consolidated financial statements - Accounting Policies, which sets out, for each individual financial statement caption, the accounting criteria applied by the Intesa Sanpaolo Group (A.2 - Main financial statement captions). In particular, paragraphs 2, 5 and 7 set out the criteria for classification, recognition, measurement and derecognition for "Financial assets available for sale", "Financial assets designated at fair value" and "Investments in subsidiaries, associates and companies subject to joint control" respectively; point 19 shows the Methods for determining impairment losses both for financial assets and for investments. For details on the criteria for impairment testing of financial assets available for sale and of investments in subsidiaries, associates and companies subject to joint control, reference should be made to Part B of the Notes to the consolidated financial statements (Section 4 - Financial assets available for sale and Section 10 - Investments in subsidiaries, associates and companies subject to joint control). Lastly, for a description of the valuation techniques used to calculate fair value, see the discussion of this subject in the section on market risks of this document.

Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies. The value of investments in insurance companies, which is deducted from the regulatory capital, is shown in the Section on Own funds.

Non-trading book: on-balance sheet equity exposures (*)

(millions of euro)

Exposure type/values	31.12.2017							
	Book value		Fair value		Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	653	-	X	1,174	-25	X	X
B. Financial assets vailable for sale (AFS)	500	3,152	500	3,152	111	-136	150	-73
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-1	X	X
Exposure type/values	**31.12.2016**							
	Book value		**Fair value**		**Realised gains/losses and impairments**		**Unrealised gains/losses recognised in the balance sheet**	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	426	809	445	X	203	-81	X	X
B. Financial assets vailable for sale (AFS)	191	3,698	191	3,698	159	-69	233	-40
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	2	-1	X	X

(*) This table provides figures pertaining exclusively to the Banking Group.

(**) For Investments, the fair value refers to listed investments only (level 1).

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.

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2017

(millions of euro)

		Impact on shareholders' equity
Price shock	10%	60
Price shock	-10%	-60

Non-trading book: on-balance sheet equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2017	31.12.2016
IRB approach	**6,228**	**5,813**
Equity exposures (Simple risk weight approach)		
- Private equity exposures in sufficiently diversified portfolios	-	13
- Exchange-traded equity exposures	-	758
- Other equity exposures	1,194	3,218
Equity exposures (PD/LGD approach)	2,927	-
Equity exposures (Exposures subject to fixed weighting factors)	2,107	1,824
Standardised approach	**10,239**	**11,010**

For further details regarding the geographical distribution, and the concentration per sector or type of counterparty, of the exposures in equity instruments, see Section 6 of this document.

Section 16 – Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk

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.

Quantitative disclosure

Interest rate risk

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. This latter figure was up compared to the end of 2016, when it was 1,081 million euro.

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 compared to the 945 million euro at the end of 2016.

The table below shows the impact on the banking book of the 100bps shock, broken down into the main currencies that the Intesa Sanpaolo Group is exposed to.

(millions of euro)

		31.12.2017
EUR	Euro	1,712
USD	US Dollar	-39
HRK	Croatian Kuna	-25
RSD	Serbian Dinar	-13
GBP	Pound Sterling	-3
	Other currencies	-16
TOTAL		**1,615**

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).
The reduction in the economic value in the event of a 200 bps change in interest rates stayed within the limits of the alert threshold set by the prevailing Supervisory provisions (20% of Own Funds).

Section 17 - Encumbered and Unencumbered assets

Qualitative disclosure

The total book value of the “encumbered” assets and the reused guarantees received, compared to total assets and the collateral received, measures the “level of encumbrance” on the assets, i.e. the so-called “asset encumbrance ratio”. The Supervisory Authorities, Rating Agencies and investors recently increased the attention to the risk of asset encumbrance, which may lead to greater subordination of unsecured creditors and, in the event of an increase in the asset encumbrance ratio, also to greater potential liquidity risks in case of stress.
In the course of its operations, the Intesa Sanpaolo Group carries out a number of transactions involving the encumbrance of own assets or assets received as collateral. Among the main transactions of this type are:

- repurchase agreements and securities lending;
- assets used against covered bond issues;
- underlying assets of securitisation structures, in which the financial assets have not been derecognised;
- collateralisation agreements such as, for example, collateral given in respect of the market value of derivatives;
- collateralised financial guarantees;
- collateral deposited with clearing systems, with central counterparties (CCPs) and other infrastructure institutions as a condition for access to the service; this includes incremental and initial margins;
- instruments given as collateral in several respects, for funding from central banks or multilateral development banks.

These types of activities are carried out either to allow the Group to access forms of funding considered favourable at the time a transaction is finalised or because the provision of collateral is the standard condition to access specific markets or types of activities (for example, in transactions with central counterparties). In particular, the guarantees provided in connection with the refinancing operations at the European Central Bank amount to approximately 74 billion euro for the owned assets recognised and to approximately 10 billion euro for the assets not recognised in the financial statements.

The transactions involving encumbered assets are carried out mainly by the Parent Company or by Banca IMI, also as regards the settlement and trading of derivative contracts carried out within the framework of the centralised services provided also to the other banks of the Group. Conversely, the Group’s network banks took part in the pooling of assets against the provision of covered bond issues. The issue of covered bonds is dealt with in depth in the Notes to the consolidated financial statements, under the specific point of Part E: “Covered bond transactions”.
The Intesa Sanpaolo Group measures the level of encumbrance of its assets by adopting the rules set by the “Implementing Technical Standards” published by the European Banking Authority (EBA); starting from 31 December 2014 this information is subject to specific reporting to the Supervisory Authorities.
The share of encumbered assets is subject to periodic disclosure to the Board of the Parent Company, which has also established an alert threshold when defining the Risk Appetite Framework (RAF), with the aim of preventing any excessive increase in the risk connected to the share of encumbered assets.
At the same time, considering this measure, the Group monitors the unencumbered assets by assessing both the Reserves already promptly available, and the availability of new assets usable in the short-term, according to the Contingency Funding Plan and Recovery Plan.

Quantitative disclosure

Based on the regulations issued by the EBA as a result of the provisions of the CRR (art. 443), the institutions must indicate the amount of encumbered or unencumbered assets by type of activity. “Encumbered” assets are on-balance sheet assets that have been provided as pledge or sold and not derecognised, or otherwise encumbered, as well as the guarantees received that meet the conditions for recognition in the financial statements of the transferee. Starting from the disclosure as at 31 December 2015, the information published on the subject of encumbered and unencumbered assets is calculated based on median valuesof quarterly data on a rolling basis during the previous twelve months.

Encumbered and unencumbered assets as at 31 December 2017

(millions of euro)

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Book value	Fair value	Book value	Fair value
Total Banking Group assets	162,077	X	480,209	X
1. Equity instruments	620	376	6,139	6,171
2. Debt securities	55,432	55,118	39,194	39,012
3. Other assets	106,025	0	434,876	0

Encumbered and unencumbered assets as at 31 December 2016

(millions of euro)

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Book value	Fair value	Book value	Fair value
Total Banking Group assets	134,331	X	443,326	X
1. Equity instruments	356	356	6,764	6,885
2. Debt securities	42,817	43,113	51,949	50,425
3. Other assets	91,158	X	384,613	X

Access to the secured market represents an important source of medium/long-term funding (Covered Bonds, ABS and TLTRO). With specific regard to Covered Bonds programmes, the funding obtained through such programmes represents, on average, 15% of annual wholesale funding.

As mentioned in the previous paragraph, the most important forms of encumbrance on the Group’s part concern: repurchase transactions, TLTRO, derivative instruments, covered bonds, ABS, credit commitment with the Bank of Italy (Abaco), and collateralised loan agreements stipulated with supranational entities.

The maximum level of overcall for the Covered Bonds programmes is 7.53%. In any case, the Bank always maintains a higher level of overcall in order to hedge any negative trends that could impact the programme’s underlying assets. The Bank is party to guarantee contracts with supranational entities; should certain events occur, it may be necessary to increase the amount of collateral supplied to those entities.
At the end of 2017, unencumbered assets - net of the financial statement components that cannot be committed - amounted to approximately 417 billion euro (at book value), 98 billion euro of which were immediately available for use as highly liquid reserves and/or reserves eligible with Central Banks.

Information on the guarantees received by type of assets is also provided hereunder.

Guarantees received as at 31 December 2017

(millions of euro)

	FAIR VALUE	
	Encumbered collateral or own securities	**Unencumbered collateral or own securities**
Total collateral received by the Banking Group	28,186	20,303
1. Equity instruments	73	26
2. Debt securities	27,932	17,621
3. Other guarantees received	181	2,656
Debt securities issued other than covered bonds and ABS	1,612	21,940

Guarantees received as at 31 December 2016

(millions of euro)

	FAIR VALUE	
	Encumbered collateral or own securities	**Unencumbered collateral or own securities**
Total collateral received by the Banking Group	14,358	28,713
1. Equity instruments	107	36
2. Debt securities	14,207	25,586
3. Other guarantees received	44	3,091
Debt securities issued other than covered bonds and ABS	55	18,549

Finally, the details of liabilities associated with the received encumbered assets or guarantees are stated below.

Liabilities associated with the received encumbered assets, guarantees or own securities as at 31 December 2017

(millions of euro)

	Associated liabilities	**Encumbered assets, collateral or own securities**
Liabilities associated to encumbered assets, collateral received or own securities	157,866	192,672

Liabilities associated with the received encumbered assets, guarantees or own securities as at 31 December 2016

(millions of euro)

	Associated liabilities	**Encumbered assets, collateral or own securities**
Liabilities associated to encumbered assets, collateral received or own securities	130,974	148,743

Section 18 - Leverage Ratio

Qualitative disclosure

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Banking Group's total exposure. The ratio is calculated by considering off-balance sheet exposures and assets. The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity. The ratio, which is monitored by the authorities, is expressed in percent form and is subject to a regulatory minimum threshold of 3% (the Basel Committee's reference value).

The Leverage Ratio is calculated quarterly. The indicator is monitored at both the individual and Banking Group level.

The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures.

Description of the processes used to manage the risk of excessive leverage

The Intesa Sanpaolo Group shares the regulatory indication of monitoring and containing a leverage ratio to integrate the capital ratios based on risk, and acknowledges their usefulness in order to limit the excessive accumulation of leverage in the banking system and especially to provide supplementary monitoring against model risk and the possible related measurement errors.
Accordingly, the Leverage ratio is given a high level of attention and, as such, it has been selected as a reference measurement criterion within the scope of the Risk Appetite Framework for the monitoring of the overall risk and, more specifically, of the Group’s capital adequacy. In this regard, it is noted that the governance of the Risk Appetite Framework includes particularly strict escalation mechanisms in the event of breach of the Group’s leverage limit, with the requirement for the Board of Directors to rapidly approve a remediation plan that can have a maximum duration of one year.
In line with the previous year, the 2017 RAF update confirmed both the choice to define its limit by adding a stress buffer to the regulatory minimum of 3% and the decision to also set an early warning threshold quantified based on an additional prudential buffer. In line with the limit established at Group level, the individual leverage ratio limits were also confirmed for the subsidiaries Banca IMI, Fideuram-ISPB Group and for the Group’s international subsidiary banks (both those belonging to the International Subsidiary Banks Division and those within the scope of the Corporate & Investment Banking Division and the Capital Light Bank). In this regard, it is noted that the governance of the Risk Appetite Framework establishes specific escalation mechanisms for the Group companies, in the event of breach of the individual leverage limits, that not only require the Body with strategic supervision function of the company concerned to rapidly approve a remediation plan that can have a maximum duration of one year, but also the obligation to involve the competent Parent Company structures.
Compliance with these limits is monitored in the Tableau de Bord of the risks and reported to the Risk Committee and the Board of Directors on a quarterly basis.
Lastly, it is noted that the Group has one of the lowest leverage ratios in the industry and, in view of the operations carried out, the management of the risk of excessive leverage, although it is subject to the utmost attention from Top Management, is not a significant constraint for the Group’s strategic planning.

Description of the factors that had an impact on the Leverage ratio during the period

During the year, both aggregates that determine the leverage ratio were affected by the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca (the “Aggregate Set”). In particular, the transaction involved a significant increase in exposures, as well as a significant increase in the level of capital (Tier 1 Capital), in relation to the government contribution received to offset the impact on the ratios resulting from the transaction.
More generally, there was also an increase in exposures to customers (especially with reference to commercial banking loans) and exposures to Banks (referring above all to the increase in the Mandatory Reserve attributable to the temporary excess liquidity at the ECB). Off-balance sheet and derivatives exposures bucked the overall trend.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 December 2017 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value). The Leverage ratio is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Leverage ratio common disclosure of the

The table shows the Leverage ratio as at 31/12/2017 and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	31.12.2017	31.12.2016
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	572,977	509,591
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-11,557	-8,781
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**561,420**	**500,810**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	8,519	11,101
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12,110	12,555
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-11,244	-8,819
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	40,565	53,805
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-39,193	-50,113
11	**Total derivatives exposures (sum of lines 4 to 10)**	**10,757**	**18,529**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	39,879	33,918
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-6,920	-3,038
14	Counterparty credit risk exposure for SFT assets	3,259	3,251
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**36,218**	**34,131**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	240,025	243,836
18	(Adjustments for conversion to credit equivalent amounts)	-171,453	-171,229
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**68,572**	**72,607**
	(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19a	(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	43,465	39,459
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	676,967	626,077
	Leverage ratio		
22	**Leverage ratio**	**6.42%**	**6.30%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

LRSum table - Summary reconciliation of accounting assets and leverage ratio exposure

The table shows the reconciliation between total exposure (the denominator of the ratio) and the information disclosed in the financial statements in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		31.12.2017	31.12.2016
1	Total assets as per published financial statements	796,861	725,100
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-148,508	-138,793
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 (CRR)	-	-
4	Adjustments for derivative financial instruments	-18,250	-17,925
5	Adjustment for securities financing transactions (SFTs)	-3,665	212
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	68,572	72,607
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-	-
7	Other adjustments (*)	-18,043	-15,124
8	**Leverage ratio total exposure measure**	**676,967**	**626,077**

(*) "Other adjustments" mainly include amounts related to assets deducted for the calculation of Tier 1 Capital (transitional regime)

LRSpl table – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than derivatives and SFTs, the table provides a breakdown by counterparty, in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		CRR leverage ratio exposures	
		31.12.2017	31.12.2016
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**572,977**	**509,591**
EU-2	Trading book exposures	13,937	12,625
EU-3	Banking book exposures, of which:	559,040	496,966
EU-4	*Covered bonds*	*595*	*862*
EU-5	*Exposures treated as sovereigns*	*127,030*	*118,880*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*12,865*	*15,232*
EU-7	*Exposures to supervised institutions*	*38,258*	*35,955*
EU-8	*Secured by mortgages of immovable properties*	*113,525*	*93,100*
EU-9	*Retail exposures*	*41,862*	*34,240*
EU-10	*Corporate*	*154,592*	*132,196*
EU-11	*Exposures in default*	*25,638*	*29,825*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*44,675*	*36,676*

Declaration of the Manager responsible for preparing the Company’s financial reports

The Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Basel 3 - Pillar 3 as at 31 December 2017” corresponds to the corporate records, books and accounts.

20 March 2018

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

Independent Auditors' Report on Basel 3 Pillar 3

KPMG

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the Basel 3 Pillar 3 disclosure as at 31 December 2017

To the board of directors of
Intesa Sanpaolo S.p.A.

We have performed a limited assurance engagement on the accompanying Basel 3 Pillar 3 disclosure (the "Pillar 3 disclosure") of the Intesa Sanpaolo Group (the "Group") as at 31 December 2017.

Directors' responsibility for the Pillar 3 disclosure

The directors of Intesa Sanpaolo S.p.A. (the "Bank") are responsible for the preparation of the Pillar 3 disclosure in accordance with the provisions of part 8 of Regulation (EU) no. 575/2013 of 26 June 2013 (the "CRR"), implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Pillar 3 disclosure that is free from material misstatement, whether due to fraud or error.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG S.p.A. applies International Standard on Quality Control 1 (ISQC (Italia) 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the Pillar 3 disclosure with the requirements of part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements.
This standard requires that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 disclosure is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the Pillar 3 disclosure are based on our professional judgement and include inquiries, primarily of the Bank's personnel responsible for the preparation of the information presented in the Pillar 3 disclosure, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- comparing the financial disclosures presented in the Pillar 3 disclosure to those included in the Group's consolidated financial statements as at 31 December 2017, on which we issued our report dated 8 March 2018 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;
- interviews and discussions with the management of the Bank, to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3 disclosure, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3 disclosure;
- sample-based analyses of documentation supporting the preparation of the Pillar 3 disclosure to obtain evidence of the processes put in place to prepare the data and information presented therein;
- reading correspondence with the European Central Bank in relation to the authorisation process related to using internal models to calculate regulatory capital requirements;
- reading the reports issued by the Internal Auditing and Internal Validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3 disclosure;

— obtaining the representation letter on the compliance of the Pillar 3 disclosure with part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

Conclusions

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Pillar 3 disclosure of the Intesa Sanpaolo Group as at 31 December 2017 has not been prepared, in all material respects, in accordance with part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

Other matters

This report has been prepared solely for the purposes set out in the first paragraph and, therefore, cannot be used, in whole or in part, for any other purposes. We have not undertaken to update this report for events or circumstances that may take place after its issue.

Milan, 23 March 2018

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

Attachment 1

Own Funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072618
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Ordinary shares - Art. 28 CRR
8	Amount recognised in regulatory capital (€/mln)	34,253
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncomulative or comulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072626
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Preferred shares - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	485
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncomulative or comulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0371711663
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	378 (AT1) - 193 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or Additional Amount Event); 100% or Make Whole (in case of Regulatory Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/20/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	20/06/18
	Contingent call dates and redemption amount	03/06/03
16	Subsequent call dates, if applicable	In addition to issuer call on 20/6/2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 20/06/2018)
18	Coupon rate and any related index	8.047% through to 20.6.2018. Following reset, floating rate at 3m Euribor plus 4.10%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncomulative or comulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0388841669
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	163 (AT1) - 83 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	250
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or "Additional Amount Event"); 100% o "Make Whole " (in caso di "Regulatory Event" o "Tax Deductibility Event")
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/24/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	24/09/18
	Contingent call dates and redemption amount	06/09/00
16	Subsequent call dates, if applicable	In addition to issuer call on 24.9.2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 24/09/2018)
18	Coupon rate and any related index	8.698% through to 14/10/2019. Following reset, 3m Euribor plus margin of 5.05 per cent. (thus 505 bps)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncomulative or comulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0456541506
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	484 (AT1) - 247 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,500
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or Additional Amount Event); 100% or Make Whole (in case of Capital Disqualification Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	10/14/2009
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	14/10/19
	Contingent call dates and redemption amount	08/02/04
16	Subsequent call dates, if applicable	In addition to issuer call on 14.10.2019 and each IPD thereafter, issuer may also redeem following Capital Disqualification Event or Tax Event at any time before 14.10.2019 subject to notice
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 14/10/2019)
18	Coupon rate and any related index	8.375% through to 14.10.2019. Following reset, 3m Euribor plus margin of 6.871 per cent. (thus 687.1 bps)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncomulative or comulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAU14
3	Governing law(s) of the instrument	New York law,except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional TIer 1
5	Post-transitional CRR rules	Additional TIer 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	871
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	884
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Equity
11	Original date of issuance	17/09/15
12	Perpetual or dated	Unredeemable
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	17/09/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 17/09/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.70% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1346815787
3	Governing law(s) of the instrument	English law, except subordination clauses
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 Capital
5	Post-transitional CRR rules	Additional Tier 1 Capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt security - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,250
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1/19/2016
12	Perpetual or dated	Irredeemable
13	Original maturity date	Without maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	19/01/2021 (and on every interest payment date thereafter)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Call date exercisable on every interest payment date after 19/01/2021
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, the Regulator can prevent payment of interest at any time.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of the nominal capital if the CET1 of Iintesa Sanpaolo or of the Intesa Sanpaolo Group falls below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In case the CET1 of ISP or of the Group is re-established above 5.125 pct, the issuer can decide to write-up the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior compared to Equity and subordinated compared to the instruments having lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1548475968
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,250
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1/11/2017
12	Perpetual or dated	Irredeemable
13	Original maturity date	Without maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	11/01/2027 (and on every interest payment date thereafter)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 11/01/2027
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.75% per annum payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, the Regulator can prevent payment of interest at any time.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of the nominal capital if the CET1 of Iintesa Sanpaolo or of the Intesa Sanpaolo Group falls below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In case the CET1 of ISP or of the Group is re-established above 5.125 pct, the issuer can decide to write-up the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior compared to Equity and subordinated compared to the instruments having lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1614415542
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	750
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	5/16/2017
12	Perpetual or dated	Irredeemable
13	Original maturity date	Without maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	16/05/2024 (and on every interest payment date thereafter)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 16/05/2024
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.25% per annum payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, the Regulator can prevent payment of interest at any time.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of the nominal capital if the CET1 of Iintesa Sanpaolo or of the Intesa Sanpaolo Group falls below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In case the CET1 of ISP or of the Group is re-established above 5.125 pct, the issuer can decide to write-up the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior compared to Equity and subordinated compared to the instruments having lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0188046543
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	14
9	Nominal amount of instrument: original amount in currency of issuance (mln)	165
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	247
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	3/18/2004
12	Perpetual or dated	Dated
13	Original maturity date	3/18/2024
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	18/03/19
	Contingent call dates and redemption amount	03/09/00
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 18/03/2019)
18	Coupon rate and any related index	5.625 until 18/3/19, then 3m Libor + 1.125%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	Yes
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Step up
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0243399556
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	4
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	2/20/2006
12	Perpetual or dated	Dated
13	Original maturity date	2/20/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 85 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0360809577
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	226
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	5/8/2008
12	Perpetual or dated	Dated
13	Original maturity date	5/8/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.6250%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0365303675
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	20
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	5/28/2008
12	Perpetual or dated	Dated
13	Original maturity date	5/28/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed (then floating from 28/05/2013)
18	Coupon rate and any related index	3m Euribor + 198 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0364645852
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	12
9	Nominal amount of instrument: original amount in currency of issuance (mln)	120
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	120
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/27/2008
12	Perpetual or dated	Dated
13	Original maturity date	6/27/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.160%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0452166324
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo and consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	571
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,500
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/23/2009
12	Perpetual or dated	Dated
13	Original maturity date	9/23/2019
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.00%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0526326334
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	652
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	7/16/2010
12	Perpetual or dated	Dated
13	Original maturity date	7/16/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.150%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004692817
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	37
9	Nominal amount of instrument: original amount in currency of issuance (mln)	373
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	373
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	3/31/2011
12	Perpetual or dated	Dated
13	Original maturity date	3/31/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 200bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0971213201
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,409
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,446
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,446
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/13/2013
12	Perpetual or dated	Dated
13	Original maturity date	9/13/2023
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.6250%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,636
9	Nominal amount of instrument: original amount in currency of issuance (mln)	2,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,466
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/26/2014
12	Perpetual or dated	Dated
13	Original maturity date	6/26/2024
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.0170%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1109765005
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	980
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/15/2014
12	Perpetual or dated	Dated
13	Original maturity date	9/15/2026
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.9280%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005118838
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	721
9	Nominal amount of instrument: original amount in currency of issuance (mln)	738
	Nominal amount of instrument: original amount - currency of issuance	Eur
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	738
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/30/2015
12	Perpetual or dated	Dated
13	Original maturity date	6/30/2022
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Euribor 3m + 237 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1222597905
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	480
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Eur
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	4/23/2015
12	Perpetual or dated	Dated
13	Original maturity date	4/23/2025
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	2.8550%
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-Convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured securities
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAW79
3	Governing law(s) of the instrument	New York Law, with the exception of matters concerning subordination, regulated by Italian Law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 Capital
5	Post-transitional CRR rules	Tier 2 Capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt security - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,423
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,378
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liabilities - Amortised cost
11	Original date of issuance	1/15/2016
12	Perpetual or dated	Dated
13	Original maturity date	1/15/2026
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.71% per annum, payable semi-annually
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncomulative or comulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior compared to "Additional Tier 1" and subordinated compared to "Senior Unsecured" instruments
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005279887
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	724
9	Nominal amount of instrument: original amount in currency of issuance (mln)	724
	Nominal amount of instrument: original amount - currency of issuance	Eur
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	724
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/26/2017
12	Perpetual or dated	Dated
13	Original maturity date	9/26/2024
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	(3m EURIBOR + 1.90%) / 4
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncomulative or comulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to “Additional Tier 1” and subordinate to other “Senior Unsecured” instruments
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0258143477
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	32
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	99.959
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/26/2006
12	Perpetual or dated	Dated
13	Original maturity date	6/26/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 100 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncomulative or comulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2

Own Funds: Transitional own funds disclosure template

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	34,253	
	of which: Ordinary shares	34,253	
2	Retained earnings	10,889	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-790	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	78	28
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	3,816	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	48,246	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-208	
8	Intangible assets (net of related tax liability) (negative amount)	-7,182	
9	Transitional adjustment related to IAS 19	241	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,134	-1,417
11	Fair value reserves related to gains or losses on cash flow hedges	1,000	
12	Negative amounts resulting from the calculation of expected loss amounts	-424	-530
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-36	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-94	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-1,334	
20	[not relevant in EU regulation]	-	
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-252	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	
20c	of which: securitisation positions (negative amount)	-252	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	

			Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
				(millions of euro)
22		Amount exceeding the 15% threshold (negative amount)	-559	
	23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24		Deferred tax assets	-	
	25	of which: deferred tax assets arising from temporary differences	-	
25a		Losses for the current financial year (negative amount)	-	
25b		Foreseeable tax charges relating to CET1 items (negative amount)	-	
26		Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-393	
26a		Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-57	
		of which: Unrealised gains on debt securities issued by European Union central governments	-13	
		of which: Unrealised gains on debt securities of issuers other than European Union central governments	-	
		of which: Unrealised gains on equities and quotas of UCI	-44	
26b		Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	237	
		of which deduction of deferred tax assets that rely on future profitability and do not arise from temporary differences (Articles 469(1)(a), 36(1)(c) and 478(1) of the CRR)	-	
		of which deduction of negative amounts resulting from the calculation of expected loss amounts in accordance with Articles 158 and 159 of the CRR (Articles 469(1)(a), 36(1)(d) and 478(1) of the CRR)	-	
		of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	-	
		of which impacts arising from deductible under transitional adjustments	237	
27		Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
28		Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-10,195	
29		Common Equity Tier 1 (CET1) capital	38,051	

(millions of euro)

			Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Additional Tier 1 (AT1) capital: instruments				
30		Capital instruments and the related share premium accounts	4,606	
	31	of which: classified as equity under applicable accounting standards	-	
	32	of which: classified as liabilities under applicable accounting standards	-	
33		Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	1,025	
		Public sector capital injections grandfathered until 1 January 2018	-	
34		Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	9	
	35	of which: instruments issued by subsidiaries subject to phase-out	-	
36		Additional Tier 1 (AT1) capital before regulatory adjustments	5,640	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37		Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38		Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39		Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
40		Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
41		Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a		Residual amounts deducted from Additional Tier 1 capital with regard to deduction from CET1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-53	
		of which residual amount by which expected losses exceed adjustments for IRB positions	-53	
41b		Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-173	
		of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	-176	
		of which impacts arising from deductible under transitional adjustments	3	
41c		Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	
		of which: possible filter for unrealised losses	-	
		of which: possible filter for unrealised gains	-	
		of which: other filter	-	
42		Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43		Total regulatory adjustments to Additional Tier 1 (AT1) capital	-226	
44		Additional Tier 1 (AT1) capital	5,414	
45		Tier 1 capital (T1 = CET1 + AT1)	43,465	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	8,205	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	541	
	Public sector capital injections grandfathered until 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	5	
49	of which: instruments issued by subsidiaries subject to phase-out	-	
50	Credit risk adjustments	125	
51	Tier 2 (T2) capital before regulatory adjustments	8,876	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-101	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0	
54a	of which new holdings not subject to transitional arrangements	0	
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-821	
56	Regulatory adjustments applied to T2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-53	
	of which residual amount by which expected losses exceed adjustments for IRB positions	-53	
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	-172	
	of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	-176	
	of which impacts arising from deductible under transitional arrangements	4	
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	179	
	of which: possible filter for unrealised losses	0	
	of which: unrealised gains on AFS securities subject to additional national filter	179	
	of which: other filter	0	
57	Total regulatory adjustments to Tier 2 (T2) capital	-968	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Tier 2 (T2) capital: regulatory adjustments			
58	Tier 2 (T2) capital	7,908	
59	Total capital (TC = T1 + T2)	51,373	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability, net of the related tax liabilities, indirect holdings of own CET1 instruments, etc.)	-	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be deducted line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-	
60	Total risk weighted assets	286,825	
Capital ratios and buffers			
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	13.27%	
62	Tier 1 capital (as a percentage of risk exposure amount)	15.15%	
63	Total capital (as a percentage of risk exposure amount)	17.91%	
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	5.77%	
65	of which: capital conservation buffer requirement	1.25%	
66	of which: countercyclical buffer requirement	0.02%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	6.88%	
69	[not relevant in EU regulation]		
70	[not relevant in EU regulation]		
71	[not relevant in EU regulation]		
Capital ratios and buffers			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	914	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	3,946	
74	[not relevant in EU regulation]	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,067	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Applicable caps on the inclusion of provisions in T2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	860	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase-out arrangements	1,025	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	524	
84	Current cap on T2 instruments subject to phase-out arrangements	2,364	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Glossary

GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 3 disclosure" and excluding 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. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of "prime" category, but which, due to various factors such as LTV ratio, documentation provided, borrower's income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as "Alt-A".

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual's "close relatives" comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual's non-separated spouse/domestic partner and the individual's children, his/her spouse's/domestic partner's children, and the individual's or his/her spouse's/domestic partner's dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

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

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term 'positions' refers solely to financial instruments and commodities.

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 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/Beginning value)^(1/n) - 1.

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

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

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

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

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

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

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; investments “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.

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

CCF - Credit Conversion Factor
The ratio of the currently undrawn amount of a commitment that could be drawn and that would therefore be outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment being determined by the advised limit, unless the unadvised limit is higher.

CCP (Central Counterparty Clearing House)
A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

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

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

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

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

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

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

Core deposits
"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the 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.

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

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).
Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

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.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
“Past due exposures” are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank’s risk appetite.

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

CRM – Credit Risk Mitigation
Techniques used by institutions to reduce the credit risk associated with their exposures.

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

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

CSA (Credit Support Annex)
A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

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

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

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

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

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

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

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to 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.

ECAI – External Credit Assessment Institution
An external credit assessment institution.

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

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.

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

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected 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.

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

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering quotas to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See "Forwards".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

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 under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under

Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge 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).

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

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

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:

(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.

Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:

(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.

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

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

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

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

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

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

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.

EBA ITS (Implementing Technical Standards)
Implementing technical standards. Harmonised reporting schemes for prudential and supervisory statistics. Once they have been adopted by the European Commission in an implementing regulation, these schemes are effective in the Member States.

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 of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

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

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

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

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

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

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

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

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

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

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

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.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See “Syndicated lending”.

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.

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

Indirect customer deposits
The holding of third parties’ securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company’s financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Credit risk
The risk that an unexpected change in a counterparty’s creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank’s exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk and model risk. Strategic and reputation risks are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with

"normal" growth prospects, the return on 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.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

RTS (Regulation Technical Standards)
Regulatory technical standards

Risk Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

RWA Density
Total risk-weighted exposures expressed as a percentage of the exposures after application of CCF and post CRM (RWA/EAD post CCF and CRM).

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

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

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

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

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

SPE/SPV
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.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

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

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

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change 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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GALLERIE D’ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d’Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities creating a unique museum network.

Set in an architectural context of great value, **Gallerie d’Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, along with a collection representative of twentieth-century Italian art. **Gallerie d’Italia - Palazzo Leoni Montanari in Vicenza** holds the most important western collection of Russian icons, examples of eighteenth-century Veneto art, and a collection of Attic and Magna Graecia pottery.

Gallerie d’Italia - Palazzo Zevallos Stigliano in Naples houses The *Martyrdom of Saint Ursula*, Caravaggio’s last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

CARLO BRANCACCIO (Naples 1861–1920)
Napoli, Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression c. 1888-1889
oil on canvas, 40 x 80 cm
Intesa Sanpaolo Collection
Gallerie d’Italia - Palazzo Zevallos Stigliano, Naples

Napoli, *Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression* by Carlo Brancaccio depicts an outdoor daily-life scene with a lively narrative style. The artist is particularly renowned for his radiant depictions of the most famous streets and sites in Naples, as well as for his seascapes and landscapes.

This picture is part of the permanent collection on display at Gallerie d’Italia - Palazzo Zevallos Stigliano, Intesa Sanpaolo’s museum venue in Via Toledo, Naples. This collection of nineteenth-century paintings offers a remarkable overview of landscape painting, a genre that experienced an incredible season in Naples, on a par with the most advanced figurations developed in the rest of Europe.