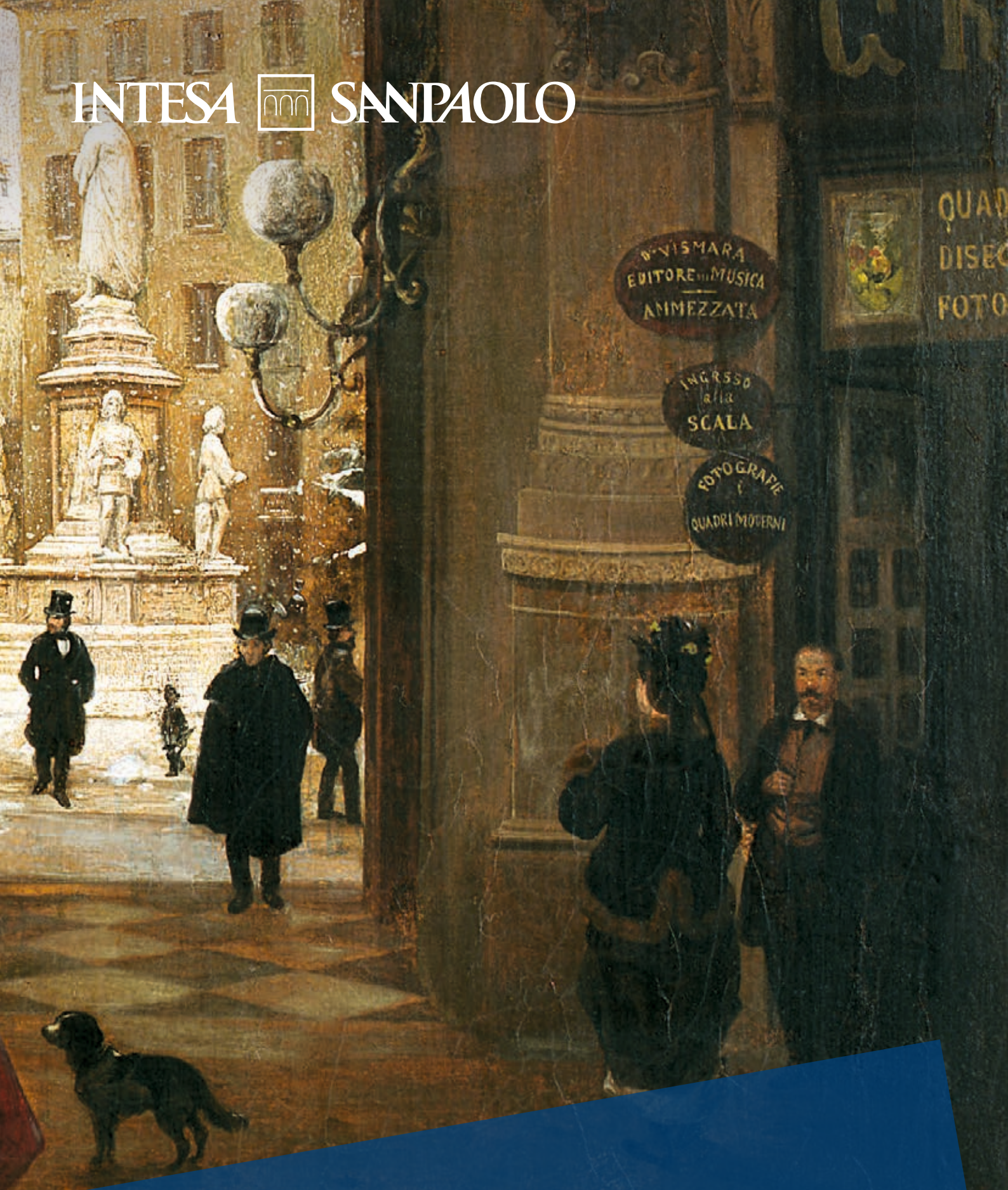
INTESA SANPAOLO



Annual Report 2018

This is an English translation of the original Italian document "Bilanci 2018". 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.

Ordinary Shareholders' Meeting of 30 April 2019

Report and consolidated financial statements of the Intesa Sanpaolo Group 2018

Report and Parent Company's financial statements 2018

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 9,085,534,363.36 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups

Contents

The Intesa Sanpaolo Group 7

Board of Directors, Manager responsible for preparing the Company's financial reports and Independent Auditors 11

Letter from the Chairman 13

INTESA SANPAOLO GROUP REPORT ON OPERATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

Introduction 17

Transition to IFRS 9 19

REPORT ON OPERATIONS

Overview of 2018
Income statement figures and alternative performance measures 46
Balance sheet figures and alternative performance measures 49
Alternative performance measures and other measures 50
Executive summary 53

The macroeconomic context and the banking system 79

Income statement and balance sheet aggregates 87

Breakdown of consolidated results by business area and geographical area 127

Corporate Governance and remuneration policies 161

Social and environmental responsibility 173

Intesa Sanpaolo stock 179

Other information 185
Other information 187
Forecast for 2019 188

INTESA SANPAOLO GROUP CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements
Consolidated balance sheet 192
Consolidated income statement 194
Statement of consolidated comprehensive income 195
Statement of changes in consolidated shareholders' equity 196
Consolidated statement of cash flows 198

Notes to the consolidated financial statements
Part A – Accounting policies 201
Part B – Information on the consolidated balance sheet 272
Part C – Information on the consolidated income statement 354
Part D – Consolidated comprehensive income 379
Part E – Information on risks and relative hedging policies 380
Part F – Information on consolidated capital 514
Part G – Business combinations 517
Part H – Information on compensation and transactions with related parties 529
Part I – Share-based payments 536
Part L – Segment reporting 541

Certification of the Consolidated financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998 **545**

Independent Auditors' Report on the Consolidated financial statements **547**

Attachments to the Consolidated financial statements **559**

REPORT AND PARENT COMPANY'S FINANCIAL STATEMENTS

Transition to IFRS 9 595

REPORT ON OPERATIONS

Intesa Sanpaolo – Financial highlights and alternative performance measures 614
The Parent Company Intesa Sanpaolo results 619
Other information 626
Forecast for 2019 627

Proposals to the Shareholders' Meeting **629**

PARENT COMPANY'S FINANCIAL STATEMENTS

Financial statements

Balance sheet 636
Income statement 638
Statement of comprehensive income 639
Statement of changes in shareholders' equity 640
Statement of cash flows 642

Notes to the Parent Company's financial statements

Part A – Accounting policies 645
Part B – Information on the Parent Company's balance sheet 695
Part C – Information on the Parent Company's income statement 747
Part D – Comprehensive income 766
Part E – Information on risks and relative hedging policies 767
Part F – Information on capital 817
Part G – Business combinations 820
Part H – Information on compensation and transactions with related parties 822
Part I – Share-based payments 830
Part L – Segment reporting 835

Certification of the Parent Company's financial statements pursuant to art. 154 bis of Legislative Decree 58/1998 **836**

Independent Auditors' Report on the Parent Company's financial statements **837**

Attachments to the Parent Company's financial statements **847**

Glossary **885**

Contacts **903**

Financial calendar **907**

THE INTESA SANPAOLO GROUP

The Intesa Sanpaolo Group: presence in Italy

Banks

INTESA SANPAOLO

BANCA 5 LA BANCA A PORTATA DI MANO
Gruppo INTESA SANPAOLO

BANCAPULIA

BANCA CR FIRENZE

BANCA IMI

BANCA PROSSIMA
PER LE IMPRESE SOCIALI E LE COMUNITÀ

CARISBO

FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
1,121	Fideuram	89
	Banca Prossima	29
	Mediocredito Italiano	4
	Banca IMI	1
	Banca 5	1

CENTRE

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
568	Banca CR Firenze	284
	Fideuram	41
	Banca Prossima	10
	Banca Apulia	2
	Mediocredito Italiano	2
	Banca IMI	1

NORTH EAST

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
809	CR in Bologna	148
	Fideuram	56
	Banca Prossima	16
	Mediocredito Italiano	2

SOUTH

INTESA SANPAOLO	Subsidiaries	
Branches	Company	Branches
633	Banca Apulia	98
	Fideuram	26
	Banca Prossima	20
	Mediocredito Italiano	2

ISLANDS

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

Figures as at 31 December 2018

Product Companies

INTESA SANPAOLO VITA

Bancassurance and Pension Funds

MEDIOCREDITO ITALIANO

Industrial credit, Factoring and Leasing

EURIZON ASSET MANAGEMENT

Asset Management

SIREF FIDUCIARIA

Fiduciary Services

The Intesa Sanpaolo Group: international presence

Banks, Branches and Representative Offices

INTESA SANPAOLO

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

AMERICA

Direct Branches	Representative Offices
New York	Washington D.C.

Country	Subsidiaries	Branches
Brazil	Intesa Sanpaolo Brasil	1

OCEANIA

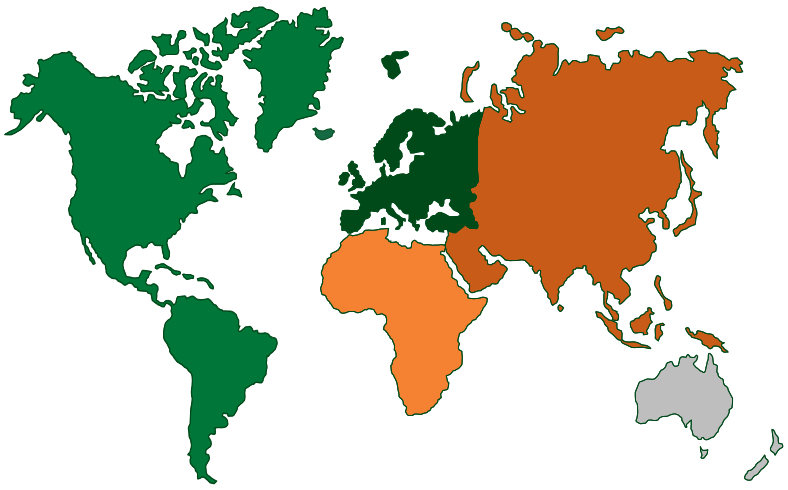
Representative Offices
Sydney

ASIA

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

EUROPE

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



AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	175

Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	34
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	54
Croatia	Privredna Banka Zagreb	192
Czech Republic	VUB Banka	1
Hungary	CIB Bank	68
Ireland	Intesa Sanpaolo Bank Ireland	1
Luxembourg	Fideuram Bank Luxembourg	1
	Intesa Sanpaolo Bank Luxembourg	1
Moldova	Eximbank	17
Romania	Intesa Sanpaolo Bank Romania	34
Russian Federation	Banca Intesa	32
Serbia	Banca Intesa Beograd	154
Slovakia	VUB Banka	201
Slovenia	Intesa Sanpaolo Bank	49
Switzerland	Intesa Sanpaolo Private Bank Suisse	1
	Banque Morval	2
The Netherlands	Intesa Sanpaolo Bank Luxembourg	1
Ukraine	Pravex Bank	50
United Kingdom	Banca IMI	1
	Intesa Sanpaolo Private Banking	1

Figures as at 31 December 2018
(1) Institutional Affairs

Product Companies

CONSUMER FINANCE HOLDING
PBZ CARD

Consumer Credit, E-money and Payment Systems

CIB LEASING
INTESA LEASING Beograd
PBZ LEASING
VÚB LEASING

Leasing

EURIZON ASSET MANAGEMENT
FIDEURAM ASSET MANAGEMENT IRELAND
INTESA SANPAOLO LIFE
VÚB ASSET MANAGEMENT
意才财富

Wealth Management

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

Board of Directors

Chairman	Gian Maria GROS-PIETRO
Deputy Chairperson	Paolo Andrea COLOMBO
Managing Director and Chief Executive Officer	Carlo MESSINA [(a)]
Directors	Gianfranco CARBONATO Franco CERUTI Francesca CORNELLI Giovanni COSTA Edoardo GAFFEO [(*)] Giorgina GALLO Giovanni GORNO TEMPINI Rossella LOCATELLI Marco MANGIAGALLI [(**)] Maria MAZZARELLA Milena Teresa MOTTA [(*)] Bruno PICCA Alberto Maria PISANI [(*)] Livia POMODORO Daniele ZAMBONI Maria Cristina ZOPPO [(*)]
Manager responsible for preparing the company's financial reports	Fabrizio DABBENE
Independent Auditors	KPMG S.p.A.

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

Letter from the Chairman

Distinguished Shareholders,

the profound changes in the patterns of development of society and the economy on a global scale require effective responses at all levels, also from businesses.

Globalisation has supported the growth of emerging economies, reducing the income gap with developed economies, but has also increased social inequality within countries almost everywhere. The issue of economic inequality and disparity of opportunities has taken on such dimensions that it can no longer be ignored, not only for ethical reasons, but also to provide a sustainable future for the next generations and to ensure social stability in the present. At the same time, the problems related to climate change have become an emergency that requires careful attention to the use of available resources and conscious management of our environmental footprint.

In this scenario, individual responsibility has become a collective responsibility that also involves banks, which have been subject to extraordinary developmental pressures since 2007. The increased complexity of the business, the impact of new digital technologies, the entry into the big tech and fintech sector, as well as changes in regulation and supervision, have imposed a major overhaul of the way banks do business.

Intesa Sanpaolo has looked ahead, producing business plans aimed at leading the sector in Italy and in Europe, not only due to our financial results, but also in terms of social and environmental responsibility, where your Bank - together with just a few European companies - is at the top of the world rankings.

In 2016, we adopted the one-tier model, with a view to ensuring transparency and the protection of investors, the market and the interests of all stakeholders. This new model has been applied successfully. We have achieved more efficient management and greater effectiveness of controls, in response to the growing complexity of the business, the changes in regulations and the greater diversification and internationalisation of the Bank’s shareholding base.

In 2018, the global economy recorded moderate growth. It was held back by the geopolitical uncertainty and the threat of protectionism and, in Europe, it was also weighed down by the different visions among the member countries, the forthcoming elections for the renewal of the European Parliament and the effects of the referendum of 23 June 2016, where the desire to pull the United Kingdom out of the European Union prevailed. Despite this, your Bank has continued along the path of transformation and strengthening that was set out.

The new 2018-2021 business plan includes major objectives, in terms of financial results and attention to society. The financial objectives include a special focus on revenuegrowth, by taking advantage of new business opportunities in wealth management and protection; the reduction of NPL stocks and the risk profile, at no extraordinary cost to shareholders; the simplification of the legal entities; and the containment of costs, to reinforce the level of European excellence already achieved in this area. No less challenging is the objective of becoming the first social impact bank in the world, by devoting resources and efforts to actions aimed at reducing inequality and poverty, often linked to the lack of banking access for the counterparties. This objective consists of concrete steps towards social inclusion, aid based on planning and not just compassion and the enhancement of diversity. These objectives can be achieved thanks to the passion and commitment of our people and with the support of the financial resources ensured by strong results, accompanied by an enviable capital strength.

The profitability and robustness of the business model chosen - which combines banking and insurance - are crucial factors in further improving our competitiveness, by investing in the development of human capital. In the wealth management area, your Bank has increased its commitment to international growth and to strengthening the presence in new geographical areas.

These transformations are underpinned by a major cultural shift: the strategy is based on digital transformation and a multi-channel approach, in line with new customer behaviour, the evolution of technology and a competitive scenario that is revolutionizing the banking business. Technology serving finance will change services and the approach to saving, investment and banking in the twenty-first century. Intesa Sanpaolo, with the 2.8 billion euro of investment in digital envisaged in the 2018-2021 business plan, has confirmed its commitment to digital transformation, which is considered a priority for the Group.

The strategic approaches in the business plan also envisage organisational changes. The process of simplifying the corporate structure has almost been completed, while the streamlining of local coverage continues, focusing on the personal proximity to customers also through the new Banca 5® tool. This is resulting in efficiency gains and further cost reductions.

Intesa Sanpaolo has achieved all the objectives of the Business Plan, despite a more complex scenario than envisaged, closing 2018 with a consolidated net income of 4,050 million euro. The Corporate and Investment Banking Division and the International Subsidiary Banks, alongside the Banca dei Territori, made a significant contribution to this result, the highest since 2007, confirming the growing importance of non-retail activities and the Group's international expansion, together with activities in asset management and insurance, where the Business Plan envisages substantial growth.

The strong performance for the year reflects the profitability, resulting from the solid capital base, the robust liquidity position and a resilient and well-diversified business model. This picture was confirmed by the stress tests, which placed the Group at the top end of the European banking sector.

With the finalisation of the agreement with Intrum at the end of 2018, more than 60% of the objective of reducing the non-performing loans set in the Business Plan for the entire four-year period 2018-21 has already been achieved, which means we will be able to do even more. Since 2015, the Group’s derisking strategy has been based on proactive credit management and the recovery of bad loans, mainly entrusted to our people, which has brought the value of the stock of non-performing loans back down to 2009 levels, at no extraordinary cost for shareholders. In 2018 alone, we facilitated the return to performing status of 20,000 companies, maintaining around 100,000 jobs. This is an effective way of supporting the real economy and contributing to the development of the communities in which we operate. In 2018, your Bank granted around 50 billion euro in new medium-long term loans to fund the investments of Italian households and businesses. The economic value generated in 2018 - 17 billion euro - was distributed as follows: 87% to stakeholders, of which 39% to the people that work for us, 22% to Shareholders, and the remainder to suppliers, the government, entities, institutions and communities, including a part of the operating profit allocated to support high-social impact projects and to help people in conditions of high social and economic fragility.

In consideration of a Group consolidated net income of 4,050 million euro and a Parent Company net income of 3,686 million euro, a proposal is being made to the Ordinary Shareholders’ Meeting to distribute cash dividends amounting to 3,449 million euro, equal to 19.7 eurocents per ordinary share, before tax.

Gian Maria Gros-Pietro

Intesa Sanpaolo Group
Report on operations and consolidated financial statements

Introduction

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's Consolidated financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.

The Consolidated financial statements as at 31 December 2018 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015, with Regulation of 22 December 2005, which issued Circular 262/05, and subsequent updates. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the consolidated financial statements.

The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows and the Notes to the financial statements and the related comparative information; the Report on operations on the economic results achieved and on the Group's balance sheet and financial position has also been included.

As detailed in the relevant chapters of this document, following the adoption of IFRS 9 the financial statements referred to above have been amended with respect to those published in 2017, in accordance with the provisions of Bank of Italy Circular 262, governing bank financial statements and to take account of the regulatory developments and the option of adopting the Deferral Approach by the Intesa Sanpaolo Group. In accordance with this approach, the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts (IFRS 17).

In support of the comments on the results for the year, the Report on operations also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments. As a consequence, the reclassified statements presented and commented on in this Report on operations have also been duly amended with respect to those published in 2017, in order to take into account the adoption of IFRS 9.

The Report on operations contains financial information taken from or attributable to the Consolidated financial statements, as well as other information – for example, figures on quarterly trends, and other alternative performance measures – not taken from or directly attributable to the Consolidated financial statements.

Information on corporate governance and ownership structures required by Art. 123 bis of the Consolidated Law on Finance is set forth, as permitted, in a separate report, approved by the Board of Directors and published together with these financial statements, which can be viewed in the Governance section of the Intesa Sanpaolo website, at www.group.intesasanpaolo.com.

The Consolidated Non-financial Statement prepared pursuant to Legislative Decree 254 of 30 December 2016, which describes the environmental, social and personnel-related matters, has been published – as permitted – as a separate report together with these financial statements and is available for consultation in the Sustainability section of the same website.

The information on remuneration required by Art. 123 of the Consolidated Law on Finance and the disclosure required by Basel Pillar 3 are also published and made available on the website in accordance with the related approval processes.

Transition to IFRS 9

IFRS 9: the new financial reporting standard on financial instruments

This chapter, which is an integral part of section A.1 of the Notes to the financial statements - Part A of the 2018 Financial Statements, describes the impacts of the first-time adoption of IFRS 9, including the transition from the statements published in the 2017 Financial Statements and those presented for comparison in the 2018 Financial Statements, which are also included in the attachments to the Financial Statements.

The regulations

The new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, has replaced IAS 39, which until 31 December 2017 had governed the classification and measurement of financial instruments, with effect from 1 January 2018.

IFRS 9 is structured into the three different areas of classification and measurement of financial instruments, impairment and hedge accounting.

In the first area, IFRS 9 requires the classification of financial assets to be guided, on the one hand, by the characteristics of the related contractual cash flows and, on the other hand, by the business model for which the assets are held. In replacement of the previous four accounting categories, under IFRS 9 financial assets may be classified into three categories, according to the drivers indicated above: Financial assets measured at amortised cost, Financial assets measured at fair value through other comprehensive income (for debt instruments, the reserve is transferred to profit or loss in the event of disposal of the instrument) and, lastly, Financial assets measured at fair value through profit or loss. Financial assets can be recognised in the first two categories and can therefore be measured at amortised cost or at fair value through other comprehensive income, only if it is demonstrated that they give rise to cash flows that consist of solely payments of principal and interest (SPPI Test). Equity instruments are always recognised in the third category and measured at fair value through profit or loss unless the entity elects (irrevocably, upon initial recognition), for equities not held for trading, to present changes in value in other comprehensive income, which will never be recycled to profit or loss, even in the event of the disposal of the financial instrument (Financial assets measured at fair value through other comprehensive income without “recycling”).

There are no major changes with respect to the classification and measurement of financial liabilities under IAS 39. The sole change relates to the accounting treatment of own credit risk: for financial liabilities designated at fair value (fair value option liabilities), the standard requires that changes in fair value attributable to the change in own credit risk be recognised through other comprehensive income, unless this treatment creates or increases an accounting mismatch in profit or loss, whereas the remaining amount of changes in the fair value of the liabilities must be recognised in profit or loss.

With respect to impairment, a model has been introduced for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments) based on the concept of “expected loss” instead of the “incurred loss” envisaged by IAS 39, aimed at recognising losses in a more timely manner. IFRS 9 requires that entities recognise expected credit losses over the next 12 months (stage 1) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3). More specifically, the introduction of the new impairment rules involves the:

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

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

The choices made by the Intesa Sanpaolo Group

It is worth noting the choices of a "general" nature made by the Intesa Sanpaolo Group regarding the scope of companies subject to the new standard, the recognition of the impacts on own funds resulting from the application of the new impairment rules, according to the recent amendments made to the prudential regulations, and the presentation of the comparative figures in the year of first time adoption of the standard:

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

A brief analysis is provided below of the main areas of impact of the new financial reporting standard as identified above, as well as the main choices made in this regard by the Intesa Sanpaolo Group.

Classification and Measurement

To be able to comply with the requirements of IFRS 9, according to which the classification of financial assets is guided, on one hand, by the contractual cash flow characteristics of the instruments and, on the other hand, by the business model under which they are held, methods were identified for testing the contractual cash flow characteristics (SPPI test), while the business models adopted by the various structures through which the Group operates have been formalised.

For the SPPI testing of financial assets, based on the method identified, the analysis was completed of the composition of the securities and loans portfolios outstanding as at 31 December 2017 to determine the correct classification upon First Time Adoption (FTA) of the new standard.

For debt securities in particular, a detailed examination was conducted on the cash flow characteristics of the instruments classified at amortised cost and in the Financial assets available for sale category according to IAS 39, to identify the assets that do not pass the SPPI test and must therefore be classified under assets mandatorily measured at fair value through profit or loss according to IFRS 9. Only an insignificant percentage of debt securities out of the overall Group portfolio did not pass the SPPI test, mainly consisting of instruments that create concentrations of credit risk (tranches) and structured securities. In addition, based on analyses conducted and the interpretations provided by the IFRS Interpretation Committee, units of UCIs (open funds and closed-end funds) have been classified under assets mandatorily measured at fair value through profit or loss.

For the loans segment, the IFRS 9 implementation project has carried out modular analyses that take account of the significance of the portfolios, of their uniformity and of the business Division. The analyses used different approaches for the retail loan and corporate loan portfolios. As a result, only marginal cases were found which, due to their specific contractual clauses or the nature of the loan, failed the SPPI test. Accordingly, no significant impacts were identified also for the loans segment upon FTA.

With regard to the second classification driver for the financial assets (the business model), the business models have been identified for each business division. For the Hold to Collect portfolios, the limits have been set for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk. More specifically, within an HTC business model sales are allowed:

- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the total nominal value of the instruments held in the portfolio over the period considered.

  If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).

The analyses conducted identified that the portfolios of debt securities measured at amortised cost pursuant to IAS 39 generally have little movement, consistent with the management strategy of a Hold to Collect business model.
However, for debt securities classified – also in accordance with IAS 39 – as Financial assets available for sale, the adoption of a Hold to Collect and Sell business model has been identified for the majority of the portfolios. Some portfolio reclassifications have been carried out upon FTA, in only a few cases related to small-sized portfolios, to take account, as required by the standard, of the underlying business model on the IFRS 9 first-time adoption date. These reclassifications concerned, in particular, debt securities, measured at fair value through other comprehensive income under IAS 39, which were included in a Hold to Collect business model on FTA and therefore measured using the amortised cost method, if they passed the SPPI test.
For loans, the current business model, both for retail and corporate counterparties, essentially corresponds to the Hold to Collect business model.
Lastly, more generally, for the business models under which the financial assets are held, a specific set of Business Model Rules has been produced, approved by the competent governance levels, aimed at defining and setting out the components of the business model, specifying its role in relation to the classification model governed by IFRS 9.

With regard to equity instruments, the instruments have been identified (classified in the financial assets available for sale category in accordance with IAS 39) for which to exercise the option of classification at fair value through other comprehensive income (without recycling to profit or loss) upon FTA. The general criteria have also been established that will guide this choice when the standard is “fully loaded” and the related organisational process has been formalised.

Lastly, after having completed a specific analysis, it was decided, for the Banking Group, not to use the fair value option (with separate recognition through other comprehensive income of the fair value changes attributable to the changes in the Group’s credit rating) for the stock of financial liabilities as at 1 January 2018.

Impairment

With regard to the new impairment model:

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

With regard to the tracking of credit quality – in line with the regulatory content of the standard and the instructions from the Supervisory Authorities regarding the methods for applying the reporting standard for larger sized banks – the policy has been established to be applied for the specific analysis of the credit quality of each individual relationship (both in the form of securitised exposure and the form of lending). This is aimed at identifying any “significant deterioration in credit risk” between the initial recognition date and the reporting date, with the consequent need for classification to stage 2, as well as, vice versa, the conditions for returning to stage 1. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase.

With regard to the above, the factors that – in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group – constitute the main drivers to be taken into consideration for the assessments regarding the “transfers” between the different stages are the following:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have "significantly increased" and, the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has "significantly increased" since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are considered for the purposes of the transfer between "stages" where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that, based on the current credit quality of the borrower, identify performing exposures above a certain level of risk.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the average PDs for the segment are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used are determined based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ according to residual maturity, annual granularity and rating class at the time of disbursement/purchase of each individual financial instrument.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

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

Lastly, solely with regard to the first-time adoption of the standard, for certain categories of exposures (specifically identified and mainly related to performing debt securities measured at fair value through other comprehensive income, held by the Parent Company and the Italian bank subsidiaries), the low credit risk exemption established by IFRS 9 has been used. Based on the exemption, exposures which, at the date of transition to the new standard, had a credit rating equivalent to investment grade have been considered to have a low credit risk and therefore as stage 1.

Once the allocation to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9. These corrections include the adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for prudential purposes, the estimate of the PDs and, where necessary, of the multi-period LGDs to determine the lifetime expected credit loss for the financial instrument, and the removal of the economic downturn component from the LGD calculation, as well as the use of the effective interest rate of the individual transactions in the discounting process.

The measurement of the financial assets – both performing and stage 3 – also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. Useful guidance has been provided by the TRG[1] regarding the incorporation of this information in the determination of the impairment of a loan. The issues addressed by the TRG included: (i) whether it is sufficient to use only one scenario, i.e. whether multiple scenarios need to be used in the impairment estimates; and (ii) if multiple scenarios need to be adopted, what methods should be adopted for this purpose. With regard to issue (i), the TRG noted that, when there is a non-linear relationship between macroeconomic variables and impairment losses, a single macroeconomic scenario is not representative of the

[1] The TRG or "IFRS Transition Resource Group for impairment of financial instruments (ITG)" is a discussion forum aimed at supporting the implementation of certain aspects related to the new impairment requirements introduced by IFRS 9.

entire distribution of possible scenarios and the estimate of impairment losses must therefore be based on multiple scenarios. With regard to issue (ii), the TRG noted that two methodologies can be used alternatively:

a) estimation of losses in each scenario considered and calculation of the average resulting loss, weighted by the probability of occurrence of each scenario;
b) estimation of losses based on the most likely scenario and application of an overlay adjustment ("add-on") to take account of the less likely scenarios[2].

Information on future macroeconomic scenarios in which the Bank may find itself clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures).
In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plan) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes.
The design of the most-likely scenario is performed using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:

- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- some specific data for the Italian economy (industrial production, employment, public finance balances).

These forecasts are then entered in the Oxford Economics multi-country structural model (Global Economic Model), where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The construction of the most-likely scenario is accompanied by the identification of alternative paths, used as inputs in the calculation of the Add-On using the Oxford Economics "Global Model" simulation environment. For some variables, alternative paths are set with respect to those in the most-likely scenario, which are used to solve the model to obtain consistent simulated paths for the other variables used in this process.
The key variables are:

- average annual GDP growth rates of several countries (Italy, United States, Germany, France, Spain and the United Kingdom);
- European stock market index (DJ Eurostoxx 50);
- US stock market index (S&P500);
- residential real estate prices (United States);
- residential real estate prices (Italy).

The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

For each quarter, the percentile relating to the change in the quarter in the most-likely scenario is identified with respect to the historical distribution of the changes related to the above indicators. The percentile value identified is used to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The new identified values are used as inputs for determining the negative Add-On (lowest value) and the positive Add-On (highest value). The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.
In applying the annual variations to the quarterly profile of the variables, any deviation from the annual average is distributed, within the forecast quarters for that year, based on a standardised levelling approach that minimises the overall variability of the variable's profile.
The resulting two sets of alternative variables obtained are used as inputs in the Oxford Economics Global Model, which is then solved to obtain consistent paths for all the remaining variables and countries. The model's output consists of two

[2] These alternative methods are also envisaged in the document produced by the Global Public Policy Committee of representatives of the six largest accounting networks, of 17 June 2016, entitled "*The implementation of IFRS 9 impairment requirements by banks. Considerations for those charged with governance of systematically important banks*".

datasets of variables that, through the model's equations, reflect the two shocks applied (worst case and best case). The datasets are checked for any excessive quarterly volatility and/or inconsistencies in the path of the secondary variables. Where necessary, the results are fine-tuned. From these datasets, the set of variables is then extracted that constitute the smallest datasets provided to construct alternative add-on scenarios in the later stages of the process.
In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

Specific considerations apply to "stage 3" exposures (consisting, as reported above, of the current scope of non-performing assets). With regard to non-performing loans in particular, it should be noted that, despite the fact that the definition of credit-impaired financial assets contained in IFRS 9 compared to the previous standard is substantially the same, the methods of calculation of the lifetime ECL have methodological repercussions also for the purposes of the measurements to be carried out in this segment, mainly in relation to the following aspects:
- the inclusion of forward-looking information, such as the information on the macroeconomic scenarios, on the recovery estimates and times, and on the likelihood of migration into worse classes, or, for unlikely-to-pay loans, on the continuation in the risk status which reduces the recoverable amount as a result of vintage, as well as information that can have an influence on the value of the collateral or the expected recovery time;
- the consideration of alternative recovery scenarios, such as the sale of the credit assets, in connection with possible disposals of parts of the non-performing portfolio, in relation to company objectives of reduction of the non-performing assets, to which a probability of realisation must be assigned, to be considered within the overall measurement.

With regard to the inclusion of forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described. In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding bad loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors on 6 February 2018, identified significant de-risking as one of its key priorities aimed at enabling the Group to reduce its level of gross non-performing loans to around 6% of the loan portfolio in 2021. To this end, a new "NPL Plan" was prepared and sent to the ECB that envisages, in addition to strengthening activities aimed at the internal recovery of positions, the sale of a significant portfolio of bad loans. The combination of the sales scenario with the ordinary recovery scenario through internal management therefore responds to the requests received from the Supervisory Authorities.

The above change in strategy envisaged by the new plan was taken into consideration for the first-time adoption of IFRS 9, which, as already noted, has introduced significant changes with respect to IAS 39. In particular, IAS 39 stated (see paragraph 59): *"A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset....omitted....Losses expected as a result of future events, no matter how likely, are not recognised"*.
The approach required by IFRS 9 is significantly different; paragraph 5.5.17 states that "*An entity shall measure expected credit losses of a financial instrument in a way that reflects*:
a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b) the time value of money;

c) *reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions*".

In particular, IFRS 9 defines loss as the difference between all the contractual cash flows due and the cash flows an entity would expect to receive. Therefore, whereas for IAS 39 the source of the cash flows is limited to the cash flows coming from the debtor or from the guarantee as envisaged by the contractual terms, under IFRS 9 the source of the cash flows is not limited to the cash flows based on the contractual terms but includes all the cash flows that will flow to the creditor.

It follows that, if the entity plans to sell a non-performing loan to a third party both for the purpose of maximising cash flows and in relation to a specific non-performing loan management strategy, the ECL estimate will also reflect the existence of the sale scenario and therefore the cash flows arising from that sale.

IFRS 9 also allows possible sales scenarios to be considered, which therefore must be weighted with the others considered more likely. In contrast, under IAS 39, realisation through the sale of a loan can be considered (as the sole scenario) only if it is reasonably certain at the reporting date, because it is an expression of a management action already formalised at that date.

In addition to the above, the TRG – regarding the impairment of financial instruments – also confirmed that the cash flows from the sale of a defaulted loan must be considered in the estimate of the impairment losses provided that:

- the sale of the loan is one of the methods of recovery that the entity expects to use;
- the entity has no legal or operational limitations that affect its ability to sell the loan;
- the entity has reasonable and adequate information to support the disposal scenario.

The TRG also notes that:

- to support the entity's expectations that sales to third parties represent a method of recovery in the event of default, both the entity's past practice and future expectations must be considered, and that the latter may differ from the previously observed practice;
- to determine the recoverable amount, the relevant market information relating to loan sale prices should be considered;
- the inclusion of amounts recovered through sale in the estimation of the expected losses is appropriate for financial instruments classified in all stages (1, 2 and 3); this is because, when measuring expected credit losses, IFRS 9 requires all possible scenarios to be considered regardless of the stage in which the loan is classified.

Accordingly, the various recovery strategies envisaged by the Group have been reflected in the measurement of the loans, in accordance with the IFRS 9 impairment model, to align them proportionally to a likelihood of sale defined in line with the Group's NPL plan.

Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy. As a result, in order to determine the total expected loss of the exposures, for a defined perimeter of bad loans that have the characteristics of disposability, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from sale, estimated based on market valuations carried out by an external expert, have been weighted according to the portion of the portfolio destined for sale, envisaged by the NPL strategy, with respect to the total of the disposable portfolio.

In this context, the perimeter of disposable bad loans (amounting to approximately 24 billion euro, in terms of gross exposure, out of a total of 34 billion euro) was identified within the positions managed by the Loan Recovery Department, taking into account the following exclusion criteria:

- positions for which there are outstanding disputes or litigation (situations where the borrower has taken legal action against the bank to challenge the credit claims or the classification as bad loans);
- positions secured by credit guarantee consortia, because it is costly to precisely identify the guarantees securing the individual credit lines;
- positions relating to companies resident abroad, in view of the operational complexities arising from differences in regulations and operations with respect to the jurisdictions where the borrowers are located;
- securitised positions, because the securitisation structure needs to be dismantled, with the involvement of various stakeholders;
- positions with entities other than households, businesses and public entities;
- syndicated loans, to avoid the involvement of third parties in the sale process, and positions with third party funds or particular facilitations that make the sale process operationally costly.

In particular, the recoverable amount of disposable bad loans has been quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that management expects to sell, as identified in the NPL plan approved by the Board of Directors, and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by the Group for the impairment of bad loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale was carried out by an external expert.

For completeness, please note that a specific Impairment Policy has been drawn up in accordance with the requirements of IFRS 9 and has been approved by the competent levels of governance.

Hedge Accounting

In the area of Hedge Accounting, the changes to the accounting rules relate solely to general hedging and are closely tied to the Group's choice to exercise the opt-in/opt-out option (i.e. the possibility of applying the criteria established by the new IFRS 9 rather than maintaining the previous criteria established by IAS 39). Based on the investigations conducted on the current management of hedging transactions, it has been decided to exercise the opt-out option upon FTA of IFRS 9. As a result, all types of hedging operations continue to be managed using the methods adopted in the past, in line with the provisions of IAS 39 (carve-out). The Group will consider whether to confirm this choice for the reporting periods after 2018.

Governance of the transition to the new standard

The Intesa Sanpaolo Group has initiated and conducted the implementation process for the new Standard based on a strong and solid Governance Project. Responsibility for the Project was divided between the Risk and Accounting functions, with the active involvement of representatives from all the departments affected, thanks to the establishment of a Steering Committee and a Business Committee responsible for approving the main project decisions.
The Board of Directors, the Risks Committee and the Management Control Committee were also involved, over the duration of the project, as part of the implementation process for the standard.
The process of determining and reporting the adjustments is governed by two sets of company regulations: the Impairment Policy (approved by the Risks Committee and the Board of Directors) which, together with the Group Accounting Rules, establishes the metrics and algorithms for the estimate of the expected impairment losses, and the Process Guidelines, which define the actions, conduct and controls of the organisational units involved in the process.
The process of determining the ECL on performing and non-performing loans has been amended and supplemented in accordance with the current Group Governance framework, in which the Chief Lending Officer area and the Capital Light Bank are responsible for determining the analytical impairment losses on non-performing loans, and the Chief Risk Officer area is responsible for measuring the expected losses on performing loans, using statistical methods, as well as additional non-analytical measurements of non-performing loans (e.g., scenario add-ons).
A fundamental step in the calculation of the expected losses is the definition of the expected scenarios. The base assumptions are defined by the Research Department in the same way as for the other entries of the financial statements (e.g., impairment of intangible assets) and in accordance with the assumptions of the Business Plan and the Budgets.
As mentioned above, the CRO area is responsible for developing and implementing the models required to calculate the credit losses. These models and methods are then subject to validation by the Validation Department, which is independent from both the business structures and the structures that develop and implement the models. The analyses by the Validation Department include the review of the documentation relating to the design and development of the models, the validation date, and the re-performance of the calculations.

The process of classification of the financial instruments was governed by updating the existing policies and drawing up the Business Model Rules, approved by the Risks Committee and the Board of Directors. These Rules define and set out the elements of the different business models used by the Intesa Sanpaolo Group and, together with the method for the performance of the SPPI test described in the Group Accounting Rules, they enable the establishment of a correct measurement approach for the financial assets. The Process Guidelines, on the other hand, define the procedures, actions, conduct and controls of the organisational units involved in the process.
In particular, with regard to loans, the credit approval processes have been strengthened to (i) manage the performance of the SPPI test, carried out based on the methods developed internally and included in the specific tool available to the business structures and (ii) identify the business model associated with each credit approval. The method used to determine the fair value of loans (input data, models, etc.) has been integrated into the Fair Value Policy, in accordance with the current Group Governance framework.
Lastly, with regard to investments in equity instruments, which the standard places by default under financial assets measured at fair value through profit or loss, the general criteria that should guide the possible exercise of the option of classification to fair value through other comprehensive income (without recycling to profit or loss) have been established and the related framework (processes, limits and decision-making powers, etc.) has been updated accordingly.

The effects of first-time adoption (FTA) of IFRS 9

As stated in the Accounting Policies paragraph relating to the Criteria for the preparation of the Interim Statement, the Group has decided to exercise the option, provided by IFRS 9, of not restating the comparative information for the IFRS 9 first-time adoption financial statements. In order to assign the 2017 comparative information to the accounting captions established in the new Circular 262 official financial statement layouts, the necessary reconciliations have been made, without changing the values, based on the criteria indicated in the Accounting Policies paragraph, which readers are referred to. This section shows the reconciliations of the accounting balances as at 1 January 2018 and the effects on the capital ratios as a result of the application of the new classification and measurement rules required by IFRS 9, as approved by the Board of Directors of 8 May 2018.

Reconciliation between the Financial Statements published in the 2017 Annual Report and the IFRS 9 Financial Statements (new Circular 262) as at 1 January 2018 (reclassification of IAS 39 balances)

The schedules below show the reconciliations between the Financial Statements as per the 2017 Annual Report and the Financial Statements introduced by the new Bank of Italy Circular 262, which incorporates the adoption of the presentation criteria established by IFRS 9. In these statements, the accounting balances as at 31 December 2017 (figures determined according to IAS 39) are reconciled to the new accounting captions, according to the reclassifications required as a result of the new classification criteria introduced by IFRS 9 and based on the analyses carried out (already described above), but without the application of the new measurement criteria and, therefore, with the same amount of total assets and total liabilities.

Assets

(millions of euro)

IFRS9 \ IAS 39		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Investments in associates and companies subject to joint control	110. Technical insurance reserves Reassured with third parties	120. Property and equipment	130. Intangible assets	140. Tax assets	150. Non-current assets held for sale and discontinued operations	160. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	9,353																**9,353**
20.	Financial assets measured at fair value through profit or loss		39,028	348	2,231	299	90	615										**42,611**
30.	Financial assets measured at fair value through other comprehensive income			206	59,219	379		5										**59,809**
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39		490	74,715	77,373				4									**152,582**
40.	Financial assets measured at amortised cost				3,518	496	71,967	410,108										**486,089**
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39						405	18										**423**
50.	Hedging derivatives								4,213									**4,213**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-204								**-204**
70.	Investments in associates and companies subject to joint control										678							**678**
80.	Technical insurance reserves reassured with third parties											16						**16**
90.	Property and equipment												6,678					**6,678**
100.	Intangible assets													7,741				**7,741**
110.	Tax assets														16,887			**16,887**
120.	Non-current assets held for sale and discontinued operations															627		**627**
130.	Other assets																9,358	**9,358**
TOTAL ASSETS		**9,353**	**39,518**	**75,269**	**142,341**	**1,174**	**72,462**	**410,746**	**4,217**	**-204**	**678**	**16**	**6,678**	**7,741**	**16,887**	**627**	**9,358**	**796,861**

Looking at the most significant reclassifications for the Banking Group, the application of the new classification and measurement rules for financial assets resulted in:

- the reclassification of part of the debt securities available for sale under IAS 39, of which 3,518 million euro was allocated to financial assets measured at amortised cost, following the change in the business model, and 555 million euro to financial assets measured at fair value through profit or loss, both due to the change in the business model and the failure to pass the SPPI test;
- the reclassification, due to the change in the business model, of investments held to maturity to financial assets measured at fair value through profit or loss for 299 million euro and to financial assets measured at fair value through other comprehensive income for 379 million euro;
- the reclassification, due to the change in the business model, of financial assets measured at fair value through profit or loss to financial assets measured at fair value through other comprehensive income for 206 million euro;
- the reclassification of units of UCIs classified as financial instruments available for sale under IAS 39, which, for an amount of 1,176 million euro, were reclassified to assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9;
- the reclassification of equities classified as financial instruments available for sale under IAS 39, of around 3,652 million euro, of which 3,152 million euro was classified under financial assets for which the option of designation at fair value through other comprehensive income (without recycling to profit or loss) has been irrevocably exercised and 500 million euro to financial assets mandatorily measured at fair value through profit or loss.

It is also noted that the reclassification of loans to banks and to customers into the portfolio of assets measured at fair value through profit or loss due to the failure to pass the SPPI test was marginal (705 million euro).

The reclassifications due to the application of IFRS 9 (i.e. due to business model and SPPI Test), were also accompanied by reclassifications due to the introduction of new official formats through the update of Bank of Italy Circular no. 262 of December 2017, as well as the reclassifications due to the addition of specific captions to report the figures relating to the financial assets and liabilities of the Group's insurance companies, which, as result of the adoption of the Deferral Approach already mentioned above, will continue to be measured in accordance with the provisions of IAS 39 until the entry into force of IFRS 17, scheduled for 2021.

With regard to the new Circular no. 262, in particular, there has been a change in the presentation of the financial assets, which instead of the previous captions Loans to customers, Loans to banks, Investments held to maturity, Financial assets available for sale, Financial assets measured at fair value through profit or loss and Financial assets held for trading, are now classified under the new captions Financial assets measured at fair value through profit or loss, Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost.

In relation to the adoption of the Deferral Approach, the following captions have been created in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262:

- Balance Sheet - Assets: “Caption 35. Financial assets pertaining to insurance companies measured at fair value in accordance with IAS 39”, which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale and any derivatives with a positive fair value, as defined in accordance with IAS 39;
- Balance Sheet - Assets: “Caption 45. Financial assets pertaining to insurance companies measured at amortised cost in accordance with IAS 39”, which includes investments held to maturity and loans to banks and customers, as defined in accordance with IAS 39.

Liabilities

(millions of euro)

IFRS9 \ IAS 39		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	130. Technical reserves	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	99,989	323,386	92,985											**516,360**
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1	57	1,254											**1,312**
20.	Financial liabilities held for trading				41,218		238								**41,456**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					3									**3**
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39				67	68,166									**68,233**
40.	Hedging derivatives						7,251								**7,251**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							478							**478**
60.	Tax liabilities								2,509						**2,509**
70.	Liabilities associated with non-current assets held for sale and discontinued operations									264					**264**
80.	Other liabilities										12,225				**12,225**
90.	Employee termination indemnities											1,410			**1,410**
100.	Allowances for risks and charges										349		5,481		**5,830**
110.	Technical reserves													82,926	**82,926**
TOTAL		**99,990**	**323,443**	**94,239**	**41,285**	**68,169**	**7,489**	**478**	**2,509**	**264**	**12,574**	**1,410**	**5,481**	**82,926**	

Shareholders' equity

(millions of euro)

IFRS 9 \ IAS 39		140. Valuation reserves	150. Redeemable shares	160. Equity instruments	170. Reserves	180. Share premium reserve	190. Share capital	200. Treasury shares (-)	210. Minority interests (+/-)	220. Net income (loss)	TOTAL
120.	Valuation reserves	-1,206									**-1,206**
125.	Valuation reserves pertaining to insurance companies	417									**417**
130.	Redeemable shares										**-**
140.	Equity instruments			4,103							**4,103**
150.	Reserves				10,921						**10,921**
160.	Share premium reserve					26,006					**26,006**
170.	Share capital						8,732				**8,732**
180.	Treasury shares (-)							-84			**-84**
190.	Minority interests (+/-)								399		**399**
200.	Net income (loss) (+/-)									7,316	**7,316**
TOTAL		**-789**	**-**	**4,103**	**10,921**	**26,006**	**8,732**	**-84**	**399**	**7,316**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY											**796,861**

With reference to financial liabilities, no significant reclassification impacts were recorded resulting from the transition to IFRS 9. For the sake of completeness, we note solely:

- the reclassification of some derivatives to the trading book, which were previously classified as hedging instruments, for which the hedging relationships were discontinued upon FTA because they were linked to financial instruments recorded in the balance sheet assets under financial assets measured at fair value through profit or loss in accordance with IFRS 9;
- the reclassification of the allowances for credit risk for loan commitments and financial guarantees given that, under the previous version of Bank of Italy Circular no. 262, were allocated to Other liabilities and that must be recognised under Allowances for risks and charges under the new instructions.

For the Liabilities and Shareholders' Equity captions, the reclassifications included those due to the new official formats introduced by the aforementioned Circular no. 262 and the adoption of the Deferral Approach.

With regard to the new official formats introduced by the Bank of Italy, in addition to the changes relating to the presentation of cumulative adjustments to guarantees given and loan commitments described above, the previous captions relating to amounts due to banks, amounts due to customers and securities issued are now all included under the caption “10. Financial liabilities measured at amortised cost”.

In relation to the adoption of the Deferral Approach, the following captions have also been created in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262:

- Balance Sheet - Liabilities: “Caption 15. Financial liabilities pertaining to insurance companies measured at amortised cost in accordance with IAS 39”, which includes amounts due to banks, amounts due to customers and securities issued, as defined in accordance with IAS 39;
- Balance Sheet - Liabilities: “Caption 35. Financial liabilities pertaining to insurance companies measured at fair value in accordance with IAS 39“, which includes financial liabilities held for trading, financial liabilities measured at fair value and any derivatives with a negative fair value, as defined in accordance with IAS 39;
- Balance Sheet - Shareholders’ Equity: “Caption 125. Valuation reserves pertaining to insurance companies”, which includes valuation reserves on financial assets available for sale, the shadow accounting effects and the related tax impacts.

Reconciliation between the Balance Sheet as at 31 December 2017 (which incorporates the new IFRS 9 presentation rules) and the Balance Sheet as at 1 January 2018 (which incorporates the new IFRS 9 measurement and impairment rules)

The schedules below show the Reconciliation between the Balance Sheet as at 31 December 2017 (former IAS 39), which incorporates the reclassification required by the classification rules established by IFRS 9, described above, and the Balance Sheet as at 1 January 2018 (IFRS 9). In these schedules, the accounting balances as at 31 December 2017 (amounts determined in accordance with IAS 39) have been modified as a result of the application of the new measurement and impairment rules, to determine the IFRS 9 compliant opening balances.

Assets

(millions of euro)

	Captions	31.12.2017 (a)	Effect of transition to IFRS 9 (b) Classification and measurement	Impairment	01.01.2018 (c) = (a) + (b)
10.	Cash and cash equivalents	9,353			9,353
20.	Financial assets measured at fair value through profit or loss	42,611	-52		42,559
30.	Financial assets measured at fair value through other comprehensive income	59,809	51		59,860
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582			152,582
40.	Financial assets measured at amortised cost	486,089	243	-4,137	482,195
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423			423
50.	Hedging derivatives	4,213			4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204			-204
70.	Investments in associates and companies subject to joint control	678			678
80.	Technical insurance reserves reassured with third parties	16			16
90.	Property and equipment	6,678			6,678
100.	Intangible assets	7,741			7,741
110.	Tax assets	16,887	-47	1,178	18,018
120.	Non-current assets held for sale and discontinued operations	627			627
130.	Other assets	9,358			9,358
	TOTAL ASSETS	**796,861**	**195**	**-2,959**	**794,097**

Classification and measurement

The different classification of financial assets in the new categories required by IFRS 9 and the consequent different measurement metrics had a positive impact (before tax) on the Consolidated Shareholders' Equity of the Intesa Sanpaolo Group of 242 million euro, as detailed below.

The adjustment to the carrying amount of the financial assets resulting from the change in the business model, mainly attributable to the debt securities portfolio, had a total gross positive impact on Consolidated Shareholders' Equity of 262 million euro. This effect was due to the following factors:

- reclassification of financial assets available for sale to a Hold to Collect business model, with consequent recalculation of the carrying amount and derecognition of the AFS reserve (+156 million euro);
- the positive effect for debt securities, which in 2008/2009, following the amendment to IAS 39, were reclassified from the AFS/HFT to the L&R portfolios, generating a negative shareholder's equity reserve. Having confirmed the Hold to Collect business model on FTA, this negative reserve was written off against the book value of these assets, generating a positive impact of 87 million euro;
- reclassification of financial assets measured at amortised cost to a Hold to Collect and Sell business model, with consequent recalculation of their carrying amount (fair value) and recognition of the changes in fair value since origination in the valuation reserve (+51 million euro);
- reclassification of financial assets measured at amortised cost to a Trading business model and consequent recalculation of their carrying amount (fair value), with recognition of the changes in fair value since the initial recognition date for these assets (-32 million euro) in a specific retained earnings reserve (FTA Reserve).

The fair value adjustment of the financial assets following the failure to pass the SPPI test resulted in a gross negative impact on Consolidated Shareholders' Equity of 20 million euro, mainly relating to debt securities.

Impairment

The application of the new impairment rules (expected credit losses) on the financial assets measured at amortised cost (on-balance sheet exposures) resulted in a negative impact of 4,137 million euro, as detailed below:

- additional value adjustments to on-balance sheet performing loans of 1,136 million euro attributable to (i) the allocation of part of the performing portfolio to Stage 2, based on the stage allocation criteria defined, with the consequent need to calculate the lifetime expected credit loss for the financial assets and (ii) the inclusion of forward-looking parameters resulting from future macroeconomic scenarios within the expected credit losses calculation. The first-time adoption impact was almost entirely due to the increase in adjustments to positions classified as stage 2, whose total provisions trebled;
- additional value adjustments to performing securities of 95 million euro, essentially attributable to the allocation of a portion of the portfolio to Stage 2, with the consequent need to calculate the lifetime expected credit loss for the financial assets;
- additional value adjustments to non-performing loans of 2,906 million euro, mainly due to the inclusion of forward-looking parameters, resulting from the consideration of future macroeconomic scenarios for all the NPL categories, within the expected credit losses calculation, and the inclusion of the sale scenario – envisaged by the company targets of reduction of the non-performing assets – for a part of the bad loans portfolio that has characteristics of disposability. The impact of the additional adjustments consisted of 2,063 million euro for bad loans and 843 million euro for positions classified as unlikely-to-pay loans and past due loans.

Liabilities and shareholders' equity

(millions of euro)

	Captions	31.12.2017 (a)	Effect of transition to IFRS 9 (b)	01.01.2018 (c) = (a) + (b)
10.	Financial liabilities measured at amortised cost	516,360		516,360
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312		1,312
20.	Financial liabilities held for trading	41,456		41,456
30.	Financial liabilities designated at fair value	3		3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233		68,233
40.	Hedging derivatives	7,251		7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478		478
60.	Tax liabilities	2,509		2,509
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264		264
80.	Other liabilities	12,225		12,225
90.	Employee termination indemnities	1,410		1,410
100.	Allowances for risks and charges	5,830	186	6,016
110.	Technical reserves	82,926		82,926
120.	Valuation reserves	-1,206	328	-878
125.	Valuation reserves pertaining to insurance companies	417		417
130.	Redeemable shares	-		-
140.	Equity instruments	4,103		4,103
150.	Reserves	10,921	-3,265	7,656
160.	Share premium reserve	26,006		26,006
170.	Share capital	8,732		8,732
180.	Treasury shares (-)	-84		-84
190.	Minority interests (+/-)	399	-13	386
200.	Net income (loss) (+/-)	7,316		7,316
	TOTAL LIABILITIES	**796,861**	**-2,764**	**794,097**

On the liabilities side, there were additional adjustments to the value of guarantees given and loan commitments (irrevocable and revocable) of 186 million euro, recognised under allowances for risks and charges. This increase was due to the application of the new rules on impairment (including the forward-looking component), as well as the enlargement of the scope of application, which also includes revocable commitments.

Lastly, for Shareholders' Equity, there was an improvement of 328 million euro in the valuation reserves and the recognition of a negative retained earnings reserve (the FTA reserve) of 3,265 million euro (with a total negative effect of 2,937 million euro, including tax, on Group Shareholders' Equity).

Reconciliation between IAS 39 Shareholders' Equity and IFRS 9 Shareholders' Equity

The schedule below shows the reconciliation between the Consolidated Shareholders' Equity as at 31 December 2017, as presented in the 2017 Annual Report, and the opening Consolidated Shareholders' Equity as at 1 January 2018, after the transition to IFRS 9, which reflects the effects described above.

(millions of euro)

	Effect of transition to IFRS9
IAS 39 Shareholders' Equity - 31.12.2017	**56,604**
of which: Group	56,205
of which: minority interests	399
CLASSIFICATION AND MEASUREMENT	
Adjustment to carrying amount of financial assets resulting from change in business model	**262**
Fair value adjustment of financial assets failing the SPPI test	**-20**
Reclassification from valuation reserves to retained earnings reserves:	**-**
net change in valuation reserves due to application of new classification and measurement rules	74
net change in retained earnings reserves due to application of new classification and measurement rules	-74
IMPAIRMENT	
Application of the new (ECL) impairment model to loans measured at amortised cost:	**-4,042**
performing (Stage 1 and 2)	-1,136
non-performing (Stage 3)	-2,906
Application of the new (ECL) impairment model to guarantees given and loan commitments (irrevocable and revocable)	**-186**
Application of the new (ECL) impairment model to debt securities measured at amortised cost	**-95**
performing (Stage 1 and 2)	-95
non-performing (Stage 3)	-
Reclassification from valuation reserves to retained earnings reserves:	**-**
net change in valuation reserves due to impairment of financial assets designated at fair value through other comprehensive income	59
net change in retained earnings reserves due to impairment of financial assets designated at fair value through other comprehensive income	-59
Tax effect	**1,131**
Allocation of IFRS 9 transition effects to minority interests	**-13**
Total IFRS 9 transition effects at 1.1.2018	**-2,937**
IFRS 9 Shareholders' Equity - 1.1.2018	**53,654**
of which: Group	53,268
of which: minority interests	386

In particular, reclassifications have been made to the valuation reserves and retained earnings reserve (FTA reserve), both as a result of the application of the new classification and measurement criteria and the application of the new impairment model. With regard to the former, reclassifications amounting to 74 million euro were made, with no impact on Consolidated Shareholders' Equity, as a result of:

- reclassification of debt securities classified as financial instruments available for sale under IAS 39 to a Trading business model, with the reallocation of the former AFS reserve (negative amount of 181 million euro) to the retained earnings reserve;
- reclassification of investment fund units, allocated to financial instruments available for sale under IAS 39, to assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9, with reallocation of the former AFS reserve (positive amount of 145 million euro) to the retained earnings reserve;
- reclassification of equities classified as financial instruments available for sale under IAS 39 to financial assets mandatorily measured at fair value through profit or loss, with reallocation of the former AFS reserve (negative amount of 38 million euro) to the retained earnings reserve.

For the debt securities classified as “Financial assets measured at fair value through other comprehensive income”, the application of the new impairment rules resulted in an increase of 59 million euro in the valuation reserve and a corresponding negative effect on retained earnings reserve, with no impact on Consolidated Shareholders' Equity.

The accounting effects described above also had an impact on the regulatory capital and prudential ratios.
In particular:
- the increase in the impairment reduces the CET 1 through the reduction of the shareholders’ equity;
- the increase in the impairment on the IRB exposures eliminates the previous shortfall producing an excess reserve;
- the tax effect generates DTAs that are deducted from the CET 1 as a result of the exceeding of the threshold, when there is no requirement under the local tax regulations for their deduction already in the current year;
- the RWAs on the standard exposures are reduced as a result of the increase in the impairment.

As a result, the impact of the first-time adoption of IFRS 9 on the CET 1 of the Intesa Sanpaolo Group, determined also taking into account the shortfall, resulting from the prudential expected losses in excess of the book value adjustments, amounted to:
- 102 bps in the fully loaded approach;
+ 2 bps with phase in, i.e., with the application of the provisions of Article 473a of the Capital Requirements Regulation “CRR”.

The table below shows the breakdown of the impacts on the prudential ratios:

(millions of euro)

Capital resources	Regulatory capital as at 31.12.2017 including regulatory adjustments (grandfathering)	Regulatory capital as at 1.1.2018 with remaining regulatory adjustments pursuant to Basel 3	IFRS 9 - Fully Loaded		IFRS 9 - 95% Phased-in	
			FTA Impact as at 1.1.2018	Amount as at 1.1.2018	FTA Impact as at 1.1.2018	Amount as at 1.1.2018
Shareholders’ equity - Group	56,205	56,205	-2,937	53,268	2,702	55,970
Excess expected losses over adjustments (shortfall)	-298	-298	298	-	-	-
Regulatory capital adjustments and deductions	-17,856	-18,937	-498	-19,435	477	-18,958
Common Equity Tier 1 Capital (CET1)	**38,051**	**36,970**	**-3,137**	**33,833**	**3,179**	**37,012**
Additional Tier 1 Capital (AT1)	5,414	5,436	-	5,436	-	5,436
Tier 1 Capital (T1 = CET1 + AT1)	**43,465**	**42,406**	**-3,137**	**39,269**	**3,179**	**42,448**
Excess adjustments over expected losses (excess reserve)	176	176	679	855	-855	-
Other Tier 2 Capital items	7,732	8,035	-	8,035	-	8,035
Tier 2 Instruments (T2)	**7,908**	**8,211**	**679**	**8,890**	**-855**	**8,035**
Total Capital (TC = T1 + T2)	**51,373**	**50,617**	**-2,458**	**48,159**	**2,324**	**50,483**
Risk-Weighted Assets (RWA)	**286,825**	**285,893**	**-1,918**	**283,975**	**1,896**	**285,871**
Common Equity Tier 1 Capital / Risk-Weighted Assets (CET1 ratio)	**13.27%**	**12.93%**		**11.91%**		**12.95%**

For the purpose of completeness, it is noted that, as a result of the 2019 Budget Act (Law 145 of 30 December 2018) – which provided for the deduction in instalments over ten tax periods of adjustments to loans to customers made on first-time adoption of IFRS 9 – in the final quarter of the year the amount of current tax exceeding the tenth instalment permitted for deduction for 2018 was transferred to deferred tax assets and it also became possible to recognise additional ineligible IRAP DTAs of 140 million euro arising from the greater recoverability of the IRAP resulting from the deduction in instalments.
For prudential purposes, taking into account the provisions of Regulation (EU) 2017/2395 on the inclusion of a progressively decreasing portion of the impact of IFRS 9 in the Common Equity Tier 1 capital, up to 2022, as at 31 December 2018 the DTAs related to the first-time adoption of the standard – both those related to the non-deductible component in the year of the tax effect already recognised on FTA and the additional IRAP DTAs recorded in the fourth quarter – were considered at 5% of their carrying amount among the items deducted from Common Equity Tier 1 capital. Conversely, the positive effect recorded in the fourth quarter deriving from the recognition of the aforementioned IRAP DTAs was included at 5% within the Common Equity Tier 1 capital. The above effects generated an overall negative impact of around 2 bps on the Group’s CET 1 ratio in the fourth quarter of 2018.

Consolidated financial statements - Consolidated balance sheet

(millions of euro)

Assets		01.01.2018
10.	Cash and cash equivalents	9,353
20.	Financial assets measured at fair value through profit or loss	42,559
	a) financial assets held for trading	*39,651*
	b) financial assets designated at fair value	*214*
	c) other financial assets mandatorily measured at fair value	*2,694*
30.	Financial assets measured at fair value through other comprehensive income	59,860
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582
40.	Financial assets measured at amortised cost	482,195
	a) due from banks	*72,108*
	b) loans to customers	*410,087*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
50.	Hedging derivatives	4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204
70.	Investments in associates and companies subject to joint control	678
80.	Technical insurance reserves reassured with third parties	16
90.	Property and equipment	6,678
100.	Intangible assets	7,741
	of which:	
	- goodwill	4,056
110.	Tax assets	18,018
	a) current	*4,802*
	b) deferred	*13,216*
120.	Non-current assets held for sale and discontinued operations	627
130.	Other assets	9,358
Total assets		**794,097**

(millions of euro)

	Liabilities and Shareholders' Equity	01.01.2018
10.	Financial liabilities measured at amortised cost	516,360
	a) due to banks	*99,989*
	b) due to customers	*323,386*
	c) securities issued	*92,985*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
20.	Financial liabilities held for trading	41,456
30.	Financial liabilities designated at fair value	3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
40.	Hedging derivatives	7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478
60.	Tax liabilities	2,509
	a) current	*364*
	b) deferred	*2,145*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264
80.	Other liabilities	12,225
90.	Employee termination indemnities	1,410
100.	Allowances for risks and charges	6,016
	a) commitments and guarantees given	*535*
	b) post-employment benefits	*1,104*
	c) other allowances for risks and charges	*4,377*
110.	Technical reserves	82,926
120.	Valuation reserves	-878
125.	Valuation reserves pertaining to insurance companies	417
130.	Redeemable shares	-
140.	Equity instruments	4,103
150.	Reserves	7,656
160.	Share premium reserve	26,006
170.	Share capital	8,732
180.	Treasury shares (-)	-84
190.	Minority interests (+/-)	386
200.	Net income (loss) (+/-)	7,316
	Total liabilities and shareholders' equity	**794,097**

A breakdown is provided below of the credit quality of the exposures at amortised cost, before and after adoption of IFRS 9.

Composition and stage allocation of the exposures at amortised cost subject to IFRS 9 impairment testing and related ECL

(millions of euro)

On-balance sheet exposures (Amortised cost)	IFRS 9											
	Gross exposure				Total adjustments				Net exposure			
	STAGE				STAGE				STAGE			
	1	2	3	TOTAL	1	2	3	TOTAL	1	2	3	TOTAL
Loans to Customers	321,494	51,684	51,895	**425,073**	-844	-1,573	-29,481	**-31,898**	320,650	50,111	22,414	**393,175**
Due from Banks	70,152	1,445	4	**71,601**	-30	-4	-4	**-38**	70,122	1,441	0	**71,563**
Debt securities	13,488	4,088	44	**17,620**	-79	-82	-2	**-163**	13,409	4,006	42	**17,457**
TOTAL	**405,134**	**57,217**	**51,943**	**514,294**	**-953**	**-1,659**	**-29,487**	**-32,099**	**404,181**	**55,558**	**22,456**	**482,195**

	IAS 39								
	Gross exposure			Total adjustments			Net exposure		
	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL
Loans to Customers	373,457	52,030	**425,487**	-1,299	-26,607	**-27,906**	372,158	25,423	**397,581**
Due from Banks	71,858	4	**71,862**	-62	-4	**-66**	71,796	0	**71,796**
Debt securities	14,034	43	**14,077**	-244	-2	**-246**	13,790	41	**13,831**
TOTAL	**459,349**	**52,077**	**511,426**	**-1,605**	**-26,613**	**-28,218**	**457,744**	**25,464**	**483,208**

For the majority of the exposures (around 90%), the classification in Stage 2 is due to the increase (above the various thresholds established) in the lifetime PD since origination. The remainder is due to the classification in Stage 2 resulting from the presence of automatic classification triggers (mainly, more than 30 days past due and forborne positions). In addition, around a third of the positions classified as Stage 2 pertain to short-term positions (less than one year) with consequent measurement through the expected credit loss over a congruent period.

The schedule below shows the reconciliation between the financial statements in relation to the balance sheet captions (Assets and Liabilities) established by the new Bank of Italy Circular no. 262 and the corresponding reclassified financial statements, reclassified Balance Sheet, and the new credit quality table for the captions of the reclassified statement.

Reconciliation between the (Circular 262) Balance Sheet and the Reclassified Balance Sheet

(millions of euro)

Assets		1.1.2018
Due from banks		71,576
Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	71,562
Caption 20a (partial)	Financial assets held for trading - Due from banks	-
Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	14
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-
Loans to customers		**399,463**
Loans to customers measured at amortised cost		399,076
Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	393,176
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,900
Loans to customers designated at fair value through other comprehensive income and through profit or loss		387
Caption 20a (partial)	Financial assets held for trading - Loans to customers	-
Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-
Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	387
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	-
Financial assets measured at amortised cost which do not constitute loans		11,557
Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	546
Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	11,011
Financial assets designated at fair value through profit or loss		42,158
Caption 20a (partial)	Financial assets held for trading	39,651
Caption 20b (partial)	Financial assets designated at fair value - Debt securities	214
Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,293
Financial assets designated at fair value through other comprehensive income		59,860
Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	59,860
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39		152,582
Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39		423
Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
Investments in associates and companies subject to joint control		678
Caption 70	Investments in associates and companies subject to joint control	678
Property, equipment and intangible assets		14,419
Caption 90	Property and equipment	6,678
Caption 100	Intangible assets	7,741
Tax assets		18,018
Caption 110	Tax assets	18,018
Non-current assets held for sale and discontinued operations		627
Caption 120	Non-current assets held for sale and discontinued operations	627
Other assets		22,736
Caption 10	Cash and cash equivalents	9,353
Caption 50	Hedging derivatives	4,213
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	-204
Caption 80	Technical insurance reserves reassured with third parties	16
Caption 130	Other assets	9,358
Total assets		**794,097**

(millions of euro)

Liabilities			1.1.2018
Due to banks at amortised cost			99,989
Caption 10 a)		Financial liabilities measured at amortised cost - Due to banks	99,989
Due to customers at amortised cost and securities issued			416,371
Caption 10 b)		Financial liabilities measured at amortised cost - Due to customers	323,386
Caption 10 c)		Financial liabilities measured at amortised cost - Securities issued	92,985
Financial liabilities held for trading			41,456
Caption 20		Financial liabilities held for trading	41,456
Financial liabilities designated at fair value			3
Caption 30		Financial liabilities designated at fair value	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39			1,312
Caption 15		Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39			68,233
Caption 35		Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
Tax liabilities			2,509
Caption 60		Tax liabilities	2,509
Liabilities associated with non-current assets held for sale and discontinued operations			264
Caption 70		Liabilities associated with non-current assets held for sale and discontinued operations	264
Other liabilities			19,954
Caption 40		Hedging derivatives	7,251
Caption 50		Fair value change of financial liabilities in hedged portfolios (+/-)	478
Caption 80		Other liabilities	12,225
Technical reserves			82,926
Caption 110		Technical reserves	82,926
Allowances for risks and charges			7,426
Caption 90		Employee termination indemnities	1,410
Caption 100 b)		Allowances for risks and charges - Post-employment benefits	1,104
Caption 100 c)		Allowances for risks and charges - Other allowances	4,377
of which allowances for commitments and financial guarantees given			
Caption 100 a)		Allowances for risks and charges - Loan commitments and guarantees given	535
Share capital			8,732
Caption 170		Share capital	8,732
Reserves			33,578
Caption 130		Redeemable shares	-
Caption 150		Reserves	7,656
Caption 160		Share premium reserve	26,006
- Caption 180		Treasury shares	-84
Valuation reserves			-878
Caption 120		Valuation reserves	-878
Valuation reserves pertaining to insurance companies			417
Caption 125		Valuation reserves pertaining to insurance companies	417
Equity instruments			4,103
Caption 140		Equity instruments	4,103
Minority interests			386
Caption 190		Minority interests	386
Net income (loss)			7,316
Caption 200		Net income (loss) (+/-)	7,316
Total liabilities and shareholders' equity			**794,097**

Reclassified Consolidated Balance Sheet

(millions of euro)

Assets	01.01.2018
Due from banks	71,576
Loans to customers	399,463
Loans to customers measured at amortised cost	399,076
Loans to customers designated at fair value through other comprehensive income and through profit or loss	387
Financial assets measured at amortised cost which do not constitute loans	11,557
Financial assets designated at fair value through profit or loss	*42,158*
Financial assets designated at fair value through other comprehensive income	59,860
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423
Investments in associates and companies subject to joint control	678
Property, equipment and intangible assets	14,419
Tax assets	18,018
Non-current assets held for sale and discontinued operations	627
Other assets	22,736
Total Assets	**794,097**

Liabilities	01.01.2018
Due to banks at amortised cost	99,989
Due to customers at amortised cost and securities issued	416,371
Financial liabilities held for trading	41,456
Financial liabilities designated at fair value	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233
Tax liabilities	2,509
Liabilities associated with non-current assets held for sale and discontinued operations	264
Other liabilities	19,954
Technical reserves	82,926
Allowances for risks and charges	7,426
of which allowances for commitments and financial guarantees given	535
Share capital	8,732
Reserves	33,578
Valuation reserves	-878
Valuation reserves pertaining to insurance companies	417
Equity instruments	4,103
Minority interests	386
Net income (loss)	7,316
Total liabilities and shareholders' equity	**794,097**

Credit quality

(millions of euro)

Captions	31.12.2017				Reclassifications and adjustments				01.01.2018							
	Gross exposure	Total adjustments	Net exposure	% coverage	Gross exposure reclassifications		Adjustments reclassifications	Reclassifications due to insurance deferral	FTA adjustments	Gross exposure		Total adjustments		Net exposure		% coverage	
Bad loans	34,192	-21,567	12,625	63.1	-		-		-2,063	34,192	(*)	-23,630	(*)	10,562	(*)	69.1	(*)
Unlikely to pay	17,406	-4,946	12,460	28.4	-16		-14		-838	17,390		-5,798		11,592		33.3	
Past due loans	475	-96	379	20.2	-		-		-5	475		-101		374		21.3	
Non-Performing Loans	**52,073**	**-26,609**	**25,464**	**51.1**	**-16**		**-14**		**-2,906**	**52,057**		**-29,529**		**22,528**		**56.7**	
Non-Performing Loans in Stage 3 (subject to impairment)	*XXXXX*	*XXXXX*	*XXXXX*							*51,939*		*-29,483*		*22,456*		*56.8*	
Non-performing loans measured at fair value through profit or loss	*XXXXX*	*XXXXX*	*XXXXX*							*118*		*-46*		*72*		*39.0*	
Performing loans	***373,457***	***-1,299***	***372,158***	**0.4**	**39**		***46***	**-3**	**-1,164**	**373,493**		**-2,417**		**371,076**		**0.6**	
Stage 2	*XXXXX*	*XXXXX*	*XXXXX*						*-1,039*	51,684		-1,573		50,111		3.0	
Stage 1	*XXXXX*	*XXXXX*	*XXXXX*						*-125*	321,494		-844		320,650		0.3	
Performing loans measured at fair value through profit or loss	*XXXXX*	*XXXXX*	*XXXXX*							*315*				*315*		*n.a.*	
Performing loans represented by securities	***13,313***	***-189***	***13,124***	**1.4**	***-7,385***	***(**)***	***223***	***-15***	***-88***	**5,913**		***-54***		**5,859**		**0.9**	
Stage 2	*XXXXX*	*XXXXX*	*XXXXX*		-					662		-23		639		3.5	
Stage 1	*XXXXX*	*XXXXX*	*XXXXX*		-					5,251		-31		5,220		0.6	
Loans held for trading	*XXXXX*	*XXXXX*	*XXXXX*		-					-				-			
Total loans to customers	**438,843**	**-28,097**	**410,746**		**-7,362**		**255**	**-18**	**-4,158**	**431,463**		**-32,000**		**399,463**			

(*) Of which disposable bad loans:
- gross exposure: 23,325 million euro
- total adjustments: -16,880 million euro
- net exposure: 6,445 million euro
- coverage: 72.4%

(**) Of which 7,368 million euro relating to securities of financial companies and governments classified as Loans & Receivables in the 2017 Financial Statements.

Report on operations

Overview of 2018

Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)			Changes vs 2017	
			amount	%
Net interest income	7,276	7,265	11	0.2
Net fee and commission income	7,887	7,867	20	0.3
Income from insurance business	1,084	933	151	16.2
Profits (Losses) on financial assets and liabilities designated at fair value	1,609	1,316	293	22.3
Operating income	17,875	17,473	402	2.3
Operating costs	-9,470	-9,236	234	2.5
Operating margin	8,405	8,237	168	2.0
Net adjustments to loans	-2,394	-3,304	-910	-27.5
Net income (loss)	4,050	7,316	-3,266	-44.6

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

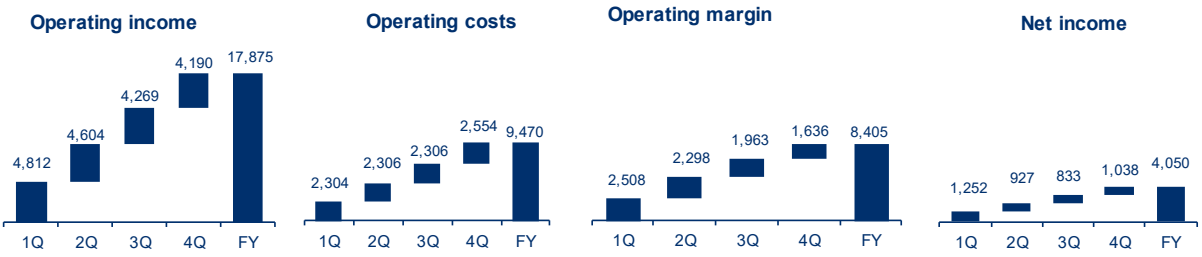
2018

2017

Consolidated income statement figures (millions of euro)			Changes vs 2017 Aggregate	
			amount	%
Net interest income	7,276	7,436	-160	-2.2
Net fee and commission income	7,887	8,057	-170	-2.1
Income from insurance business	1,084	933	151	16.2
Profits (Losses) on financial assets and liabilities designated at fair value	1,609	1,283	326	25.4
Operating income	17,875	17,840	35	0.2
Operating costs	-9,470	-9,823	-353	-3.6
Operating margin	8,405	8,017	388	4.8
Net adjustments to loans	-2,394	-3,311	-917	-27.7
Net income (loss)	4,050	7,316	-3,266	-44.6

Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

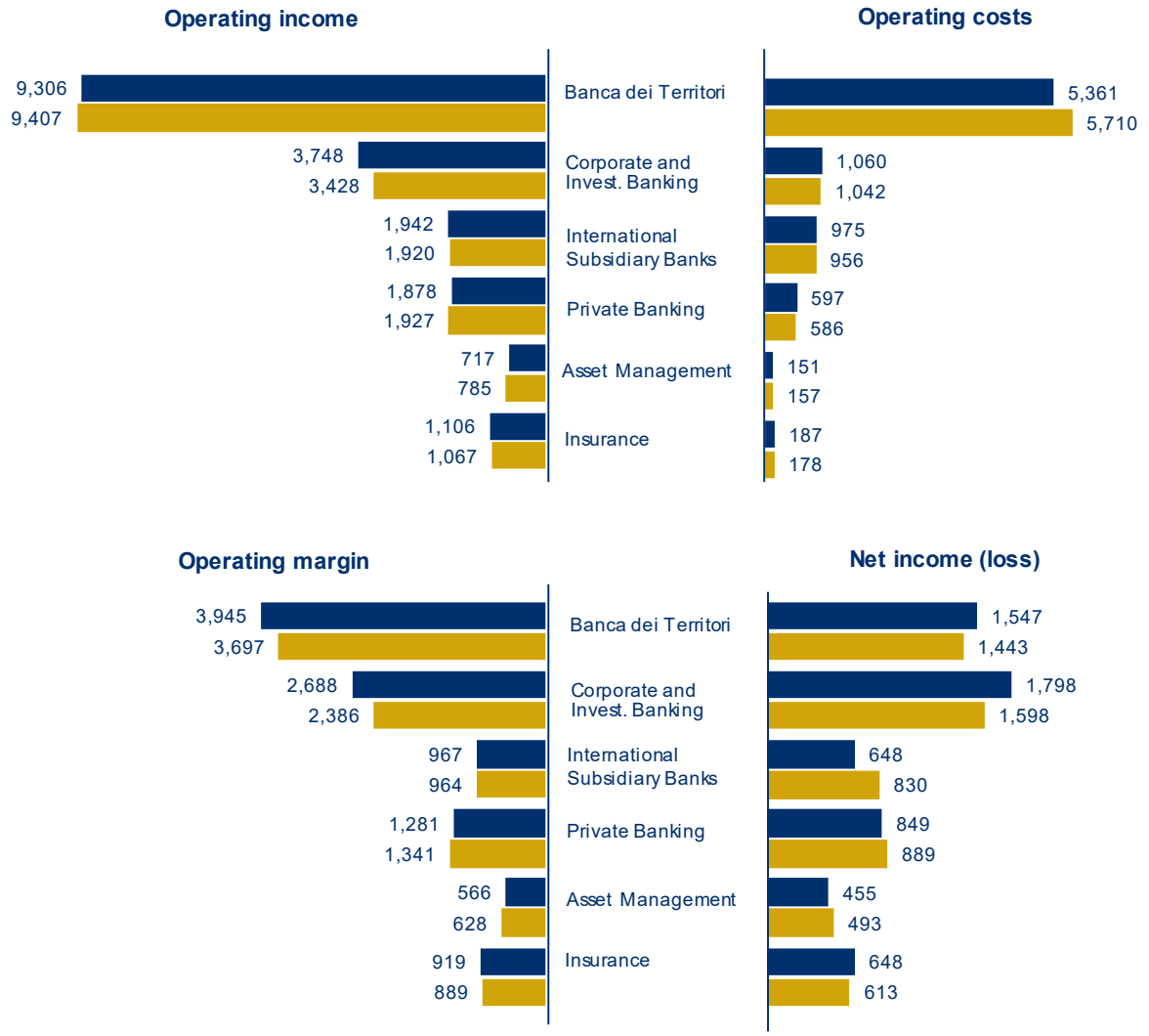
Quarterly development of main consolidated income statement figures (millions of euro)



2018

2017 (Figure of the Aggregate Set)

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



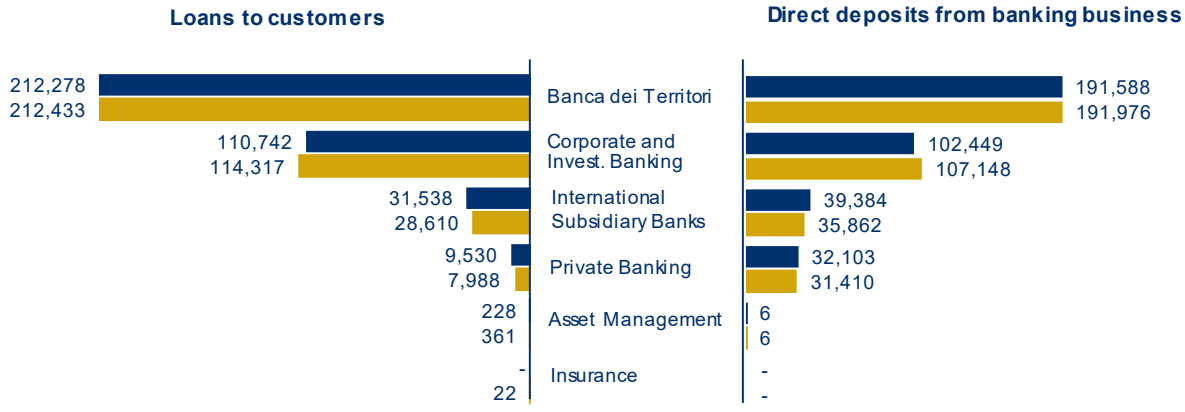
(*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents.
Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)			Changes amount	%
Financial assets	116,160	113,683	2,477	2.2
Financial assets pertaining to insurance companies measured pursuant to IAS 39	150,498	153,005	-2,507	-1.6
Loans to customers	393,550	399,539	-5,989	-1.5
Total assets	787,721	794,528	-6,807	-0.9
Direct deposits from banking business	415,082	423,738	-8,656	-2.0
Direct deposits from insurance business and technical reserves	149,358	152,403	-3,045	-2.0
Indirect deposits:	495,809	520,779	-24,970	-4.8
of which: Assets under management	330,593	339,540	*-8,947*	*-2.6*
Shareholders' equity	54,024	53,268	756	1.4

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



(*) Excluding Corporate Centre

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

31.12.2018

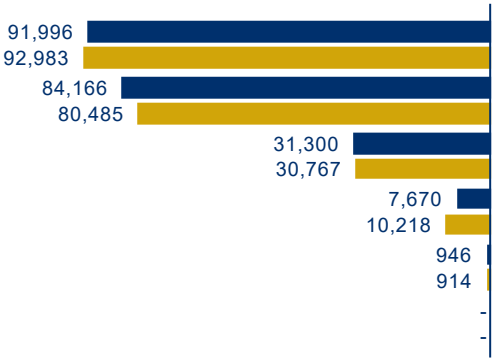
01.01.2018

Other alternative performance measures

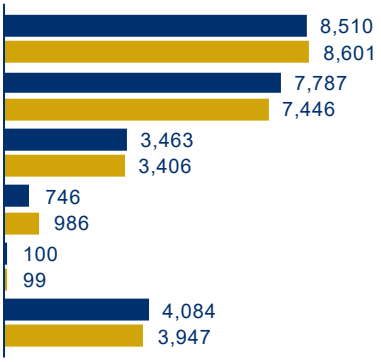
Consolidated capital ratios (%)

	31.12.2018	31.12.2017
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/ Risk-weighted assets (Common Equity Tier 1 capital ratio)	13.5	13.3
TIER 1 Capital / Risk-weighted assets	15.2	15.2
Total own funds / Risk-weighted assets	17.7	17.9
Risk-weighted assets (millions of euro)	276,446	286,825
Absorbed capital (millions of euro)	30,273	31,094

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



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



(*) Excluding Corporate Centre

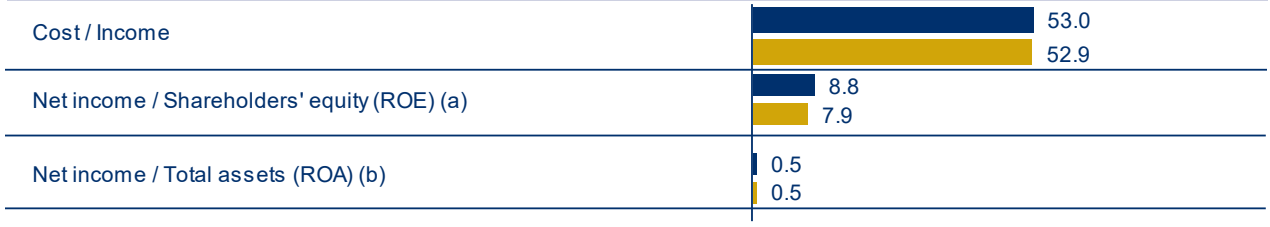
Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

Information on the stock	2018	2017
Number of ordinary shares (thousands)	17,509,357	15,859,787
Share price at period-end - ordinary share (euro)	1.940	2.770
Average share price for the period - ordinary share (euro)	2.567	2.678
Average market capitalisation (million)	44,947	44,820
Shareholders' equity (million) (*)	54,024	56,205
Book value per share (euro) (*)	3.115	3.376

Long-term rating	2018	2017
Moody's	Baa1	Baa1
Standard & Poor's	BBB	BBB
Fitch	BBB	BBB
DBRS	BBB (high)	BBB (high)

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

Consolidated profitability ratios (%)



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

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

(b) Ratio of net income, less non-recurring components, to total assets.

Earnings per share (euro)	
Basic earnings per share (basic EPS) (c)	0.24 0.44
Diluted earnings per share (diluted EPS) (d)	0.24 0.44

Consolidated risk ratios (%)	
Net bad loans / Loans to customers	1.8 2.6
Cumulated adjustments on bad loans / Gross bad loans to customers	67.2 69.1

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

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

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

Operating structure	31.12.2018	31.12.2017	Changes amount
Number of employees (e)	**92,117**	**97,004**	**-4,887**
Italy	68,308	72,501	-4,193
Abroad	23,809	24,503	-694
Number of financial advisors	**5,150**	**5,176**	**-26**
Number of branches (f)	**5,302**	**5,843**	**-541**
Italy	4,217	4,694	-477
Abroad	1,085	1,149	-64

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

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

(f) Including Retail Branches, SME Branches and Corporate Branches. The figures for comparison have not been restated.

31.12.2018

2017 (Income statement figures)
01.01.2018 (Balance sheet figures)

Executive summary

Intesa Sanpaolo in 2018

Economic trends in 2018

The global economic growth continued at a moderate pace. However, signs of weakening of the global economy became stronger in the second half of 2018. The US economy is currently experiencing robust growth, at an annual average rate of just under 3%. Unemployment has fallen to 3.9% and inflation has returned to 2%, but is a long way from raising concerns for the Federal Reserve, which has continued to gradually raise the official rates. The protectionist offensive by the United States has resulted in the imposition of duties on steel, aluminium and a wide range of Chinese products, which have been followed by countermeasures by China that have already reduced bilateral trade. In China, growth has slowed down, as well as the demand for goods from abroad. Despite this, Asia continued to be the most dynamic region in the world. Latin America, on the other hand, was the area with the weakest growth. The countries where Intesa Sanpaolo subsidiaries are based experienced robust growth overall, with a continued acceleration in Central Eastern Europe and in Egypt and, to a lesser extent, in Russia and Ukraine, and a slowdown in the SEE countries and Moldova. There was a very sharp slowdown in growth in the Eurozone, where the economy was affected by the fall in demand for cars, in addition to the weakening of foreign demand. Inflation remained below the target set by the European Central Bank. At the end of 2018, the ECB ended the net purchases of securities, whereas the reinvestment of the maturities will continue in 2019. The ECB also indicated that it expects official rates to remain unchanged at least through the summer of 2019. For the time being, short-term interest rates are still stable at negative levels.

The Italian economy has also lost momentum. This slowdown is reflected the in zeroing of growth in the industrial sector, due to weaker exports and household consumption, and, from the third quarter of 2018, also to the reduction in fixed investments. In November, industrial production was down sharply on an annual basis. Business confidence indices continued to deteriorate throughout the fourth quarter. Italian debt was subject to significant financial strains in May-June, coinciding with the negotiations for the formation of the new government and then again between October and November, in connection with the finalisation of the 2019 government budget. In May, the spreads against German debt rose sharply on all maturities, reflecting investor concerns about the government's willingness to keep public debt on a downward path. At the end of the year, however, the draft budget was significantly revised, with amendments considered sufficient by the European Commission to avoid the immediate opening of infringement proceedings. This was followed by a rapid drop in the spread from the highs of over 320 basis points to 280. On the foreign exchange markets, the euro initially strengthened against the dollar, reaching a high of 1.25 in February and then fell back to levels even lower than those at the beginning of the year, between 1.12 and 1.18.

As regards the Italian banking system, in 2018 bank interest rates reached new record lows, but the from the summer the first rate rises on new loans started to emerge, which also affected rates on mortgage loans to households. Nevertheless, the rates on outstanding loans continued to fall, between phases of stability. The stickiness of deposit interest rates, the continued moderate decline in the average rate on the stock of bonds and the shift towards less costly forms of funding contributed to a further drop in the overall cost of funding. However, the spread between lending and funding rates narrowed slightly.

Bank lending continued its moderate performance, thanks to a return to growth in loans to non-financial companies and the steady rate of expansion of loans to households. Loans to manufacturing and services continued to grow, whereas loans to construction companies continued to decline. In 2018, the credit quality indices improved significantly, due to the lower inflows of non-performing exposures and to the sales and securitisations carried out by banks. The stock of net bad loans continued to decline and has more than halved in two years. As regards customer deposits, 2018 continued the trends already seen in past, namely the growth in deposits, driven by the growth in current accounts, and the reduction in bank bonds, the performance of which was affected by customer portfolio reallocation processes. Overall, customer deposits fluctuated between substantial stability and slight growth. With regard to assets under management, the mutual fund and asset management industry experienced a sharp slowdown, with the former closing in 2018 with only marginally positive total inflows. Traditional life insurance, on the other hand, benefited from the adverse situation in the markets, returning to growth after three years of decline.

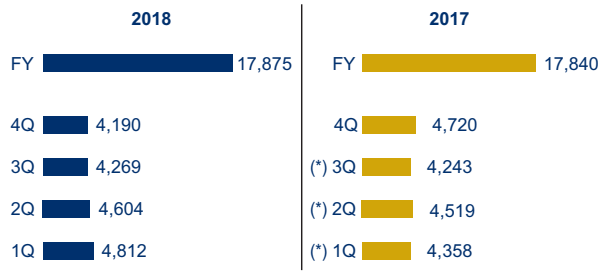
The results for 2018

The results for 2018 need to be interpreted bearing in mind the major change with respect to the 2017 Annual Report and the interim statements for that year, consisting of the first-time adoption of IFRS 9 from 1 January 2018. This adoption has resulted in a change to the accounting rules governing the classification and measurement of financial instruments and the adoption of new financial statement formats, with changes to the content of several of their captions.

For the purposes of the comparison with the income statement figures for 2017, the amounts in the captions affected by the adoption of IFRS 9 have not been restated, but have solely been presented according to the new format. This is because the specific provisions of IFRS 9 and IFRS 1 do not require the mandatory restatement on a like-for-like basis of the comparative information in the financial year of first-time adoption of the new standard.
The comparison of the balance sheet figures in the comments on the report on operations is, however, on a like-for-like basis, because the reclassified balance sheet and the related tables provide a comparison with the figures as at 1 January 2018, which therefore include the effects of first-time adoption of IFRS 9.
In addition, the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division thus means that, starting from 1 January 2018, different accounting standards need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. As a result, specific captions have been added to the consolidated financial statements to include the balance sheet entries and profit or loss effects of the insurance operations.
Lastly – solely for the purpose of enabling a like-for-like comparison of the results – the figures for the first three quarters of 2017 have also been reconstructed, based on management accounts, to retroactively reflect the profit or loss effects of the assets and liabilities of the former Banca Popolare di Vicenza and Veneto Banca (the Aggregate Set). These figures are shown in specific additional columns ("Aggregate" figures) of the reclassified income statement and the quarterly-based reclassified income statement.

The Intesa Sanpaolo Group closed its income statement for 2018 with net income of 4,050 million euro compared to 7,316 million euro for the same period of 2017. For comparison purposes, it should be noted that the income statement for the previous year included the public contribution of 3.5 billion euro assigned by the Italian government as part of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca to offset the impact on the capital ratios. Excluding this contribution, the net income for 2018 increased by around 6%.
The positive performance with respect to the "Aggregate" like-for-like figures was due to the slight increase in Operating income, attributable to the Profits (losses) on financial assets and liabilities and Income from insurance business, which was fully offset by the decrease in interest and fee and commission income. Operating costs were down on the like-for-like figure. Net adjustments to loans were also lower

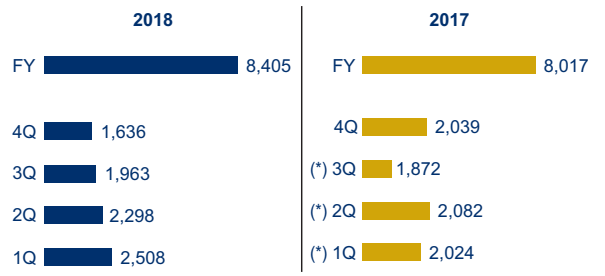
Operating income
(millions of euro)



(*) Aggregate figures

The detailed breakdown of the components of reclassified operating income for 2018 shows net interest income of 7,276 million euro, a slight decrease – in the presence of growth in average intermediated volumes – compared to the Aggregate figure (around -2%) and a slight increase compared to the figure for 2017 (+0.2%) due to the positive performance of customer dealing and interest on financial assets, partly offset by the decrease in differentials on hedging derivatives and lower interest on non-performing assets, also as a result of the sale of bad loans completed at the end of the year.
Net fee and commission income (7,887 million euro), which represents over 44% of operating income, was also down slightly on the Aggregate figure (around -2%) and up (+0.3%) on the figure for 2017, almost entirely attributable to the positive performance of the commercial banking segment.
Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, showed a significant increase (approximately +16% to 1.084 million euro), due to a higher contribution from the technical margin, which fully absorbed the decrease in the net investment result.
The Profits (losses) on financial assets and liabilities at fair value, which include the contribution from trading and hedging, reached 1,609 million euro, a significant increase (+25% on the Aggregate figure and +22% on the figure for 2017), partly due to the fair value measurement, in the first quarter, of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro) in relation to its subsequent sale.

Operating margin
(millions of euro)

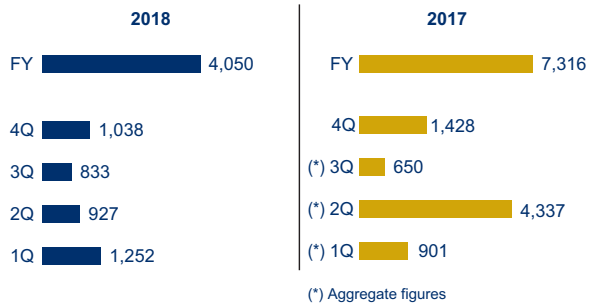


(*) Aggregate figures

Other operating income and expenses – which include profits on investments carried at equity and other income and expenses from continuing operations – were down (19 million euro compared to 131 million euro for the Aggregate figure and 92 million euro for 2017) primarily due to the lower contribution from companies consolidated at equity.
As a result of the above performance, operating income for the period amounted to 17,875 million euro, up 0.2% on the Aggregate figure and 2.3% on the figure for 2017.
Operating costs (9,470 million euro), which are carefully monitored, were down compared to the Aggregate figure (-3.6%), both for personnel expenses (-3.3%) and administrative expenses (-5.1%), but were up on the figure for 2017 (+2.5%), attributable to both components (+2.7% and +1.7% respectively) in relation to the operations of the Aggregate Set. Amortisation and depreciation were essentially

stable compared to the Aggregate figure (-0.1%) and up on the figure for 2017 (+3.9%).
The cost income ratio was 53%, compared to 55.1% for the Aggregate figure and 52.9% for 2017.
As a result of the revenue and cost performance, the operating margin came to 8,405 million euro, up 4.8% on the Aggregate figure and 2% on the figure for 2017.
Net adjustments to loans decreased overall to 2,394 million euro (around -28% compared to both the Aggregate figure and the figure for 2017) due to lower adjustments to bad loans. As a result, the cost of credit – expressed as the ratio of net adjustments to net loans – decreased significantly on the previous year, down to 61 bps. Other net provisions and net impairment losses on other assets, amounting to 187 million euro, were also down overall on the Aggregate figure (around -20%) and the figure for 2017 (around -14%), due to lower provisions for risks and charges.
Other income (expenses), which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, amounted to 524 million euro and included the gain of 443 million euro related to the finalisation, in December, of the agreement with Intrum for the strategic partnership regarding the non-performing loans. This compares to a figure of 1,246 million euro for 2017 – net of the above-mentioned public contribution of 3.5 billion euro recognised at the time under this caption – which included 811 million euro from the sale of the equity investment held in Allfunds Bank, 190 million euro from the fair value measurement of the investment in Bank of Qingdao following the reclassification of the investment no longer included among companies subject to significant influence and 109 million euro from the disposal of a stake in NTV and its fair value measurement following the reclassification of the remaining investment held, which was also no longer included among companies subject to significant influence.
As a result of the trends described above, gross income amounted to 6,348 million euro (around +11% on the Aggregate figure and +6.5% on the figure for 2017, both net of the public contribution recognised in that year).

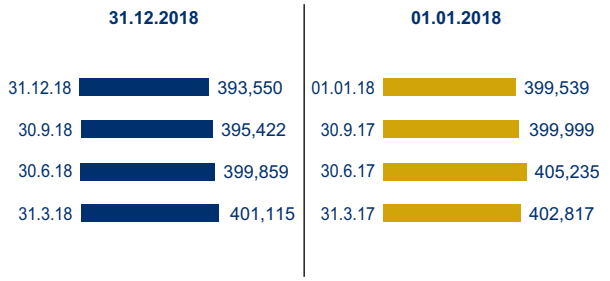
Net income (loss)
(millions of euro)



Taxes on income came to 1,659 million euro, with a tax rate of 26.1%. Charges for integration and exit incentives were recorded for 120 million euro, as well as effects of purchase price allocation for 157 million euro, both net of taxes.
Although they were lower than in the previous financial year, the charges aimed at maintaining the stability of the banking industry still had a significant impact, totalling 340 million euro, net of taxes, (Aggregate figure of 678 million euro and 649 million euro for 2017) and essentially consisted of the cost of ordinary contributions to resolution funds for all 2018 and to guarantee funds (238 million euro, net of taxes, corresponding to 343 million euro before taxes), along with additional contributions (53 million euro, net of taxes, corresponding to 79 million euro before taxes) requested in the second quarter by the National Resolution Fund in respect of the management of the non-performing assets of the four “good banks” within the framework of the resolution of the crises of Banca delle Marche, Banca Popolare dell’Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. This caption also includes the charges relating to the write-down of the subordinated security issued by Banca Carige and subscribed as part of the measure implemented by the Voluntary Scheme of the National Interbank Deposit Guarantee Fund (54 million euro net of the tax effect).
After allocating the profits attributable to minority interests of 22 million euro, the income statement for 2018 closed, as stated above, with a net income of 4,050 million euro.

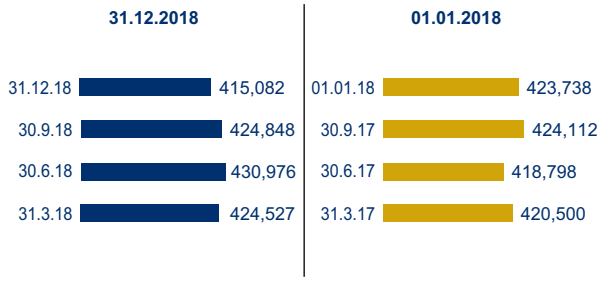
The income statement for the fourth quarter of 2018 in comparison to the previous quarter showed a slight fall in operating income (around -1.9% to 4,190 million euro). In detail, net interest income in the fourth quarter was down compared to the third quarter (-5.7%), whereas net fee and commission income was up (around +2%), largely due to the commercial banking segment. Income from insurance business in the fourth quarter of 2018 was lower than in the third quarter (around -12%), due to a decrease in the net investment result. As regards financial operations, profits (losses) on financial assets and liabilities at fair value for the fourth quarter were up on the third quarter (around +13%).
Operating costs in the fourth quarter were higher than in the previous quarter, with increases in both personnel expenses and administrative expenses, which reflected seasonal effects. Amortisation and depreciation also increased, in relation to the investments made.
As a result of the revenue and cost performance, the operating margin for the fourth quarter was lower than the margin in the third quarter (-16.7% to 1,636 million euro).
Adjustments to loans in the fourth quarter were significantly higher than in the third quarter (around +35%), also as a result of the updating of the macroeconomic scenarios underlying the models required by IFRS 9. Net provisions and net impairment losses on other assets were also higher. Other income was up sharply as it included the already mentioned gain of 443 million euro relating to the finalisation, in December, of the agreement with Intrum for the strategic partnership regarding the non-performing loans.
Gross income thus decreased slightly, by 3.3% (1,374 million euro, compared to 1,421 million euro in the third quarter).
After the recognition of taxes on income, charges for integration and exit incentives, the effects of purchase price allocation, levies and other charges concerning the banking industry, the income statement for the fourth quarter 2018 closed with net income of 1,038 million euro compared to 833 million euro for the previous quarter, representing a rise of around 25%.

Loans to customers
(millions of euro)



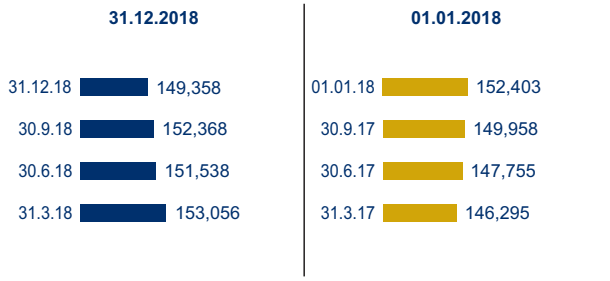
With regard to the balance sheet aggregates, loans to customers as at 31 December 2018 amounted to 393,550 million euro and were slightly down overall (-1.5%) on the like-for-like figure as at 1 January 2018 (which includes the effects of the first-time adoption of IFRS 9), essentially attributable to non-performing loans, also as a result of the sales of bad loans completed during the year. Commercial banking loans were substantially stable (-0.4%), while loans represented by securities were down (around -13%). Conversely, the financial component represented by repurchase agreements rose (approximately +7%).

Direct deposits from banking business
(millions of euro)



On the funding side, direct deposits from banking business amounted to 415,082 million euro at the end of 2018, down slightly on 1 January 2018 (-2%), due to the decrease in funding through bonds and subordinated liabilities (around -9% and -20% respectively) and in other forms of funding (around -16%), including certificates and commercial paper. With regard to the financial component, there was an increase in outstanding repurchase agreements compared to the start of the year (around +13%).

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



Direct deposits from insurance business, which include technical reserves, were slightly down overall compared to the beginning of the year (-2%), at 149,358 million euro. In detail, the essentially stable amount for the financial liabilities at fair value (around -0.6%), was accompanied by the fall in technical reserves – which represent the amount owed to customers who have taken out traditional insurance policies – and in other forms of funding (around -39%). The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to over 19 billion euro for the period.

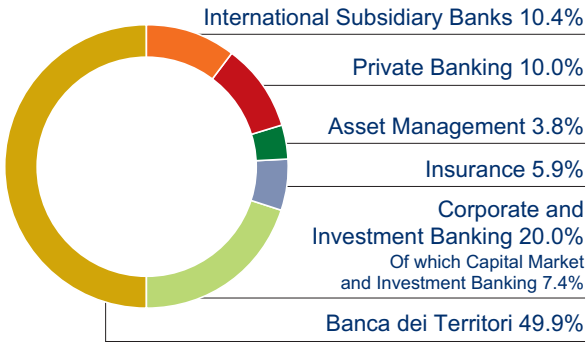
The Group's indirect customer deposits as at 31 December 2018 amounted to approximately 496 billion euro, down (-4.8%) from the beginning of the year. In addition to a moderate decline in assets under management (-2.6%), attributable to the lower value of the assets due to the negative performance of the markets, which exceeded the net placements made, the negative performance of this aggregate was driven above all by the decrease in assets under administration (-8.8%), which was also mainly attributable to the negative performance of the markets.

Results of the Business Units

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre - which is responsible for guidance, coordination and control of the entire Group - as well as for the Capital Light Bank (CLB) business unit, and the Treasury and ALM operations.
The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 50% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 20%), commercial banking activity abroad (approximately 10%), private banking activity (10%), insurance activity (approximately 6%) and asset management (approximately 4%).

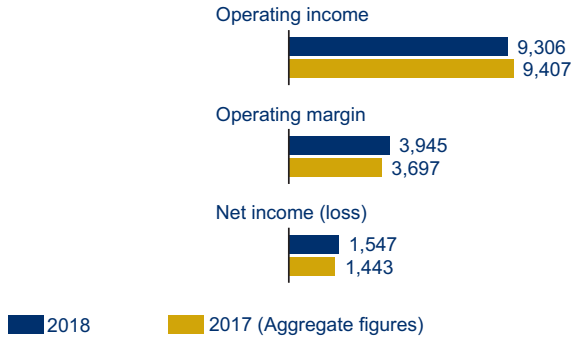
Where necessary, the divisional figures for the periods under comparison have been restated in line with the changes in the scope of the Business Units and to take account of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca (the "Aggregate" Figures)

Operating income:
Breakdown by business area[1]



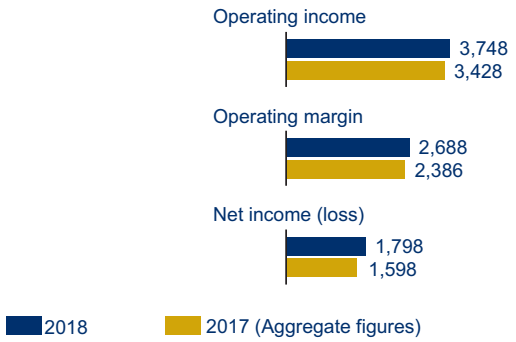
[1] Excluding Corporate Centre

Banca dei Territori
(millions of euro)



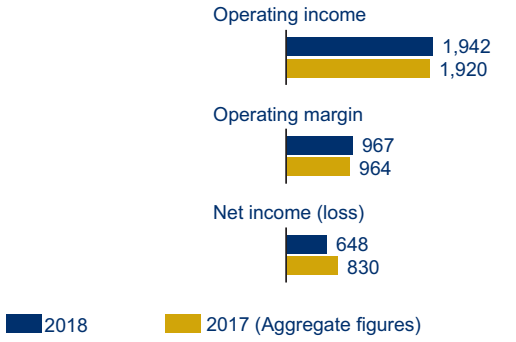
In 2018, the Banca dei Territori Division – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 9,306 million euro, down slightly (-1.1%) on the like-for-like figure for the previous year. More specifically, net interest income was essentially stable (-0.2%) and net fee and commission income was slightly down (-2%), particularly in the asset management segment. Among the other revenue components, which however provide a marginal contribution to the Division's income, there was a decline in other operating income (around -12%), while the profits (losses) on financial assets and liabilities at fair value recorded an increase (around +12%).
Operating costs, equal to 5,361 million euro, were down sharply (-6.1%), due to the savings on personnel and administrative expenses. The operating margin amounted to 3,945 million euro, up by 6.7% on the like-for-like figure for 2017. Gross income, amounting to 2,462 million euro, also increased (+0.7%), despite higher net adjustments to loans. After accounting for the Division's taxes, charges for integration and the effects of the purchase price allocation, net income came to 1,547 million euro, up 7.2%.
The balance sheet figures of the Banca dei Territori Division at the end of 2018 showed substantial stability in loan and deposit volumes compared to the beginning of the year (-0.1% and -0.2% respectively). In particular, the performance of loans, which totalled 212 billion euro (-0.1%), was due to the increase in medium-/long-term loans, fully absorbed by the drop in the short-term component. The performance of direct deposits from banking business, which amounted to 192 billion euro (-0.2%), was attributable to the decrease in securities issued, which was not fully offset by the increase in amounts due to customers.

Corporate and Investment Banking
(millions of euro)



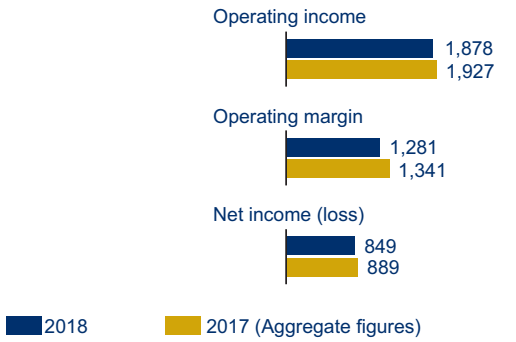
In 2018, the Corporate and Investment Banking Division generated operating income of 3,748 million euro, an increase of 9.3% on a like-for-like basis compared to 2017.
In detail, net interest income, amounting to 1,645 million euro, was down slightly (-0.8%). However, net fee and commission income fell more sharply (-4.4%), mainly due to the performance of commercial banking and investment banking.
Profits (losses) on financial assets and liabilities at fair value were up significantly (+46% to around 1,190 million euro) also as a result of the positive effect (264 million euro) resulting from the fair value measurement of the investment in NTV, recognised in the first quarter in relation to its subsequent sale.
Operating costs amounted to 1,060 million euro, slightly up on the like-for-like figure for 2017 (+1.7%), due to higher administrative and personnel expenses, related to business development.
As a result of the above revenue and cost performance, the operating margin rose by around 13% to 2,688 million euro. Gross income, amounting to 2,543 million euro, was up by approximately 12% due to lower adjustments and provisions. Net income reached 1,798 million euro (+12.5%).
The Division's intermediated volumes decreased compared to the beginning of the year (-3.7%). In detail, loans to customers, amounting to 111 billion euro, were down (-3.1%), mainly due to the increase in structured finance and global corporate segment business with international customers. Direct deposits from banking business, amounting to 102 billion euro, posted a decline (-4.4%), attributable to securities issued and amounts due to customers.

International Subsidiary Banks
(millions of euro)



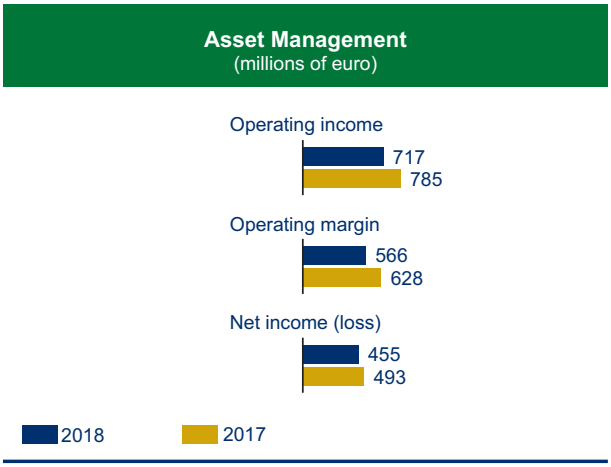
The International Subsidiary Banks Division – which is responsible for the Group's operations on international markets through commercial banking subsidiaries and associates that carry out mainly retail banking activities – reported net operating income of 1,942 million euro in 2018, up 1.1% on a like-for-like basis compared to 2017 (+1.6% at constant exchange rates). In detail, net interest income came to 1,324 million euro (+0.9%) and net fee and commission income, at 524 million euro, was also up (+6.3%). The profits (losses) on financial assets and liabilities at fair value, amounting to a profit of 171 million euro, were down slightly (-2.8%).
Operating costs, at 975 million euro, were up (+2% on 2017, +2.6% at constant exchange rates).
As a result of the revenue and cost performance described above, the operating margin was essentially stable at 967 million euro (+0.3%). Gross income, amounting to 819 million euro, decreased compared to 1,018 million euro for 2017 (-19.5%), which included the positive effect from the fair value measurement of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect, there would have been a slight decrease (-1.1%). The Division closed 2018 with net income of 648 million euro (around -22%).
The Division's intermediated volumes increased compared to the beginning of the year (+10%), due to the positive performance of loans to customers (+2.9 billion euro, or +10.2%), as well as direct deposits from banking business (+3.5 billion euro, or +9.8%) mainly driven by the amounts due to customers.

Private Banking
(millions of euro)

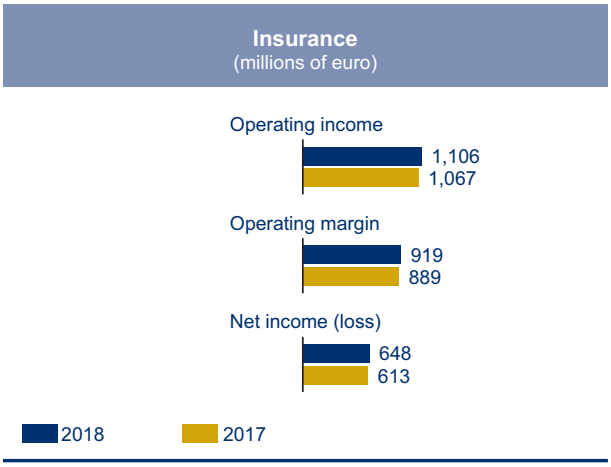


The Private Banking Division – which has the mission to serve the top customer segment (Private and High Net Worth Individuals), creating value by offering top products and services – reported a slight decrease in operating income compared to the like-for-like figure for 2017 (-2.5% to 1,878 million euro), mainly due to the decrease in net interest income (-7.6%), and in the profits (losses) on financial assets and liabilities at fair value, albeit on small amounts (from 31 million euro to 14 million euro).
Operating costs increased slightly (+1.9%), mainly due to the increase in personnel expenses, related to the strengthening of the staff.
The operating margin fell by 4.5% to 1,281 million euro, while gross income decreased by a lesser extent (-2.9% to 1,284 million euro) due to lower provisions and adjustments. Net income came to 849 million euro (-4.5%).
As at 31 December 2018, the assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 179 billion euro (around -5.7 billion euro compared to the beginning of the year). This was attributable

to the negative market performance, which more than offset the positive net inflows. The assets under management component amounted to 112 billion euro (around -4.2 billion euro).



The Asset Management Division – whose mission is to develop asset management solutions targeted at the Group's customers and its present on the open market segment through the subsidiary Eurizon Capital and its associates – posted a decline in operating income in 2018 (-8.7% to 717 million euro) compared to the figure for 2017, as a result of the decrease in fee and commission income (-2.4%), the negative contribution from the profits (losses) on financial assets and liabilities at fair value and the absence of the contribution from the investment in Allfunds Bank (around 25 million euro), which was sold at the end of 2017. Operating costs reported a decrease (-3.8%).
As a result of the revenue and cost performance described above, the operating margin was lower than in 2017 (-9.9% to 566 million euro). The Division closed its 2018 income statement with net income of 455 million euro (-7.7%). Overall, assets managed by the Asset Management Division amounted to 242.6 billion euro at the end of December, down 4.2% year-on-year, as a result of a negative market performance, which more than offset the net inflows.



The Insurance Division – which oversees the management of the subsidiaries of the Intesa Sanpaolo Vita insurance group and of Fideuram Vita, with the mission of further developing insurance products tailored for the Group's customers – reported an increase in income from insurance business (+3.9% to 1,119 million euro) compared to 2017, both due to the technical margins for life insurance products and to the profitability of the protection business. Operating income was also up (+3.7% to 1,106 million euro), as were the operating margin (+3.4% to 919 million euro) – despite higher operating costs related to the development of operations – and gross income (+3% to 914 million euro). Lastly, net income came to 648 million euro (+5.7%).
Direct deposits from insurance business, amounting to 149 billion euro, were down compared to the beginning of the year (-2%), mainly due to the technical reserves.

Highlights

As described in detail in the 2017 Annual Report, on 6 February 2018 the Board of Directors of Intesa Sanpaolo approved the Group's 2018-2021 Business Plan, which continues to prioritise strong and sustainable value creation and distribution, while maintaining a very solid capital position and significantly reducing the risk profile at no extraordinary cost to shareholders. The Plan confirms Intesa Sanpaolo's role as a real-economy bank with sustainable profitability, which creates value for all its stakeholders, with a contribution of over 300 billion euro to the economy over the plan period. Information is provided below, in a specific paragraph, on the initiatives undertaken during 2018.

As regards the stake in the Bank of Italy's share capital, in 2018 further stakes equal to a total of approximately 2% of the capital of the Bank of Italy were sold – at nominal value, coinciding with the carrying value – for a price of approximately 150 million euro. Following the completion of the transactions, the Group's stake in the Bank of Italy's share capital decreased to 25.04%. In this regard, after the year end, further stakes equal to a total of approximately 1.01% of the capital of the Bank of Italy were sold – again at nominal value – for a price of approximately 76 million euro.

From 6 April 2018, Intesa Sanpaolo – having completed the feasible buyback transactions with respect to bonds issued by Banca Popolare di Vicenza and Veneto Banca, backed by government guarantee (either placed on the market or used by the two banks as collateral in repos) – was able to proceed with the cancellation of the bonds held by it. Consequently, Intesa Sanpaolo sent a communication to the Ministry of the Economy and Finance renouncing the related government guarantee. The renunciation of the guarantee is valid only and exclusively in respect of the bonds held by the Bank (amounting to around 9.3 billion euro), while it does not have any effect on the remaining bonds outstanding (equal to around 0.8 billion euro), still held by other bondholders, since they were not included under the aforementioned buyback transactions. The renunciation of the guarantee extinguished the risk of a potential cost for the government of around 9.3 billion euro.

The merger by incorporation of Banca Nuova into Intesa Sanpaolo took effect from 7 April 2018, with accounting and tax effects starting from 1 January 2018.

On 10 April 2018, after having obtained all the necessary authorisations, the acquisition was completed of Morval Vonwiller Holding SA by Fideuram – ISP Private Banking. The scope of the acquisition included Banque Morval SA, which has been present in Switzerland since 1974 as a private bank and with a banking licence since 1989, and operates in the areas of wealth management and fund management. The acquisition is in line with Intesa Sanpaolo's strategic plan to strengthen its presence on international markets in the field of private banking. Morval Vonwiller's presence in Geneva has enabled Intesa Sanpaolo's Private Banking Division, currently present in Lugano, London and Luxembourg, to further expand its geographic footprint outside Italy.

On 11 April 2018, Poste Italiane and Intesa Sanpaolo signed a three-year framework agreement for the distribution of selected products and services of the two groups through a range of non-exclusive specific agreements with the aim of expanding the product offering to their customers.
The agreement involves the following key areas of cooperation: mortgages and personal loans underwritten by Intesa Sanpaolo and distributed through the post office network; wealth & asset management products managed by Eurizon Capital SGR; and payment services, including the payment of postal payment slips through the physical and remote channels of Intesa Sanpaolo and Banca 5, including PostePay prepaid cards top-up.
This agreement will allow Poste Italiane and Intesa Sanpaolo to further enhance their product and service customer offering. The agreement is part of Intesa Sanpaolo's distribution strategy, which is based on the multi-channel bank model and on the targeted local coverage to optimise customer proximity.

On 26 April 2018, the sale was finalised of Nuovo Trasporto Viaggiatori (NTV) to Global Infrastructure Partners III funds (GIP), a major international investor specialised in transportation and energy infrastructure. The sale followed on from the sale agreement signed on 11 February 2018 by Intesa Sanpaolo and the other shareholders of NTV with the counterparty. The agreement envisaged the sale of 100% of NTV for an amount of 1,940 million euro. It also provided for the shareholders of NTV to receive the dividend of 30 million euro, on the 2017 results, approved by the shareholders' meeting on 19 January 2018 and for GIP to bear the costs of the interrupted listing on the Italian Stock Exchange up to a maximum of 10 million euro. As a result, the total price for the acquisition of the entire share capital was 1,980 million euro. The positive effect amounted to 246 million euro, taking into account the cost of the transaction and the related tax effects.

On 27 April 2018, the Meeting of Ordinary Shareholders, in addition to approving the 2017 Annual Financial Statements of the Parent Company, the allocation of the profit for the year and the distribution to shareholders of a dividend and of part of the share premium reserve, as per the specific proposal included in the 2017 Annual Financial Statements, also approved the following in the ordinary session, in addition to the remuneration policies for 2018, as described in the Report on Remuneration:

- the 2018-2021 POP (Performance Based Option Plan) Long-term Incentive Plan for Top Management, Risk Takers and Key Managers in Italy. More specifically, the POP Plan, aimed at aligning managers who have a direct impact on the achievement of the business goals to the objectives of the 2018-2021 Business Plan, within the framework of prudent risk management, is based on financial instruments linked to shares (call options) and subject to the achievement of the key performance conditions of the Business Plan.
  As indicated below, on 11 July 2018 the POP Options were assigned to each beneficiary at a strike price of 2.5416 euro, calculated on the basis of the arithmetic average of the Volume Weighted Average Price (VWAP) of the Intesa Sanpaolo ordinary shares recorded on each business day in the 30 calendar days preceding the assignment. The POP Options will be exercised automatically upon expiration of the Plan in 2022, in the event of:
  - a positive difference between the end price, calculated in the last year of the Plan, and the strike price;
  - the maintenance in each year of the Plan of the levels required by the activation conditions;
  - the achievement of the floor required for the performance conditions at 2021.

  In particular, the POP Plan provides for the application of performance conditions in line with the key objectives of the Business Plan for the determination of the number of POP Options to be exercised on maturity. The indicators, whose target values are those set in the Business Plan at 2021 (end of the Plan), are:
  - Non-Performing Loans (NPL) Ratio;
  - Operating Income/Risk Weighted Assets Ratio (OI/RWA).

  The entire amount accrued will be paid in shares over a multi-year time horizon (with deferrals of different duration depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions in those years when they are envisaged).
  As also detailed below, Intesa Sanpaolo launched the Plan in June and signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transfers to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP options expire, and JP Morgan thereby takes on all the volatility risks associated with the Plan.
- the financial instrument-based incentive plan called Leveraged Employee Co-Investment Plan – LECOIP 2.0, for employees (Professionals and Managers in Italy, except for Top Management, Risk Takers and Key Managers who are beneficiaries of the POP Plan). More specifically, the LECOIP 2.0 Plan, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In summary, the LECOIP 2.0 Plan provides for:
  - the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment ("Free Shares");
  - the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment ("Matching Shares") and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price ("Discounted Shares").

  The certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The certificates reflect the terms of certain options that

have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

The related capital increases were carried out on 11 July 2018, as detailed below in this chapter.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

In the extraordinary session, the Shareholders' Meeting of 27 April 2018 also:

- approved the mandatory conversion of the outstanding savings shares – following the cancellation of 61 savings shares by an authorised intermediary, with the reduction of those shares to 932,490,500 – into 969,790,120 newly issued ordinary shares of the Company, with regular economic rights and the same features of the ordinary shares outstanding at the conversion date, at a conversion ratio of 1.04 ordinary shares for each savings share with concurrent removal of the indication of the nominal value of all of the shares of Intesa Sanpaolo S.p.A. outstanding as at the relative date of effectiveness of the conversion, pursuant to Article 2328 and 2346 of the Italian Civil Code, so that the share capital remains unchanged and divided into only ordinary shares;
- established that the mandatory conversion of the savings shares under the item above (and therefore also the effectiveness of any withdrawals that may be exercised by the savings shareholders entitled thereto and of the cancellation of the 61 savings shares) take place subject to:
  - the approval of the mandatory conversion, along with the relative amendments to the Articles of Association, pursuant to Article 146, paragraph 1, letter b) of Legislative Decree no. 58 of 24 February 1998 by the special meeting of the savings shareholders;
  - the authorisations of the European Central Bank required under the current legal and regulatory framework, for the purposes of the amendments to the Articles of Association, the inclusion of the ordinary shares that are issued in connection with the conversion in the CET 1 and the possible purchase by the Company of own shares at the end of the liquidation procedure relating to withdrawing shareholders; and
  - the amount owed to those who elect to exercise the withdrawal right not exceeding 400 million euro at the end of the pre-emption and pre-emptive rights offering period concerning any offer to the Intesa Sanpaolo shareholders of the shares held by the withdrawing savings shareholders pursuant to Article 2437-quater, par. 1 and 2 of the Italian Civil Code;
- approved the necessary and consequent amendments to the Company's Articles of Association;
- authorised the Board of Directors to sell any own shares of the Company that may be bought as a consequence of the exercise of the right of withdrawal, at the end of the payment process pursuant to Article 2437-quater of the Italian Civil Code.

The Shareholders' Meeting granted powers, pursuant to Article 2443 of the Italian Civil Code, to the Board of Directors of Intesa Sanpaolo, for the implementation of the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments, to carry out:

- a share capital increase without payment, in one or more tranches, by 27 October 2019, pursuant to Article 2349, paragraph 1, of the Italian Civil Code, for a maximum amount of 400,000,000 euro (inclusive of share premium) with the issuance of up to 170,000,000 ordinary shares of Intesa Sanpaolo;
- a share capital increase with payment, in one or more tranches, by 27 October 2019, for a maximum amount of 1,200,000,000 euro (inclusive of share premium, and net of discount), excluding option rights in favour of the employees of the Intesa Sanpaolo Group, with the issuance of up to 555,000,000 ordinary shares of Intesa Sanpaolo. The share issue price will be inclusive of a discount from the market price of ordinary shares of Intesa Sanpaolo, calculated as the average of market prices observable in the 30-day period immediately prior to the issue date.

The Special Meeting of Savings Shareholders – held on 27 April after the Meeting of Ordinary Shareholders – approved, to the extent of its responsibility, the resolution passed in the extraordinary session, item 1 on the agenda, of the Meeting of Ordinary Shareholders, as reported above.

Since the European Central Bank also authorised the amendments to the Articles of Association for the inclusion in the CET 1 of the ordinary shares issued as part of the conversion and the possible purchase of the company's own shares at the end of the liquidation procedure for the withdrawing shareholders, the transaction was subject to the condition that the amount owed to those electing to exercise the withdrawal right must not exceed 400 million euro. The right of withdrawal, which could be exercised by 6 June 2018 at a unit liquidation value of 2.74 euro for each savings share, was duly exercised for a total of 15,065,081 savings shares (below the "Shares"), equal to a total liquidation value of 41,278,322 euro, which therefore enabled the Company to carry out the mandatory conversion, regardless of the outcome of the offer on a pre-emption rights basis indicated below.

The Shares were offered on a pre-emption rights basis to all Intesa Sanpaolo savings shareholders who did not exercise the right of withdrawal, as well as to the ordinary shareholders of Intesa Sanpaolo, in proportion to the number of shares held at the close of day on 19 June 2018 (record date) and, therefore, with each of those shares being assigned a pre-emption right in accordance with a ratio of 1 Share per 1,113 option rights. The Shares were offered on a pre-emption rights basis at a price of 2.74 euro each, corresponding to the liquidation value indicated above.

At the end of the pre-emption and pre-emptive rights offering period, which terminated on 17 July 2018, pre-emption rights were exercised in relation to 37,061 Shares and pre-emptive rights were exercised in relation to 71,392 Shares. Following the expiration of the term for exercising the right of withdrawal (6 June 2018) and the date on which the number of shares offered in the context of the Offering was communicated pursuant to Article 2437-quater of the Italian Civil Code (18 June 2018), additional withdrawal statements were received in relation to 5,396 shares of the Company that were sent by the abovementioned term of 6 June 2018; therefore, the right of withdrawal was exercised in relation to a total of 15,070,477 shares. In view of the outcome of the Offering, the condition precedent to the execution of the mandatory

conversion has been formally satisfied. The condition stipulates that the amount owed to those electing to exercise the withdrawal right must not exceed 400 million euro at the end of the offering period relating to the Shares.
On 7 August 2018 the mandatory conversion of the ordinary shares became effective. Intesa Sanpaolo's fully subscribed and paid-in share capital is 9,084,056,582.12 euro, divided into 17,506,639,140 ordinary shares without nominal value.
In accordance with the resolutions passed by the Extraordinary Shareholders' Meeting of Intesa Sanpaolo on 27 April 2018, the company sold the 15,560,504 ordinary shares in its possession resulting from the conversion of the unexercised savings shares purchased. The sale took place in two tranches (8 and 9 August 2018) at an average price of 2.406 euro for a total consideration of 37,434,485 euro and with a negative difference compared to the purchase price of 3,561,458 euro. This amount was recorded as a reduction in the bank's shareholders' equity.

On 8 June 2018, the Board of Directors of Intesa Sanpaolo decided to launch the Long-term Incentive Plans, based on financial instruments, approved at the Shareholders' Meeting held on 27 April 2018, described above. Specifically, the Board decided to exercise its powers, granted by the shareholders at the Meeting, to carry out a capital increase, for the benefit of the Group employees, in order to implement the 2018-2021 LECOIP 2.0 Long-term Incentive Plan. The capital increase will be:

- without payment, for a maximum amount of 400,000,000 euro (inclusive of share premium) through the issue of a maximum number of 170,000,000 Intesa Sanpaolo ordinary shares ("Free Shares");
- with payment, with the exclusion, pursuant to Article 2441, Paragraph 8, of the Italian Civil Code, of the option right, for a maximum amount (inclusive of share premium), net of a discount at issue, of 1,200,000,000 euro, through the issue of a maximum number of 555,000,000 Intesa Sanpaolo ordinary shares and applying a maximum discount of 18.5% to the stock market price calculated as the average of the prices recorded in the 30 days prior to the issue date ("Matching Shares").

On 25 June, the period ended for exercising the right to withdraw from the subscription to the offer of the Certificates issued by J.P. Morgan and reserved for Professionals and Managers employed by the Group in Italy under the Incentive Plan. A total of 55,229 Group employees, 81.1% of those eligible, have participated in LECOIP 2.0 for a countervalue of Free Shares and Matching Shares equal to around 184 million euro.
The launch of the 2018-2021 Long-term Incentive Plans and, therefore, of the capital increase to service the LECOIP 2.0 Plan, took place on 11 July 2018. On 11 July, a total of 25,147,152 Free Shares and 47,411,243 Matching Shares were assigned to the Group's employees, and 507,908,765 Discounted Shares were subscribed by the Group's employees. The numbers were calculated on the basis of the arithmetic average of the Volume Weighted Average Price (VWAP) of the Intesa Sanpaolo ordinary shares recorded on each business day in the 30 preceding calendar days, which is equal to 2.5416 euro. Consequently, a total of 72,558,395 Certificates – corresponding to the abovementioned sum of Free Shares plus Matching Shares – were assigned to the Group's employees.

The ordinary shares allocated to the employees of the Group for the 2018-2021 LECOIP 2.0 Long-term Incentive Plan were assigned and subscribed on 11 July 2018.
On the same date, following the delegation of powers granted by the Shareholders' Meeting to the Board of Directors pursuant to Article 2443 of the Italian Civil Code, the following were executed:

- a share capital increase without payment for an amount of 87,959,908.40 euro, through the issue of 169,153,670 Intesa Sanpaolo ordinary shares with a nominal value of 0.52 euro;
- a share capital increase with payment - with the exclusion of the option right, in favour of the Group's employees, for an amount of 264,112,557.80 euro, through the issue of 507,908,765 Intesa Sanpaolo ordinary shares at a price of 2.1645 euro (applying a discount of 14.837% to the arithmetic average of the VWAP (Volume Weighted Average Price) recorded in the 30 calendar days preceding 11 July 2018), of which 0.52 euro of nominal value and 1.6445 euro of share premium;

The merger by incorporation of Cassa di Risparmio del Veneto and of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo took effect from 23 July, with accounting and tax effects starting from 1 January 2018.

Effective 1 August 2018, Intesa Sanpaolo acquired from Nexi Payments the business unit regarding acquiring of payment card transactions connected to international networks, carried out by Nexi in favour of customers of the former Venetian banks, now customers of Intesa Sanpaolo.

On 12 September 2018, Intesa Sanpaolo launched and concluded an ordinary share buy-back programme. The programme executes a plan that assigns, free of charge, ordinary shares to the Group's employees; this covers the share-based incentive plan for 2017 reserved for Risk Takers who accrue a bonus in excess of the so-called "materiality threshold", as well as for those who, among Managers or Professionals that are not Risk Takers, accrue "relevant bonuses". In addition, the programme is implemented in order to grant, when certain conditions occur, severance payments to Risk Takers upon early termination of employment. The purchases were made in accordance with the terms authorised by the Shareholders' Meeting of Intesa Sanpaolo of 27 April 2018. The subsidiaries concerned also terminated their purchase programmes of the Parent Company's shares to be assigned, free of charge, to their employees. The programmes were approved by their respective corporate bodies within their remits and are analogous to the programme approved at the Parent Company's Shareholders' Meeting.
On the sole day of execution of the programme, the Intesa Sanpaolo Group purchased a total of 12,686,321 Intesa Sanpaolo ordinary shares, through Banca IMI (which was responsible for the programme execution), representing approximately 0.07% of the share capital of the Parent Company, at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro. The Parent Company purchased 9,035,838 shares at an average purchase price of 2.287 euro per share, for a value of 20,668,935 euro.

The deed of merger by incorporation of IMI Investimenti into Intesa Sanpaolo was signed on 19 September 2018, with accounting and tax effects starting from 1 January 2018.

The merger by incorporation of Veneto Banka (Albania) into Intesa Sanpaolo Bank Albania took effect on 1 October, with accounting and tax effects starting from 1 January 2018.

In compliance with resolutions passed at the companies involved by their respective board and shareholders' meeting, the deed relating to the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo was signed on 10 October 2018. The merger deed was registered with the competent Company Registers, and the merger came into legal effect from 26 November 2018, while the accounting and tax effects started from 1 January 2018.
The exchange transaction was therefore executed on 26 November, which resulted in the assignment:
- of 0.696 Intesa Sanpaolo ordinary shares for every ordinary share of Cassa dei Risparmi di Forlì e della Romagna held by entities other than the absorbing company;
- of 0.737 Intesa Sanpaolo ordinary shares for every preference share of Cassa dei Risparmi di Forlì e della Romagna held by entities other than the absorbing company.

With regard to the exchange transaction, the absorbing company increased its share capital by 1,413,269.52 euro through the issue of 2,717,826 ordinary shares, which were assigned to shareholders of the company to be merged, other than the absorbing company (and the company to be merged), against the cancellation and the exchange of the ordinary shares and the preference shares of Cassa dei Risparmi di Forlì e della Romagna. Cassa dei Risparmi di Forlì e della Romagna shareholders who do not receive a whole number of Intesa Sanpaolo ordinary shares following the application of the exchange ratio are allowed to trade fractions of Intesa Sanpaolo ordinary shares to ensure that they hold a whole number of shares.
Following the completion of the transaction, the Company's share capital increased to 9,085,469,851.64 euro, divided into 17,509,356,966 ordinary shares without nominal value.
The deed of merger by incorporation of Banco di Napoli into Intesa Sanpaolo was also signed on 10 October. The merger took effect in relation to third parties on 26 November 2018, while the operations conducted by the incorporated company were posted to the financial statements of the absorbing company, effective from 1 January 2018, also for tax purposes.

On 13 October Veneto Banka (Croatia) was merged by incorporation into Privredna Banka Zagreb, with accounting and tax effects starting from 1 January 2018.

On 23 October, the Board of Directors of the Parent Company approved the mergers by incorporation of Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio in Bologna and Intesa Sanpaolo Group Services, which became effective after the year end.

On 30 November 2018, the Group's entire equity investment in SEC Servizi was sold to Accenture for around 15 million euro. The agreement reached with Accenture also provides for the possibility for Intesa Sanpaolo to use some SEC Servizi IT modules, including the developments made by Accenture, and some additional digital-related services.

On 1 December 2018, following the obtainment of required authorisations from the relevant authorities, Intesa Sanpaolo and Intrum finalised the agreement concerning the strategic partnership in respect of non-performing loans which was signed on 17 April 2018 and disclosed to the market on the same day, which envisaged:
- the creation of a leading servicer in the Italian NPL market, through the integration of the Italian NPL platforms of Intesa Sanpaolo and Intrum, with the following features:
  - around 40 billion euro serviced;
  - 51% of the new platform to be held by Intrum and 49% to be held by Intesa Sanpaolo;
  - a 10-year contract for the servicing of Intesa Sanpaolo's bad-loan portfolios, with terms and conditions in line with market standards;
  - major commercial development plans for the new platform in the domestic market;
  - around 1,000 employees involved, including around 600 people from the Intesa Sanpaolo Group;
- disposal and securitisation of a sizeable bad-loan portfolio of the Intesa Sanpaolo Group – a landmark transaction for the Italian market – amounting to 10.8 billion euro of gross book value at a price, of around 3.1 billion euro, in line with the carrying value already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario.

Starting from the Half-yearly Report as at 30 June 2018, in view of the presence of a binding offer, approved by the Board of Directors of Intesa Sanpaolo on 17 April 2018, and given that the scope of the sale and the related price have been precisely defined, the portfolio of bad loans in question has been reclassified under discontinued operations, as it is no longer included in the balance sheet caption relating to loans to customers. Starting from the reclassification under discontinued operations, this portfolio was aligned to the price agreed during the negotiations, since its book value would be recovered through a sale transaction and not through collection. With the finalisation of the agreement, on 1 December 2018, the portfolio of securitised bad loans was fully deconsolidated in accounting and regulatory terms.
In preparation for the above transaction, on 19 November 2018 the servicing platform, Tersia, was set up through the partial demerger of Intesa Sanpaolo Group Services, Intesa Sanpaolo Provis and Intesa Sanpaolo Re.O.Co.
Subsequently, on 1 December 2018, Intesa Sanpaolo sold 51% of Tersia to Lindorff Italy S.r.l., an Intrum Group company, for a gross consideration that took into account an initial value of the entire platform of around 525 million euro, and deconsolidated the company, reclassifying the remaining portion (49%) under interests subject to significant influence.
At the same time, Intesa Sanpaolo acquired 49% of the share capital of CAF S.p.A., Gextra S.r.l. and Intrum Justitia from Lindorff Italy S.r.l. for a price of around 70 million euro.
With effect from 1 December 2018, the securitisation vehicle was financed by the issuance of ABS (asset back securities). The financial structure of the securitisation is as follows:
- a Senior Tranche equivalent to 60% of the portfolio price, underwritten by a pool of leading banks, including Banca IMI with a share of around 22%;

- Junior and Mezzanine Tranches equivalent to the remaining 40% of the portfolio price, underwritten by a vehicle (51%) – owned by Intrum and another co-investor, but that will act as a single investor for governance purposes – and by Intesa Sanpaolo (49%).

The agreement made a significant contribution to the de-risking strategy envisaged by Intesa Sanpaolo in its 2018-2021 Business Plan and will result in:

- reduction in the gross NPL ratio to below 10%;
- proven ability of Intesa Sanpaolo to dispose of a sizeable amount of NPLs at no extraordinary cost to shareholders;
- satisfaction of the Regulators' expectations in respect of reduction of NPLs of Italian banks;
- possible further improvement in the recovery on the bad-loan portfolio retained by Intesa Sanpaolo due to the partnership with a leading international player, benefiting from combined skills, capabilities and resources;
- potential future value creation through the development of a best-in-class platform in Italy, which is one of the largest European markets for NPL servicing.

On 17 December 2018, the deed was signed for the merger by incorporation into Intesa Sanpaolo of Intesa Sanpaolo Securitisation Vehicle, a company that was essentially inactive, because it had completed its mission. The transaction became effective for third parties from 31 December 2018, with the accounting and tax effects started from 1 January 2018.

Following the agreements reached with the Gavio Group, with effect from 31 December 2018 Intesa Sanpaolo acquired control of Autostrade Lombarde S.p.A., by law pursuant to Articles 2359 and following of the Italian Civil Code and on an accounting basis pursuant to IFRS 10, increasing its shareholding from 42.45% to 55.79%. Autostrade Lombarde is the concessionaire of the Milan-Brescia motorway section (A35), through its operating subsidiary Brebemi. In this regard, Intesa Sanpaolo did not consider that the conditions applied for management and coordination of Autostrade Lombarde and the companies indirectly controlled through the latter, pursuant to Articles 2497 and following of the Italian Civil Code, given the profound difference between the business of these companies and of the companies operating within the Intesa Sanpaolo Group.

With regard to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca in compulsory administrative liquidation (the "Banks in compulsory administrative liquidation") completed in 2017, it should be noted that the caption "discontinued financial assets" as at 31 December 2018 included high-risk loans amounting to 612 million euro, originating from the Banks in compulsory administrative liquidation, reclassified as bad loans or unlikely-to-pay loans. In this regard, please note that the sale agreement signed on 26 June 2017 establishes the right for the Intesa Sanpaolo Group to sell back the high-risk loans to the Banks in compulsory administrative liquidation that meet conditions for reclassification as bad loans or unlikely-to-pay loans. This sell-back right, pursuant to Decree Law 99 of 25 June 2017 concerning "Urgent provisions for the compulsory administrative liquidation proceedings of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A." (Venetian Banks Decree), converted into Law 121 of 31 July 2017, can be exercised within "*three years from the sale*". The book value of these loans was determined based on the contractual terms, which establish a sell-back price equal to their gross value net of provisions at the execution date and of 50% of the adjustments that, based on the IAS/IFRS, Intesa Sanpaolo would have been required to make if the obligation of repurchase by the Banks in compulsory administrative liquidation had not been agreed. The amount that each of the Banks in compulsory administrative liquidation must pay to the ISP Group in relation to the amount of the high-risk loans subject to sell back is financed by Intesa Sanpaolo through an interest-bearing loan, at the same financial terms and conditions as the loan already granted by Intesa Sanpaolo to the Banks in compulsory administrative liquidation to cover the imbalance between the assets and liabilities acquired. The obligations of the Banks in compulsory administrative liquidation deriving from the loans for the sell back of the high-risk loans are secured by an independent, first demand government guarantee, for a maximum total amount of 4 billion euro (the high-risk guarantee).
To date, the high-risk loans reclassified to discontinued operations have not been sold back to the Banks in compulsory administrative liquidation. ISP has signed an agreement with each of the Banks in compulsory administrative liquidation for the sell back of a first tranche of the reclassified high-risk loans. However, the execution of these agreements is still subject to the formalisation of the high-risk guarantee through a specific Decree of the Ministry of the Economy and Finance. In this regard, you are reminded that the high-risk guarantee from the government is a required procedure that is envisaged, not only by the Sale Agreement of 26 June 2017, but also by the Venetian Banks Decree and has in any case been ordered, although not yet formalised, by Ministerial Decree no. 187 of 25 June 2017.

The significant events after the year end included the signing on 11 January of the deed of merger by incorporation of Intesa Sanpaolo Group Services into Intesa Sanpaolo. The merger took effect with respect to third parties on 21 January 2019, while the operations conducted by the incorporated company were posted to the financial statements of the absorbing company, effective from 1 January 2019, also for tax purposes.

On 30 January 2019, the plan for the merger by incorporation of Banca Apulia into Intesa Sanpaolo was filed with the Company Register of Turin.

On 1 February 2019, the merger process started in August 2017 between Intesa Sanpaolo Private Banking (Suisse) S.A. and Banque Morval S.A. was completed. After obtaining the authorisations from the competent supervisory authorities, the new bank was renamed Intesa Sanpaolo Private Bank (Suisse) Morval S.A.
Intesa Sanpaolo Private Bank (Suisse) Morval was created to contribute to the strategic initiative outlined in the 2018 – 2021 Business Plan of the Intesa Sanpaolo Private Banking Division.
The new company, which the London branch will also report to, will continue the process of international expansion already begun by Fideuram – Intesa Sanpaolo Private Banking. The main branches (Geneva and Lugano) and the international network of private bankers will enable the expansion of the geographical footprint to high-potential countries, particularly in the Middle East and South America.

On 5 February 2019, the deed was signed for the merger by incorporation of Cassa di Risparmio di Pistoia e della Lucchesia into Intesa Sanpaolo, with an increase in the absorbing company's share capital of 64,511.72 euro through the issue of 124,061 ordinary shares without nominal value. On the same date, the deeds of merger of Cassa di Risparmio in Bologna and Cassa di Risparmio di Firenze into Intesa Sanpaolo were also signed.
The mergers came into legal effect as of 25 February 2019.

On 8 February 2019, Intesa Sanpaolo received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 March 2019, following the results of the Supervisory Review and Evaluation Process (SREP).
The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.96% under the transitional arrangements for 2019 and 9.33% on a fully loaded basis.

The 2018-2021 Business Plan

Intesa Sanpaolo achieved excellent results during the 2014-2017 Business Plan and laid the foundations for being highly competitive in the years to come, through a major transformation of its business model and significant investments in digital technology. The 2018-2021 Business Plan seeks to maintain solid and sustainable value creation and distribution for Shareholders and to build the number 1 Bank in Europe.
The Group also aims to strengthen its leadership in Corporate Social Responsibility and leave a positive impact on society, while also increasing its own internal inclusion, without any discrimination.
In a new highly digitalised and competitive world, the Bank will continue to pursue its goals by leveraging its values and the proven ability of a results orientated delivery machine.
The pillars of the 2018-2021 Business Plan are:

- Significant de-risking at no cost to Shareholders;
- Cost reduction through further simplification of the operating model;
- Revenue growth capturing new business opportunities.

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

De-risking

In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to shareholders.
Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018, as well as a 50% reduction in the cost of credit with a target of 41 basis points in 2021 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). This strategy is based on three main drivers:

- the strategic partnership with Intrum;
- the creation of an internal unit ("Pulse") dedicated to early delinquency management of retail loans;
- the consolidation of the proactive management of the loan portfolio, in particular through the strengthening of the credit transformation solution for mid and large corporates and the creation of the Active credit portfolio steering structure aimed at a more dynamic management of both the performing and non-performing loan portfolios.

Under the project for the carve-out of a state-of-the-art loan recovery platform, Intesa Sanpaolo has established a joint venture with Intrum, in which it holds a 49% stake, for the servicing of bad loans. The finalisation of the transaction generated a capital gain of around 443 million euro for the Intesa Sanpaolo Group's consolidated income statement in the fourth quarter of 2018. The joint venture, which when fully operational will have a workforce of 1,000 people, 600 of whom will come from Intesa Sanpaolo, will provide management and recovery services for ten years on most of the annual flows of the Group's NPLs. Transfers of the Group's personnel and bad loans during the year were in line with the programme.
The project for the sale of non-performing loans at book values aims to achieve a significant deleveraging of the non-performing loans at no extraordinary cost to shareholders. This initiative includes the sale of a portfolio of bad loans of the Intesa Sanpaolo Group (gross value of 10.8 billion euro) to the joint venture with Intrum at a price in line with the book values (around 3.1 billion euro).
The Pulse Platform introduces a centralised method of prevention and management of loan impairment in the Retail segment, from the very first signs of increased risk, with the aim of proposing negotiation solutions to customers in difficulty and insourcing credit recovery activities that have been outsourced. After an initial testing phase, completed in April with promising results, the project was implemented with the release of a formalisation (renegotiation) platform and with the extension of the scope of application first to Intesa Sanpaolo and then, in accordance with the plan for the merger of the Network Banks, to Banco di Napoli and Cassa dei Risparmi di Forlì e della Romagna. At the same time, the staff, which is expected to reach 1,000 people at the end of the Plan, has been progressively expanded to include 200 full-time employees.
Lastly, the project for the scale-up of proactive credit portfolio management aims to strengthen the control of debt positions at risk of businesses in order to prevent significant increases in risk or transition into non-performing status. To this end, the operating structure has been reorganised, priority areas for improvement have been identified and the process for monitoring risk positions has been redefined. During the year, the amount of gross unlikely-to-pay loans of Businesses/Corporates fell by around 3 billion euro compared to 2017, down to around 11 billion euro.
As part of the active management of the loan portfolio and with a view to creating value for the Group, the Active Credit Portfolio Steering structure has been set up, which has carried out significant credit risk transfers aimed at facilitating access to credit for businesses, by reducing the capital absorption.

The new credit strategy framework has also been established to support lending to the most attractive economic sectors in terms of risk/return.
With the finalisation of the agreement with Intrum at the end of 2018, more than 60% of the objective of reducing the non-performing loans set in the Business Plan for the entire four-year period 2018-21 has been achieved. Non-performing loans before adjustments decreased by 29.9% year-on-year, bringing the ratio of non-performing loans (before adjustments) to total loans to 8.8%, and the cost of credit fell to 61 basis points at the end of 2018.

Cost reduction

Cost reduction is the Second Pillar of the Plan, through which the Group aims to reduce the level of both fixed and variable costs on the income statement.
The staff reduction and renewal project sets a series of coordinated objectives within the Plan period in terms of reduction in labour costs (from 6 billion euro to 5.8 billion euro) and personnel (from 97,400 to 90,800 people), reskilling (for around 5,000 people) and staff renewal (1,650 new hires). In 2018, labour costs amounted to around 5.8 billion euro and the total workforce decreased to 92,117 people. The reskilling process led to the reallocation of 989 employees to priority activities for the Group, while the renewal process resulted in the hiring of 441 specialist staff.
The Branch strategy project involves the streamlining and renewal of the network of bank branches, accompanied by the integration with alternative physical and virtual channels and third-party networks (open banking). In 2018, the streamlining of the network reduced the total number of branches by 454[3], while the renovation of the layout involved around 190 branches where welcome areas and co-working areas were created. Banca 5 has been expanded in terms of network (around 17,000 non-captive points of sale with advanced terminals, of which around 3,000 are already operating under the new business model), range of services (e.g. withdrawal of cash from Banca 5 points of sale for Intesa Sanpaolo customers, postal payment slips, facilitated bank transfers) and customer base (31,000 registered users of the Banca 5 app, 24,500 customers with Flash Card).
With regard to the digital channels, the development of the Group's multi-channel platform continued with the introduction of new customer journeys, as well as the strengthening of the online branch, with the opening of new bases and the consolidation of the existing ones. This was also accompanied by the enhancement of the Digital Advertising initiatives and the launch of the Proximity Marketing project. Lastly, with regard to open banking, the Group signed a three-year agreement with Poste Italiane for a commercial partnership in various areas (Lending, E-Money Services & Payment Systems and Wealth Management). Under this agreement, the distribution of loans granted by Intesa was started, first to employees and then to all Poste Italiane customers. Overall, these initiatives contributed to extending the Group's coverage of the total Italian population from 75% at the end of 2017 to the current 90%.
The Real estate scale back project aims to optimise the Group's physical presence in Italy through the disposal of redundant spaces and the identification of less costly locations. During the year, the scale back of real estate resulted in the release of approximately 322,000 square metres of surface area and the renegotiation of 566 lease payments.
In 2018, the corporate simplification process continued with five mergers into the Parent Company (Banca Nuova, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio del Veneto, Banco di Napoli and Cassa dei Risparmi di Forlì e della Romagna), eight rationalisations of subsidiaries not specifically included in the Plan (IMI Investimenti, Servizi Bancari, Fideuram Fiduciaria, Consumer Financial Holding - Slovenia, VUB Factoring - Slovenia, Veneto Banka Albania, Veneto Banka Croatia and the former Veneto Banka Romania Branches) and two sales to third parties (SEC Servizi and Galileo Network).
The Reduction of administrative expenses project aims to oversee a cut in administrative expenses over the four-year period of the Plan by creating a unit at Group level headed by the Chief Cost Management Officer. Activities in 2018 included the completion of the migration of the ICT systems of the former Venetian banks and the progressive centralisation of purchasing and the management of relations with suppliers.

Revenues

The third Pillar of the Business Plan seeks to increase operating income by capturing significant business opportunities in all the Divisions.
To achieve its objective of becoming one of the top four Italian P&C insurance companies and the first in retail non-motor, Intesa Sanpaolo Assicura started the implementation of the strategies aimed at improving the products and services offered to customers. A new multichannel offering was launched in 2018. "XME Protezione" offers multiple non-motor insurance cover for customers and their families. The product has a modular approach providing the possibility of customising the cover also based on the prioritisation of areas of need, both during the initial sale and over the life of the contract. In addition, in 2018, the offering for SMEs was enhanced with the launch of the new "Tutela Business Manifattura" product and additional services were launched with "XME Salute". Lastly, during 2018, the use of Data Analytics methods was initiated to more effectively identify customer needs and offer personalised financial conditions.
The development of skills and the improvement of the level of service offered by the relationship managers of the Banca dei Territori was enabled by the addition of around 220 Protection Specialists, the completion of the IVASS qualification by around 30,000 employees and the mentoring of over 9,000 relationship managers. Lastly, the Communication Plan for the P&C offering was launched and the brand identity was strengthened, with the placement of "Banca Assicurazione" window stickers on the branches of the Intesa Sanpaolo Group banks.
In terms of after-sales service, in 2018 Intesa Sanpaolo Assicura again provided high standards for settlement times and strengthened its after-sales and claims management structures with around 60 employees (with the aim of having 500 additional FTEs by 2021).

[3] Net of new openings.

With a view to consolidating its leadership in Private Banking, the analysis of international best practices was completed as part of the development of new digital channels and a feasibility study was carried out with the identification of strategic options and related business cases. In the area of international development, the Group expanded its sales force, completed the acquisition of the Morval Group and strengthened the capital base of its subsidiaries in Argentina and Uruguay. The Central Bank of Bahrain also issued the authorisation for the start of operations of the local representative office.
With regard to Asset Management, under the new three-year distribution agreement between Poste Italiane and Intesa Sanpaolo, the collaboration is continuing with Banco Poste SGR, with the achievement of the inflow targets set for 2018.
The offering for Banca dei Territori customers has been enhanced with flexible solutions aimed at capital protection or currency diversification, while the offering for Private customers has been expanded with multi-strategy/multi-asset products and investment solutions based on ESG investment criteria.
New features of the advanced advisory platform "Valore Insieme" (which already has around 26,000 customers and more than 9 billion euro under management) were also released and the feasibility study for the identification of Robo4Advisor solutions was completed.
The introduction of the flexible banking contract, which combines two types of employment contracts (employee and financial advisor), and the establishment of new training procedures for relationship managers and specialists, confirms Intesa Sanpaolo as one of the most innovative organisations also in the management of working relationships with its staff.
In the area of new digital services, the concept and customer journeys of the Smart ecosystem have been redefined from a "Mobile First" perspective, with an initial focus on creating a process of investment assistance for customers.
Lastly, Eurizon Capital's distribution network was strengthened with the opening of a sales office in Switzerland, the strengthening of the sales structure in Germany, and the start of the authorisation process for the establishment of a branch in Madrid, where it currently has a representative office.
Its positioning in the institutional business was strengthened through growth in the Foundations segment.
The activities for Business and Corporate customers focused on the development of a separate offering to support the growth of SMEs. The marketing was launched for "Digifattura", the new service that enables Banca dei Territori customers to meet the legal requirements for electronic invoicing and the activities were initiated for the renewal of "Impresa 4.0" (which aims to increase the disbursement of loans also thanks to tax incentives), in addition to the extension of the expiry date of the free current account offering for innovative start-ups. The new "Dialogo Industriale" platform was completed and released on all branches in support of the new model for relations with corporate customers. The new Originate to Share model and the related processes have been approved by the Board of Directors and have already been implemented.
The separate offering for Corporates in Italy involved the establishment of two new teams (Global Strategic Coverage and Network Origination Coverage) with the aim of identifying and promoting new opportunities for the target customers and possible strategic deals. In order to strengthen its leadership position in the Italian market, a new unit in Banca IMI has been set up for Corporate Finance for Banca dei Territori customers and a short list of 200 top customers has been identified as the priority target for the offering.
With regard to the growth of the international business, the first Operating Committees were held with the main stakeholders of the project to monitor the progress of the development plan, the marketing plans have been developed and implemented for the products linked to the four key initiatives of this business, and the hiring of staff has been completed for the strengthening of the coverage and the enhancement of skills in the international network of the Corporate & Investment Banking Division.
Work continued on the development of a new strategy for the Group's International Subsidiary Banks, aimed at optimising the international presence and maximising synergies within the Group.
As part of the process of extending the HUB approach, the integration of Intesa Sanpaolo Banka Bosna i Hercegovina into the PBZ Group (Croatia) has been completed, the action plan for the development of the Slovenian bank is underway, the new governance model in Central Europe has been established with the start of the initial activities and the strategic partnership has been set up between Slovakia, the Czech Republic and Hungary.
The activities of the Constellation (Core Banking System) and Cooperation (centralisation of IT infrastructures) projects continued and the work relating to CRISP (Customer Relationship Management) has been completed.
The programme is being implemented for the adoption of the Group's target distribution model throughout the entire sales network in Slovakia, Croatia, Serbia and Hungary (38 branches already converted into the new model) and the pilot phase of the model is underway in Slovenia.
The pilot phase for the Wealth Management is underway in the countries envisaged (Croatia, Slovenia, Hungary and Slovakia) with the expansion of the target customer base to the private segment. The portfolio allocation for the Senior Corporate Banker customers is in progress.
The features and services have been extended for the existing digital channels in the banks (Croatia, Hungary and Egypt) and have been released in Albania, in addition to the completion of the feasibility study in Slovenia.
With regard to the development of Wealth Management activities in China, the "dealing in securities" licence has been received from the Hong Kong Monetary Authority for the distribution of mutual funds by Eurizon Capital (HK) Ltd.
With regard to Yi-Tsai, the preparatory work has been completed for obtaining the licence issued by the China Securities Regulatory Commission (CSRC), in addition to establishing the target service model and setting up the IT architecture. With regard to the establishment of the Security Company, preparations have begun for the submission of the application to the Bank of Italy/ECB and the Chinese regulatory authority (CSRC), including the preliminary definition of the business model and business plan and the agreement on corporate governance reached with the minority shareholders.

People and Digital Transformation

Our People continue to be Intesa Sanpaolo's most important resource and, in line with the Business Plan strategy, during the year the Group implemented a series of initiatives dedicated to them.
The process was completed for the subscription/assignment of the POP Incentive plan (for Top Managers, Top Risk Takers and key managers) and the LECOIP 2.0 plan (for Managers and Professionals) linked to the main Plan indicators and aimed

at strengthening employee involvement in the pursuit of corporate objectives (over 80% of those eligible signed up to the LECOIP 2.0 plan).
The International Talent Program for the development of the next generation of middle management continued with training programs, managerial mentoring and personalised career paths. After the selection of the first participants in 2017, in 2018 the selection was completed for the new group of talents for the second edition, bringing the number of employees involved to over 200.
Around 11,500 employees signed up for the smart working initiative (around 3,500 more than at the end of 2017). This method of working improves employee productivity and satisfaction, strengthening their sense of responsibility and promoting a better work-life balance, while also optimising use of company spaces. The development also continued of flexibility initiatives ("lavoro misto" flexible employment contract, part-time work, etc.), which maximise the relationship between remuneration and profitability and also facilitate new recruitment to partially cover voluntary redundancies.
A specific organisational unit has been created for People & Process Care, representing one of the first actions aimed at improving employee satisfaction, by mapping the internal offering, the main needs expressed by colleagues and the best experiences at both national and international level.

Projects have been launched to strengthen the spread of a Global Company culture, with the creation of uniform human resource management systems at Group level, which ensure greater attractiveness and retention for talented individuals and top management, in addition to reducing organisational complexity and providing greater internal flexibility.
The enhancement of skills involved the provision of more than 9 million training hours, an increase of 38% compared to last year. Major investments in training enabled the strengthening of the distinctive leadership of the managers and the extension of the digital training offering to all Group employees. In particular, the introduction of new information content (3,000 Learning Objects already available) has enabled greater access to the training platforms (Apprendo and Management School).
Particular attention was given to implementing solutions designed to ensure managerial continuity in the event of termination of employment relationships for any reason, in order to avoid operational, economic and reputational repercussions.
In addition, specific and innovative recruitment and training initiatives were launched aimed at hiring staff in 2019 under the flexible employment contract.
The Diversity & Inclusion structure has been set up with the aim of enhancing the wealth of multicultural backgrounds, experiences and different qualities of the Group's people. Its task will be to foster an inclusive approach in the Company, by encouraging respect and appreciation of diversity, through the implementation of projects addressing its various dimensions.
Building on the significant investments made in the previous Business Plan, the Bank has continued its digital development strategy, fully in harmony with customer needs.
As a result, Intesa Sanpaolo has retained its position as the number one digital bank in Italy with around 8.3 million multi-channel customers (7.3 million at the end of 2017), of which around 3.2 million connected at least once to the new app in 2018 and about 2 million activated O-Key Smart, the new OTP software that is simpler and more secure than a physical token device, in compliance with the PSD2 Directive.
Products available on multi-channel platforms accounted for around 85% of the total, while sales through remote channels reached around 5% (around 2% at the end of 2017). The many innovative products/services made available to customers included the payment services via Apple Pay, contactless services for the Milan Metro Lines, and electronic invoicing for SMEs.
The role of the Online Branch is set to grow, as evidenced by around 47,800 products sold during 2018 and around 2,000 customers served by the 28 remote managers already active.
The projects in the area of data management also continued, aimed at evolving the IT infrastructure for both regulatory and business purposes and, in particular, at developing and disseminating innovative advanced analytics solutions and advanced data science methods.
During the year, projects were developed in support of all the main action areas of the Business Plan. The digital evolution of the retail and corporate channels continued, as did the end-to-end design and digitisation of selected high-impact processes, reaching a level of around 18% of activities digitised (around 10% at the end of 2017).
Particular focus has also been placed on strengthening cyber security practices with the progressive integration of the Group companies into the corporate model.

Projects

Numerous projects, in coordination with Intesa Sanpaolo Group Services (ISGS), also continued during 2018. The main activities carried out in the year are described below, with specific regard to those with cross-cutting impacts across the Group, which mainly stem from regulatory obligations, business development opportunities or risk control needs.

Digitisation of Group Core Processes

The digitisation of Core Processes continued, with the new Digital Business Partners. The objective continues to be evolving the operating model through innovation and the use of the new customer-driven working practices. Since its inception, 17 processes have been completed, including the following in the last quarter of 2018:

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

The work for the Insurance Wallet, Remote Manager and Digital Collaboration projects continued:

- Insurance Wallet: thanks to the release of "XME Protezione" in the Branch Network, the Bank's customers can include cover for different types of risk (health, family, assets) in a single policy, with the possibility of adding and eliminating the cover during the lifecycle of the contract.
- Remote Manager: this project continues with the aim of offering a new remote advisory service to customers that, for business or personal reasons, cannot go to the Branch and prefer interaction through remote channels using a dedicated help service with extensive hours of availability. The pilot phase involves a group of remote managers in the rooms of the Online Branch in Moncalieri, Padua and Milan;
- Digital Collaboration: alongside the Remote Manager project, the Digital Collaboration project has been launched, which will enable the development over the three-year period of the collaboration tools available to the Online Branch and Remote Manager, as well as the Network Branches. The first release step is scheduled for the first half of 2019.

Big Financial Data (BFD)/Big Data Engine

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

G20 Reforms Project

The G20 Reforms project is intended to guarantee the adaptation of the operating model for the Group in order to respond to the regulatory obligations arising from the reforms undertaken by the G20 with regard to investments in financial instruments.
In the European Markets Infrastructure Regulation (EMIR) area, in 2018 the implementation continued of the IT interventions aimed at improving the quality of regulatory reporting, together with the revision of the methods for performing controls, with particular focus on reconciliations.
In relation to the Dodd Frank Act (DFA), following the completion of the assessment conducted by an external company, all the most urgent actions envisaged in the action plan were completed. The process is being strengthened for the reconstruction of communications relating to transactions carried out within the DFA scope about which the Regulator can request information (Pre-Trade Reconstruction obligation).
In relation to the Volcker Rule, developments were completed for the extension of the automatic monitoring of positions held in funds and structured products to Eurizon and the Group's Insurance Entities. The Governance Guidelines have been established for the Volcker Rule and the preparation of automatic reporting for the conduct of controls at the ISP NY Branch has been completed. The actions identified following the external assessment conducted by the external company are in the final phase.

Cyber Security Program

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

New Group Register

The aims of this project, launched in 2016, are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single platform for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels.
In 2018, the Project managed the release phase of the new platform: the New Group Register was set up as a master registration platform, first on the pilot company (Mediocredito Italiano) and then on Banca Prossima, Intesa Sanpaolo Private Banking and Banca IMI.
The activations in the other Group Banks will follow early 2019, according to the established plan, which will conclude with the activation in Intesa Sanpaolo in March 2019.

Processes Integrated Governance
In 2018, the new classification of the Group processes, already used for Intesa Sanpaolo, Banca IMI, Mediocredito Italiano, and Banca Fideuram/Intesa Sanpaolo Private Banking, was also extended to the Asset Management Division and the Insurance Division. Work also continued on the plan for the streamlining, simplification and rewriting of the process rules, taking into account the impacts of the ongoing project initiatives, the reorganisations of the related structures and the needs for further analysis expressed by the process owners, while also maintaining a high level of control over the general consistency of the Group's process regulations, ensured through the assistance provided to the companies. A total of 333 processes were worked on, of which 279 were published, out of 366 in the scope.

Banca 5 Project
The project aimed at integrating Banca 5 into the Group, while preserving the company's distinctive characteristics, continued with the full implementation of the regulatory framework, adapting it where necessary to the specific features of Banca 5. Work is underway for the centralisation of the Control (Audit, Compliance, Risk and Anti-Money Laundering), Treasury and Purchasing functions within the Parent Company.

Data Collection on Credit/Credit Risk (AnaCredit)
The aim of the project is to adapt the systems to comply with the regulatory reporting to the ECB (EU Reg. 2016/867), which consists of collecting granular (loan-by-loan) and harmonised data (compliant with the FinRep and CoRep requirements) to create a centralised analytical archive on "loans" granted by banking operators in the EMU - European Monetary Union / Single Supervisory Mechanism area with the aim of obtaining an analytical view of the credit risk of those banks. This initiative, carried out as part of the Big Data Engine Programme, involves a variety of interventions both in terms of input sources and new engines. After having completed the creation of the new reporting system, during the third and fourth quarters all the regulatory deadlines for sending new reports to the Bank of Italy were successfully met.

"Lavoro Misto" flexible work (Minotauro Project)
In the Protocol of 1 February 2017 for the sustainable development of the Intesa Sanpaolo Group, the Parent Company and the trade unions agreed on the trial – for the first time in Italy – of an innovative working method, referred to as "Lavoro Misto" (flexible work), with the aim of providing a service more oriented to the diverse customer needs and expanding business opportunities. A flexible employment contract was created, for work both as a permanent part-time employee and as a contractor for out-of-branch financial advisory services. In 2018, the first selections were made from existing and external staff and the new roles/responsibilities and processes were defined. The flexible employment contract will also be used for ISP Casa, with a view to activation in the first half of 2019.

Integration of the Former Venetian banks into Intesa Sanpaolo
This project is aimed at ensuring the complete integration of the former Venetian banks and their subsidiaries (acquired Aggregate Set) with the monitoring of progress in specific project initiatives/areas. In 2018, a second project phase was implemented, partly focused on new issues that had emerged. The related activities are currently continuing on schedule.
In accordance with the plan, this new project phase implemented the ICT migration of Banca Apulia, which was completed on 7 April 2018 with the activation of a new dedicated Clone of the Target Information System, and of Banca Nuova, which was then merged into Intesa Sanpaolo.
In addition, the activities were coordinated and implemented for the activation of the operating model of Società Gestione Attività (S.G.A.), the entity that purchased the non-performing loans of the Banks in Compulsory Administrative Liquidation that were not sold to Intesa Sanpaolo. Specifically, the project activity was started for the facilitation of the migration of the documentation relating to the loans and non-performing relationships to S.G.A. ("Migration Protocol") and the operating procedures to be followed in relation to requests from the borrowers were established ("Agreement on loans and relationships"). Another project dealt with everything necessary for the management of the sell-back of the High-Risk loans. Lastly, the completion of the acquisition activities and the subsequent integration of the international networks of the former Veneto Banca were managed, enabling the addition to the Group of three Banks and the branch in Romania, in different ways for each country.

Retail Early Warning System Project
The aim of this project is to strengthen and develop the assessment processes for counterparty risk and the "interception" and "classification" of non-performing loans, through the implementation of an Early Warning System (EWS). This system enables:
- the monitoring of a list of impairment triggers for the classification;
- the calculation and monitoring of a set of indicators that reveal signs of deterioration of credit positions.

As part of the progressive roll out of the new model to the regulatory segments, the EWS replaced the previous instrument with regard to the overall indication of the status of the counterparties and the risk of deterioration in their credit quality in the short term.

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

ENIF – Enabling Integrated Financial Crime
The ENIF project aims to strengthen the control of anti-money laundering and embargoes, by implementing a radical revision of the organisational model and strengthening and rebalancing the staff employed at Group level, through the centralisation within Competence Centres of the main activities currently carried out in branch and by the Anti-money laundering Head Office Department.
In line with the plan envisaged in Phase 2, the design has been completed for the core processes for Customer Due Diligence, Transaction Monitoring and Penalties-Embargos, and the drafting is nearing completion for the action plan for Phase 3 of the project relating to the priority implementations for 2019.

PULSE
At the beginning of 2018, a project was launched to set up a dedicated collection unit called "Pulse". The unit was set up on 1 July 2018 at the same time as the extension of the retail position management process to the entire network, of which it represents a management phase. The project continued with the release of the formalisation platform on 3 December 2018 and will continue in 2019 with the release of the collection platform.

OMEGA
As already mentioned above, in 2018 the project was implemented that led to the sale and securitisation of a portfolio of bad loans of the Intesa Sanpaolo Group and the establishment of a servicing platform for Credit Recovery, which is 51% owned by Intrum Italy (Swedish group) and 49% by Intesa Sanpaolo. The project involved the establishment of organisational structures dedicated to interacting with the outsourcer and monitoring and supporting the activities assigned to it, as well as the management of positions not delegated or sold. On 1 December 2018, at the same time as the assignment to Intrum Italy of the management of a significant portion of the stock and new flows of bad loans, as well as of the servicing platform, the processes for the management of bad loans, of bad loans connected with lease contracts, of movable and real estate assets, mortgage collateral and sureties, as well as the management of assets acquired at auction were published, both for the activities carried out within the Group for the "sensitive" positions that have been kept under internal management, and for the liaison activities with the external servicer carried out within the Group.

Cost of Credit Assessment Processes Programme
In July 2018, the Programme for credit assessment and cost processes was launched, with the following macro-objectives: strengthening the management of credit cost governance, and systematic review of credit classification and assessment processes. Adjustments are being made to the credit assessment process in support of the tactical solutions identified by the project, and a systematic review of the credit assessment process has been initiated in order to ensure the cross-cutting effect and consistency of the process interventions.

Mortgage loans - Poste
This initiative involves the creation of a dedicated proposal model, in which the Banca dei Territori Division acts as a "Product Unit" for third-party non-Group distribution networks that place Intesa Sanpaolo products while continuing to manage relations with their customers. This initiative includes the relaunch of indirect distribution channels through the establishment of commercial partnerships with approved networks outside the Group. The first partner identified is Poste Italiane and the first product under the partnership agreement concerns the mortgage range (Mutuo BancoPosta), whose market offering is aimed at retail customers. The Mutui BancoPosta offering was launched in July, solely for Poste Italiane employees, and was subsequently extended to all Poste Italiane customers from October 2018. Work also began in September on the Prestito Personale (personal loans) range. In this regard, the ISGS structures provided support for the definition and formalisation of the processes for the new business model, as well as for the supply of IT services and operations.

Originate to Share
This project is structured in a four-year programme whose objective is to implement the Originate to Share (OtS) model for the Corporate and Investment Banking Division mainly based on: i) new processes that entail a significant change in approach compared to current practice to capture new business opportunities; and ii) an IT platform dedicated to OtS that is fully integrated with the other Group systems. The programme is organised into three successive waves (Banca IMI, Intesa Sanpaolo and the International Network): OtS operations in Banca IMI will be enabled from the beginning of 2019, while the completion of the application evolutions and the full enablement of ISP and the International Network is scheduled for 2021.

New Credit Strategy Framework
The purpose of this project is the implementation, from 2019, of the model for the optimisation of the origination activities of the Divisions towards the most attractive portfolio clusters in terms of risk/return profile and cost of credit. The new framework is designed to increase the steering ability of the Credit Strategies, both through full integration with the process and budget criteria, including the alignment of the metrics used, and through the evolution of pricing adjustments on an incentive and disincentive basis, which are necessary for the achievement of the objectives set. The new approach also requires that the strategic guidelines for the new disbursements envisaged in the budget be supplemented by market operations, with the aim of accelerating the process of convergence towards the desired risk/return mix.

Corporate simplification
As envisaged in the business plan and as mentioned above, specific projects have been launched aimed at corporate simplification initiatives, with particular regard to the reduction of the legal entities. In this regard, the ISGS structures provided the necessary support for the success of the migrations to the Parent Company, especially with regard to the IT, organisational and process management aspects.
In the third quarter, the project for the integration of Intesa Sanpaolo Group Services into the Parent Company was launched with a view to the planned merger, which took place in January 2019. In the last quarter of 2018, work began on the subsequent mergers, in line with the provisions of the Business Plan.

New Credit Granting Programme
The project initiatives launched by the Group in the Credit sector, in line with the provisions of the Business Plan, included the establishment and implementation of a new Business and Corporate process through the New Credit Granting Programme.
In this regard, a specific Working Group has been set up, which has completed the initial phase of study and definition of the development guidelines and which, after having set up the Agile Work Team, has started an initial "room" for the definition of details of the credit capacity mechanism and the finalisation of the simplified revision process. The timing and procedures for the other "rooms" are being defined.

People Care Project
As previously mentioned, with the aim of improving the quality of life in the company based on the needs of employees, a project was launched to create a Group People Care Model. The project has two areas of implementation: enhancing the services already offered to people by the various internal actors and contributing to the development of new solutions, also thanks to an internal and external monitoring structure; and setting up a process of confidential and expert listening for colleagues who are experiencing periods of difficulty or personal distress.

Brexit
The Brexit project was launched with the aim of defining and implementing an Action Plan in line with the strategy identified by the Group to adequately respond to the United Kingdom's exit from the European Union, ensuring full business continuity. During the first part of the year, the activities focused on mapping the potential impacts of Brexit, defining contingency options, identifying target solutions, establishing action plans and presenting them to the Supervisory Authorities to verify their compliance with the Authorities' requests and recommendations. In the current phase, the project involves the monitoring of the developments of the regulatory scenario, also through continuous interaction with European institutions and Supervisors, to add detail to the action plans and to guarantee their timely implementation to ensure to business continuity on 31 March 2019.

Progetto Cultura and Gallerie d'Italia

The strong link with art and culture has been a deep-rooted feature of Intesa Sanpaolo's history since its inception.
The Group is the result of a process of aggregations, mergers and incorporations - more than 100 in twenty years - of institutions spread throughout the country, each of which had a long tradition of social initiatives, cultural promotion, and collection and patronage that was inherited by our Bank.
The duty to contribute to the diffusion of art and culture, the responsibility to defend, promote and share the historical and artistic heritage of both the company and Italy therefore represents a commitment that is now recognised and intrinsic to Intesa Sanpaolo's identity and role.
In accordance with the Articles of Association, in recent years the Business Plan has been accompanied by Progetto Cultura, an innovative plan that formalises a three-year programme of cultural initiatives in partnership with the most important national and international institutions. The plan provides coherent, efficient and structured planning of the cultural offering conceived and implemented by the Bank.
The first Progetto Cultura was presented to the Board of Directors in 2011 and covered the three-year period 2011-2013, followed by the 2014-2016 and 2017-2019 plans. The fourth programme, covering the three-year period 2020-2022, will be proposed in 2019.
The current Business Plan (2018-2021) makes specific reference to the commitment to art and culture. In addition, Intesa Sanpaolo, already a leading bank in the field of Corporate Social Responsibility, is seeking confirmation as an exemplary group in terms of social and cultural commitment, also through the activities of Progetto Cultura.
To this end, in 2017 the Art, Culture and Historical Heritage Head Office Department was established, an evolution of the previous organisational units that over the years have been dedicated to the development of cultural projects and the management of the art assets belonging to the Group.
The establishment of the Department is the strategic response for the conception and implementation of artistic and cultural initiatives by the Bank, for the coordination of partnerships with the main Italian and international companies and institutions, for the conservation and preservation of its own art collections and the national heritage, thereby contributing to strengthening the Group's reputation, also beyond the field of culture, at national and international level.
In 2018, a total of 14 exhibitions were organised in Intesa Sanpaolo's museum venues, the Gallerie d'Italia, which received an increasing number of visitors (over 500,000).
As the closing moment of the 18th edition of *Restituzioni*, the 212 works of Italian heritage restored by the Bank were promoted in a major exhibition, entitled the *Fragility of Beauty,* at the Reggia di Venaria Reale Palace.
A total of 140 works from Intesa Sanpaolo's collections featured in major exhibitions in Italy and abroad (large selections were exhibited at the Castello Sforzesco in Milan, the National Art Museum of Romania in Bucharest, the Museum of Fine Arts in Budapest, the Sarajevo City Hall, and the Russian State Museum in St. Petersburg).
International relations have also been strengthened, creating strong partnerships in particular with the Estorick Collection in London, the Hermitage Museum in St. Petersburg and the Pushkin Museum in Moscow.

A total of 6 exhibitions with Intesa Sanpaolo works were held in prestigious international museums.
The Galleria degli Alberti in Prato was temporarily reopened, with artworks belonging to Banca Popolare di Vicenza in compulsory administrative liquidation.
Extensive support was provided Italy's main museums, institutions and cultural initiatives (from Miart in Milan, to the International Book Fair and the CAMERA Foundation in Turin).
Projects were implemented for the enhancement of the Historical Archive, in addition to significant publishing initiatives.
During 2018, a periodic scenario analysis was carried out on the Group's artworks of particular value, as part of the process of fair value measurement of the "valuable art assets", which began in 2017.

Gallerie d'Italia

In historic buildings in the heart of three Italian cities, Intesa Sanpaolo has created Gallerie d'Italia, the Bank's museum venues in Milan, Naples and Vicenza.
The museums - where over 100 young art historians work - house, promote and share with the public the main art collections belonging to the Group, with a total of around 1,000 artworks on display. The permanent sections promote the collections through exhibition itineraries and installations that are continuously renewed and interpret the artworks in different ways.
Our museums also contribute to the knowledge of the artistic heritage preserved in Italy and abroad, hosting original exhibitions and workshops organised by the Bank thanks to the collaboration with and loans from national, European and international institutions and museums.

The Gallerie di Piazza Scala in Milan, created together with Progetto Cultura in 2011, exhibit 19th century paintings and sculptures from the Intesa Sanpaolo and Fondazione Cariplo collections and host "Cantiere del '900", an interactive space for the exploration and promotion of the Bank's contemporary art works.
For the Milan museum, a cycle of major exhibitions was conceived to celebrate the major protagonists of Italian art.
Five main exhibitions were organised in 2018. The exhibition *Art as Revelation. From the Luigi and Peppino Agrati collection*, curated by Luca Massimo Barbero, displayed for the first time to the public the Italian and American artworks from the extraordinary collection of art of the second half of the twentieth century donated by Mr Agrati to Intesa Sanpaolo.
Curated by Fernando Mazzocca and shared with the Poldi Pezzoli Museum, *Romanticism* was the first exhibition dedicated to the contribution of Italy, and Milan in particular, to the exciting artistic and cultural season of European Romanticism. Thanks to loans from museums all over the world, the works of Italian artists, from Hayez to Tenerani, accompanied paintings by Friedrich, Corot and Turner.
True Perfection. The Capodimonte Cassetta Farnese, at the Milan Fashion Week, presented the restored version of a Renaissance masterpiece of absolute elegance and beauty, as a reminder of how talent and contemporary creativity have their roots in the history of art in Italy. Alongside the Cassetta, there was a painting by the grand master Titian, the *Portrait of Cardinal Alessandro Farnese*, also from the Museo e Real Bosco di Capodimonte of Naples, with which the Bank has been collaborating for years in the development of cultural initiatives.
The attention to contemporary artists is testified by the exhibitions, accompanying "Cantiere del '900": *Omar Galliani. Around Caravaggio* and *Pino Pinelli. Painting beyond the limits*, the latter organised in partnership with Palazzo Reale and Museo del Novecento in Milan. Galliani and Pinelli, and other masters such as Eros Bonamini, Franca Ghitti, Elena Mezzadra, Alessandro Papetti, Marco Petrus, and Valdi Spagnulo have recently donated their works to Intesa Sanpaolo, a sign of trust and recognition of the Bank's commitment to the protection and promotion of art.

Gallerie di Palazzo Zevallos Stigliano in Naples, opened in 2007 and renovated and expanded in 2014, house the masterpiece of the Bank's collections, the last canvas painted by Caravaggio, along with works set in Naples and southern Italy between the seventeenth and early twentieth century.
Four major exhibitions were held in 2018. *Leonardo. La Scapiliata*, the seventh edition of "L'Ospite illustre" (the distinguished guest) exhibition, brought a refined painting by the famous artist from the Complesso Monumentale della Pilotta of Parma to Naples, and received a high number of visitors.
The result of a long exploration and study, the exhibition *Rubens, Van Dyck, Ribera. The collection of a prince* presented the Italian and Flemish paintings of the seventeenth century belonging to the Vandeneynden family - who lived in Palazzo Zevallos at the end of the seventeenth century - now scattered in museums around the world and gathered together for the first time for the exhibition. The project was supported by an international scientific committee, with Gabriele Finaldi, director of the National Gallery in London, as a consultant curator.
Curated by Luca Beatrice, *London Shadow. The English Revolution, from Gilbert & George to Damien Hirst*, showed the liveliness and irreverence of English culture and art in the 1990s.
Neapolitan Metabolism, dedicated to the art photographers Luciano and Marco Pedicini, was another example of how the exhibitions at Gallerie d'Italia give importance to and promote photography and different expressive languages, from ancient to contemporary times.

The Bank's first museum, Gallerie di Palazzo Leoni Montanari, was opened in Vicenza in 1999 and was renovated in 2014. With its rich baroque decorations, the building houses Venetian paintings of the eighteenth century, Russian icons and the "Ancient Times" exhibition, which proposes thematic displays of beautiful decorated vases selected from the collection of Attic and Magna Graecia pottery.
Three significant exhibitions were organised in 2018. *Seduction. Myth and art in ancient Greece*, which presented precious examples of archaeology from the Intesa Sanpaolo collection and from the Archaeological Museums of Naples and Reggio Calabria, strengthening an already well-established partnership.
Photography was again a protagonist at Gallerie d'Italia thanks to *Paparazzi. Photographers and stars from the Dolce Vita to the present day*, organised in partnership with Fondazione CAMERA di Torino, which presented shots of celebrities from the past and present in a renewed setting on the second floor of the building.

The exhibition *Triumph of Colour. From Tiepolo to Canaletto and Guardi*, dedicated to eighteenth-century Venetian painting, involved international collaboration with the Pushkin Museum in Moscow and the Pinacoteca Civica in Vicenza, with the presentation of a splendid altarpiece by Tiepolo from the Russian museum at Palazzo Montanari, alongside the Bank's Venetian paintings.

The 36th floor of the Intesa Sanpaolo Skyscraper in Turin has also become an exhibition space of Gallerie d'Italia.
On the occasion of the Christmas festivities, the beautiful *Adoration of the Shepherds* by a protagonist of seventeenth century Spanish painting, Juan Bautista Maíno, was exhibited thanks to the exceptional loan from the Hermitage Museum in St. Petersburg. This exhibition, which was the eighth edition of "L'Ospite illustre", was created in partnership with the Fondazione Torino Musei and in collaboration with Palazzo Madama and its permanent collections.

Also worthy of mention is the temporary reopening of the Galleria a Palazzo degli Alberti in Prato, now owned by Intesa Sanpaolo, with the exhibition of the eleven most significant works selected from the art collection of Banca Popolare di Vicenza in compulsory administrative liquidation. Both the palace and the collection were the subject of a "declaration of cultural interest" issued in 2017 by the Italian Ministry of Heritage and Cultural Activities, with which the art collection of was tied to the palace. The reopening, which in just 5 days received a large number of visitors and significant public acclaim, was seen as the "restitution" to the community of a cultural heritage and identity, in line with the values of Progetto Cultura.

Moreover, educational activities and relations with schools have always been at the centre of the cultural programme of Gallerie d'Italia. In 2018, around 73,000 children and young people took part free of charge in educational tours in our museums. For all visitors up to the age of 18, admission to Gallerie d'Italia is free.
Particular focus is also placed on people with special needs. The numerous projects dedicated to vulnerable individuals are aimed at ensuring the complete accessibility of cultural heritage and providing a vision of the museum as a space for participation and social integration.

The '*Restituzioni*' Programme

Since 1989, the Bank has demonstrated its commitment to the protection of national heritage with its "*Restituzioni*" Programme. Working together with public protection bodies, over the course of 18 editions, more than 1,300 works of Italian art have been restored to their original beauty, returning priceless pieces of Italy's historical heritage and identity to the community. With firm and constant conviction, we continue to run a project that the Bank started almost thirty years ago, which, with extraordinary farsightedness, established a model of collaboration - now considered exemplary - between private entities and public institutions, united in safeguarding the incomparable cultural heritage that makes the history of Italy unique.
For the 18th edition of the programme (2018), 212 masterpieces from 17 Italian regions were restored, together with a painting by Bellotto from the Gemäldegalerie Alte Meister in Dresden. At the end of the restoration cycle, the works were presented in the exhibition *Fragility of Beauty*, in the splendid setting of the Reggia di Venaria Reale Palace, near Turin, where they were admired by 75,000 visitors.

Art Assets

A major objective of Progetto Cultura is the conservation and enhancement of the Group's historical and art assets. Buildings, art collections and archives, inherited from the banks that have progressively joined the Group, constitute a vast wealth of over 30,000 works that the Group wants to protect and share with the public.
In 2017, the process was started for the fair value measurement of the most precious works of art belonging to Intesa Sanpaolo's collections. The value assigned to 3,500 works - many of which classed as works of historic-artistic interest by the Italian Ministry of Heritage and Cultural Activities and exhibited in the three Gallerie d'Italia museum venues - was updated to their current market values starting from the financial statements as at 31 December 2017. This value amounts to 271 million euro, and is part of the total value of the architectural, historic and artistic heritage (over 850 million euro) managed by the Art, Culture and Historical Heritage Department. These works of art are part of the Group's assets to all intents and purposes, and with the same dignity as the other assets. This operation once again confirms the Bank's faith in culture and art as a strategic pillar for Italy's development, in the firm belief that no stable and sustainable economic growth is possible without cultural and social growth. Since 2017, Intesa Sanpaolo has decided to adopt the criterion of remeasurement at fair value for the valuation of works of art. The measurement is carried out by means of an expert appraisal every three years. In addition, a scenario analysis is carried out annually to identify any material changes in value in order to bring forward the valuation with respect to the frequency established.
In 2018, a thorough analysis of the national and international art market was therefore carried out, with particular regard to the prices of the most important works and collections included in the Group's asset register, whose valuations cover 75% of the total value of the "valuable art assets". The activity carried out to monitor the progress of transactions and identify any changes in the value of the works and collections being evaluated did not reveal appreciable deviations in value.
Thanks to the agreement with Fondazione Querini Stampalia, the collection formerly owned by Cassa di Risparmio di Venezia - consisting of paintings, sculptures and drawings of the Venetian school between the 16th and 20th centuries, and precious books and coins - was restored and entrusted to this important Venetian museum for twenty years. The works are housed in an exhibition section designed by architect Michele De Lucchi, as part of an exhibition itinerary conceived by Giovanna Nepi Scirè.
Another initiative of this kind is the loan for use to the Royal Palace of Caserta of a significant piece of Risorgimento painting: the monumental restored painting titled *The Death of Pilade Bronzetti at Castel Morrone* (1885) by the Caserta painter Luigi Toro.
The two initiatives are examples of a way of enhancing the value of the property and at the same time of "returning" works of art to the territory to which they belong and to the national and international public.

In addition to the exhibition activities of Gallerie d'Italia and the loans for use, the public enjoyment of the heritage is guaranteed by the loan of the works for temporary exhibitions.
In 2018, over 140 works from the Intesa Sanpaolo collections were exhibited in prestigious Italian and foreign museums.
Among the exhibitions hosted in national venues, the following is worth mentioning for the importance of the project and for the number of works lent: *Novecento di carta. Disegni e stampe di maestri italiani dalle raccolte civiche di Milano e dalle collezioni Intesa Sanpaolo* at the Castello Sforzesco in Milan.

Historical Archives and editorial and musical initiatives

The Historical Archives of Intesa Sanpaolo, founded in 1984, are one of the most important banking archives in Europe and represent not only the historical memory of the company, but also a collective cultural asset, underpinned by the declaration of "historical interest" issued by the Archival Superintendencies of Lombardy and Lazio. All in all, around 12 km of documents, with papers dating from 1472 to 2006, over 7 million photographs (including the vast wealth of images from the recently acquired archive of photographic agency Publifoto), thousands of videos, a collection of around 1,500 moneyboxes from around the world, as well as an iconography and museum section featuring great artists.
In 2018, the Digital Archives Project was launched, for innovation in the management and preservation of digital documents produced by Intesa Sanpaolo. Particular focus was also placed on the protection and enhancement of the archives of the banks merged into Intesa Sanpaolo, returning to the territories of reference a non-negligible part of their economic and social history. On the occasion of the 80th anniversary of the enactment of racial laws, the papers of the EGELI Fund of Cariplo have been opened to the public. They testify to the requisition of the property of Jewish citizens in Lombardy, highlighting how the Archives are a heritage of memory and knowledge of fundamental importance for the history of the country.
The Bank's publishing and music initiatives include series dedicated to works of art, the Bank's historic buildings, the storytelling activities relating to the art collections for children, and history, economics and documentary, art and music publications.
In 2018, the volumes dedicated to two of the Bank's palaces, *Palazzo Donghi Ponti* in Padua and *Palazzo Brentani Greppi* in Milan, were published. Of particular importance is the multimedia project *Vox Imago*, carried out in collaboration with major national opera houses, which contributes to the dissemination of knowledge of opera. In 2018, the 13th edition of the series was released. It was published by Mondadori Electa and Musicom.it and dedicated to Bizet's *Carmen,* in collaboration with the Rome Opera (Jesús López-Cobosco musical director and Valentina Carrasco director).
Worthy of note is also the contribution to the creation of editorial works of great value for an in-depth study of the country's artistic and cultural history, in collaboration with the most important Italian publishers *(I Presidenti della Repubblica,* edited by Sabino Cassese, Giuseppe Galasso and Alberto Melloni, Bologna, Il Mulino; *Triennale Design Museum*, Milan, Mondadori Electa, "Musei e Gallerie di Milano" series; *Dante per immagini* by Lucia Battaglia Ricci, Turin, Einaudi).
The exhibition initiatives by Intesa Sanpaolo are accompanied by in-depth catalogues, edited by leading scholars in the field and published by the main Italian publishing companies. In 2018, 19 volumes were produced (17 dedicated to exhibitions and 2 to the Bank's collections), published by Electa in Milan, Forma Edizioni in Florence, Marsilio in Venice, Silvana Editoriale in Cinisello Balsamo-Milano, Skira in Milan and Scalpendi in Milan.

International relations

In line with Intesa Sanpaolo's European and international vocation, significant partnerships have been established with museums and cultural institutions around the world, bringing renown to Gallerie d'Italia also outside Italy and demonstrating the Bank's dedication to disseminating the meaning and beauty of Italy's cultural heritage.
These include the important three-year agreement reached with the State Hermitage Museum of St. Petersburg, which involves exchanges between the respective collections, support for exhibition projects, scholarships and research programmes. The partnership has already led to significant moments of sharing, such as the exhibition at the Hermitage dedicated to the greatest interpreter of the Italian Renaissance, Piero della Francesca, and the loan of two works from the Russian museum for the exhibition *Romanticism* in Milan and the *Adoration* by Maíno on the occasion of the initiative "L'Ospite illustre" at the Intesa Sanpaolo Skyscraper in Turin.
The Group has also formed a partnership with another important Russian cultural institution, the Pushkin State Museum of Fine Arts in Moscow which, after having hosted paintings from the Intesa Sanpaolo's 18th century Venetian collection, lent the Group its masterpieces by the Venetian masters for the exhibition *Triumph of Colour* in Vicenza.
On the occasion of the International Economic Forum in St. Petersburg, the Russian State Museum hosted the exhibition *Russian Icons of the 15th century from the Intesa Sanpaolo collection*, to showcase the Bank's commitment to art and culture, in addition to its role in the economic world.
Three important locations in Eastern Europe were the hosts for the exhibition *Venetian Vedute from the Intesa Sanpaolo Art Collection* (Sarajevo City Hall, the Museum of Fine Arts-Hungarian National Gallery in Budapest, and the National Art Museum of Romania in Bucharest).
For the celebration of the 20th anniversary of the Estorick Collection of Modern Italian Art in London, two masterpieces from the Bank's collection, *Officine a Porta Romana* and *Tre donne*, by the 20th century master Umberto Boccioni, normally exhibited in the Gallerie d'Italia in Milan, were presented in London. The two paintings were the protagonists of the exhibition *Woman + Landscape. Umberto Boccioni 1907-12*, together with other paintings by the Italian painter (including the famous *Idolo moderno*) kept in the London museum. A preview of the exhibition was held at the Italian Embassy in London, during the first event of the "Art to Business" series, which welcomed Intesa Sanpaolo (with its Progetto Cultura) as guest. This initiative, promoted by the Italian Ambassador, pays tribute to Italy's creativity and manufacturing excellence through success stories of Italian companies.
Intesa Sanpaolo was awarded the *Innovation in Corporate Art* prize at the *Corporate Art Awards* at the European Parliament in Brussels. The award was received for its development of innovative collaborations with private art collections (in particular the promotion of the Agrati collection at Gallerie d'Italia in Milan), for its international activities with the integration and the

collaborations between collections from different countries, and for its innovation in measuring the financial impact of its art initiatives on the company financial statements when remeasuring the value of the Bank's historic and art heritage at fair value in the 2017 Financial Statements.

National partnerships

As in previous years, also in 2018 the Bank has provided its support to museums and institutions in the organisation of exhibitions, festivals and cultural initiatives in the country, from art to theatre, music, photography, books and reading.
Among the many cultural projects supported and promoted by Intesa Sanpaolo's Art, Culture and Historical Heritage Department as a main partner, the following stood out in terms of importance and results achieved: Miart. International Modern and Contemporary Art Fair in Milan, at which the exhibition *Paesaggiointerno by Alessandro Papetti*, a site-specific installation for "Cantiere del '900", was held; the exhibition *Dawn of a nation. From Guttuso to Fontana and Schifano* at Palazzo Strozzi, Florence; the exhibition *The Renaissance of Gaudenzio Ferrari* curated by Giovanni Agosti and held in Novara, Vercelli and Varallo Sesia, which enabled the rediscovery in the museums, churches and buildings in the area of the works of this extraordinary 16th century Piedmontese painter, confirming the Bank's commitment to promoting original exhibitions that tell the story and raise the profile of important Italian artists; and the usual Christmas exhibition at Palazzo Marino organised by the City of Milan, which in 2018 brought the *Adoration of the Magi* by Perugino to the city from the National Gallery of Umbria.
The support to the 31st edition of the International Book Fair in Turin was part of the attention to the world of books, reading and publishing, also testified by the support to *Circolo dei lettori* and *Tempo di libri* in Milan and to *Napoli Città Libro* in Naples.
Photography is also a subject of particular interest, as demonstrated by the support and collaboration with Fondazione CAMERA-Centro Italiano per la Fotografia, founded in Turin in 2015, of which the Bank is a founding member.
Under the *Officina delle idee* (ideas workshop) project - which aims to offer educational and professional opportunities to young people - the collaboration continued in 2018 with the Gabinetto dei Disegni e delle Stampe degli Uffizi in Florence (for the digitisation of the drawings preserved in the Gabinetto, including works by Michelangelo, Leonardo and Raphael) and with Fondazione Centro Conservazione e Restauro "La Venaria Reale" and the University of Turin (sets of works from the 20th century collection are made available annually to students of the Degree Course in Conservation and Restoration of Cultural Heritage).

The promotion of culture and knowledge is a priority and constant commitment, of national, international and social importance. The initiatives of Progetto Cultura seek to promote Italy's history, identity, cultural tradition, talent and capacity for innovation, also in its relations with Europe and the world. As can be seen from the activities described, investments in culture are not just limited to commercial sponsorship, but are also inspired by the social and civil responsibility that a large company like ours feels towards our country.

Main risks and uncertainties

The macroeconomic scenario and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base, and prudent asset valuations.
Group liquidity remains high: as at 31 December 2018, both the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of December, the Central Banks eligible liquidity reserves came to 175 billion euro (171 billion euro at the end of December 2017), of which 89 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017) and unused. The loan to deposit ratio at the end of December 2018, calculated as the ratio of loans to customers to direct deposits from banking business, came to 95%.
In terms of funding, the extensive branch network remains a stable, reliable source: 75% of direct deposits from banking business come from retail operations (313 billion euro). Moreover, over the year, 2.5 billion US dollars of unsecured senior bonds, 46.6 billion Yen of unsecured senior bonds, and 2.25 billion euro of unsecured senior bonds were placed, along with 1 billion in covered bonds.
With regard to the targeted refinancing operation TLTRO II, at the end of December 2018, the Group's participation amounted to 61 billion euro.
The Intesa Sanpaolo Group's leverage ratio was 6.3% as at 31 December 2018.
The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 31 December 2018 have been calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.
At the end of 2018, total Own Funds came to 48,878 million euro, against risk-weighted assets of 276,446 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.
The Total Capital Ratio stood at 17.7%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.2%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.5%.
As the regulatory conditions for its inclusion (Art. 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 capital includes net income for the year and, consequently, the related dividend proposed.
With regard to the insurance segment, consisting of the Intesa Sanpaolo Vita Insurance Group, including Fideuram Vita - which represent the same scope as the Insurance Division of the Parent Company Intesa Sanpaolo, in terms of entities - the quarterly regulatory Solvency Ratio as at 31 December 2018 was 215%.

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 2018 was 74 million euro, compared to an average of around 69 million euro in 2017.

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, the "collective" adjustments, equal to 2,105 million euro, provide a coverage ratio of 0.6%, which is sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic crisis has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans are carefully assessed. Bad loans and unlikely-to-pay loans had coverage levels of 67.2% and 36.2% respectively.
Constant attention has been paid to the valuation of financial items. The majority of the financial assets are measured at fair value or are represented by hedging derivatives.
Excluding the insurance segment whose financial assets are almost all measured using level 1 inputs, the fair value measurement of the remaining financial assets measured at fair value through profit and loss was carried out as follows: around 58% using level 1 inputs, around 34% using level 2 inputs and only around 8% using level 3 inputs.
Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 16 million euro during the year, compared to a positive result of 28 million euro for 2017. For the hedge funds, the investments in this segment in 2018 generated a loss of 21 million euro compared to a profit of 16 million euro in 2017.

As regards taxes, deferred tax assets were posted in the consolidated financial statements for 13,933 million euro, of which 8,281 million euro can be converted into tax credits, along with deferred tax liabilities for 2,270 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 2018.

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 162 million euro) are being gradually amortised (with 25 million euro of amortisation recognised in the income statement for 2018) 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.
In 2018, as part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, intangible assets were recognised in the financial statements for an amount of 34 million euro, relating entirely to asset management relationships and allocated to the Private Banking CGU. Also in 2018, following the finalisation of the acquisition of the acquiring of transactions carried out using payment cards connected with international networks performed by Nexi for customers of the former Venetian banks, now customers of Intesa Sanpaolo, a new intangible asset was recognised in the financial statements, specifically connected with the value of the customer portfolio included in the business unit acquired, based on the contracts for special arrangements in force, for an amount of 21 million euro. This amount was allocated to a specific intangible asset attributable to the relationship with the acquired customers, fully allocated to the Banca dei Territori CGU.
Lastly, following the agreements reached with the Gavio Group, Intesa Sanpaolo acquired control of the Autostrade Lombarde Group. The difference between the purchase price and the fair value of the pro rata shareholders' equity was provisionally allocated to goodwill, for an amount of 107 million euro. Considering that Autostrade Lombarde operates in a sector extraneous to the Intesa Sanpaolo Group's operations, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code, Autostrade Lombarde was identified as a separate CGU in the Intesa Sanpaolo Group.
As regards intangible assets with an indefinite useful life, represented by goodwill (4,163 million euro) and brand name (1,882 million euro), for the 2018 Financial Statements, except for the Autostrade Lombarde CGU, for which reference was made to the fair value resulting from a specific appraisal by an independent third party, 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 previous Financial Statements, i.e. the five-year period 2019-2023. Specifically, for the first 3 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 and 2023 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 2018, for the purposes of the Terminal Value, 2023, the last year of the analytical forecast, separating out the non-recurring components, was projected in perpetuity. The cash flows so determined have been discounted, net of the "g" long term growth rate, by applying a discount rate expressing the cost of capital and calculated as the sum of the returns on a risk-free investment and a risk premium, in turn dependent on the specific risks implicit in the business activities and in country risk. In defining the discount rates, given the extremely low market rates at present, associated with contingent expansionary monetary policies adopted by the ECB, for the purpose of the Terminal Value those rates were prudentially considered risk free and with country risk spreads globally higher by over 130 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 to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out. In particular, the impact on the value in use of an increase in discounting rates of up to 50 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 fall in the price of the Intesa Sanpaolo stock over the course of 2018 (down 30%). The performance of the price of Intesa Sanpaolo stock in 2018 moved in line with that of the Italian banking securities index, whereas it performed worse than the FTSE MIB index during the same period (around -16%). The target prices published by the main investment firms were also down on the end of 2017 (-20%), but by less than the fall in the stock exchange price over the same period.
It is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, value in use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 130 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the "g" growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

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

The risks associated with the trends in the global economy and financial markets are discussed in the introduction to the Report on operations, in the chapter on the macroeconomic scenario and in the following chapter on the forecast for 2019. The assumptions on which our valuations and forecasts are based with regard to the verification of the values of intangible assets and goodwill are described in Part B of the Notes to the consolidated financial statements, in the section on impairment tests.

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

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

With regard to the going concern assumption, the Directors of Intesa Sanpaolo re-affirm that they have a reasonable certainty that the company will continue in operational existence in the foreseeable future and consequently have prepared the financial statements for 2018 on a going concern basis. The Directors have not detected any uncertainties in the balance sheet and financial structure or in the performance of operations that question the going concern assumption.

The macroeconomic context and the banking system

The macroeconomic context and the banking system

The macroeconomic context

The economy and the financial and currency markets

The long period of global economic growth continued at a moderate pace in 2018. However, signs of weakening of the global economy, previously seen in the first quarter economic indicators, became stronger in the second half of the year. Concerns over the protectionist offensive by the United States became a reality with the imposition of duties on steel, aluminium and, thus, on a wide range of Chinese products, which were followed by the adoption of countermeasures by China that have already reduced bilateral trade between the two countries. In China, economic growth has slowed down, as well as the demand for goods manufactured abroad.

The US economy is currently experiencing robust growth. In 2018, the average annual change in GDP was slightly less than 3%. Domestic demand was driven by the short-term effects of the tax reform and continued favourable fiscal conditions. Unemployment fell to 3.9%, but signs of wage pressure are still confined. Inflation returned to 2%, but is a long way from raising concerns for the Federal Reserve. The central bank has continued to gradually increase official rates, raising its Fed funds target rate three times by a total of 75 basis points and continuing to reduce its securities portfolio, not reinvesting the entire amounts of maturities.

On the contrary, there was a very sharp slowdown in growth in the Eurozone. In addition to the slowdown in foreign demand, the economy was impacted by a significant drop in demand for motor vehicles in the second half, also connected with the change in emissions standards. The year-on-year growth slowed down in the third quarter to 1.6%, and the economic indicators report that an additional slowdown occurred in the fourth quarter. Despite this, employment continued to rise, reducing unemployment to 7.9% of the workforce in November. Inflation remained at modest levels, lower than the targets of the European Central Bank. In June, the European Central Bank announced its intention to end net purchases of securities as part of its asset purchase programme at the end of December, after a reduction in the fourth quarter to 15 billion euro per month. However, re-investment of maturities will also continue in 2019. The ECB also indicated that it expects official rates to remain unchanged at least through the summer of 2019. For the time being, short-term interest rates are still negative and stable. The 10-year Bund yield peaked at 0.76% in February, when the market was already expecting official interest rate rises in spring 2019. Subsequently, medium- and long-term market rates fell back to below their December 2017 lows.

As regards the negotiations for the United Kingdom to leave the European Union (Brexit), in November the parties reached an agreement on the withdrawal treaty and on a political statement regarding relations once withdrawal is completed. Nonetheless, the agreement is facing sharp opposition in the UK Parliament, which has made it impossible to ratify to date.

Italian debt was subject to significant financial strains in May-June, coinciding with the negotiations for the formation of the new government and then again between October and November, in connection with the finalisation of the 2019 government budget. In May, spreads with German debt rose quickly on all maturities. On 29 May, in conjunction with end-month auctions characterised by low demand, short-term spreads were even higher than long-term spreads, which is typical in exceptional periods of financial stress. Financial tensions reflected investor concerns about the new government's willingness to keep public debt on a downward path, which in certain phases led the investors to price in also a significant redenomination risk. At the end of the year, however, the draft budget was significantly revised, with amendments considered sufficient by the European Commission to avoid the immediate opening of infringement proceedings due to the excessive deficit and to return the deficit to levels that could calm investors. This was followed by a rapid drop in the BTP-Bund spread from the highs of over 320 basis points to 280. Nonetheless, the levels of yield spreads remain well above the January-April average and are consistent with a risk of a downgrade in the country's credit rating.

The real economy of Italy, just as that of other European countries, also lost ground. The year-on-year growth of the GDP slowed to 0.7% in the third quarter, decreasing (-0.1%) on the previous quarter. This slowdown is reflected the in zeroing of growth in the industrial sector, due to the slowdown in exports and household consumption, and, from the third quarter of 2018, also to the reduction in fixed investments. In November, industrial production was down sharply on an annual basis. Business confidence indices continued to deteriorate throughout the fourth quarter. However, though clearly slowing, the pace of economic growth was still sufficient to ensure modest growth in employment and a further fall in the unemployment rate, to 10.5% in November. The year-on-year change in the consumer price index was still small (1.2% in December).

On the foreign exchange markets, the euro initially strengthened against the dollar, reaching a high of 1.25 in February and then fell back to levels even lower than those at the beginning of the year, between 1.12 and 1.18. From March to April, the euro also temporarily strengthened against the Swiss franc, reaching almost 1.20. It then returned to its level at the beginning of the year, closing the year below 1.13.

In the international equity markets, 2018 saw generalised negative trends and a progressive increase in volatility, in a situation of greater investor aversion to risk.
In the first half of the year, the equity markets were initially supported by the performance of company profits. In particular, the announcements of 4Q17 and 1Q18 results provided positive signals to investors, with numerous results above expectations and the frequent confirmation or improvement of guidance for the current year. Subsequently, the gradual intensification of tensions in international trade between the United States and China, and the consequent imposition of duties, also put a brake on economic growth.
Instead, the second half of the year saw a combination of macroeconomic uncertainties (with numerous indicators reporting a slowdown in growth in Italy and, more generally, in the Eurozone), as well as monetary (linked to the end of the ECB's quantitative easing programme) and political uncertainties (growing tensions between Italy and the European Union linked to the approval of the 2019 Budget Act and the uncertainties relating to Brexit). This triggered a sharp, extensive adjustment of stock prices, which was more marked in the financial segment.
The Euro Stoxx index closed 2018 down by 14.8%, the CAC 40 recorded a downturn of 11% at the end of the period and the Dax 30 underperformed the main Eurozone benchmarks (-18.3%), while the IBEX 35 closed the year down by 15%. Outside the Eurozone, the Swiss market index SMI dropped by 10.2%, while the United Kingdom's FTSE 100 index ended 2018 down 12.5%.
In the US equity market, the S&P 500 index closed the year down (-6.2%), while the Nasdaq Composite technology stocks index slightly outperformed it, closing at -3.9%. The main equity markets in Asia showed negative performance: the Nikkei 225 index closed 2018 with a drop of 12.1%, while the Chinese benchmark index SSE A-Share fell even further (-24.6%).
All segments of the Italian stock market performed negatively, in line with the other benchmarks in the Eurozone, but with extensive volatility during the year: the FTSE MIB index closed 2018 at -16.2%, after first rising by +12.3% (7 May), then subsequently decreasing by 25.3% from the peaks reached. The FTSE Italia All Share index showed similar performance (-16.7%). Mid-cap stocks closed the year at -16.6%, in line with the main index, after closing the first half substantially unchanged.

The European corporate bond markets ended 2018 negatively, with risk premiums (measured as asset swap spread - ASW) down sharply compared to the beginning of the year. The period was marked by sharp volatility, with markets that were negatively impacted by the combination of a set of elements including: signs of slowdown in growth (especially in the Eurozone), tensions in trade between China and the United States and new critical issues for several emerging countries. These factors were then joined by the uncertainties linked to the future moves of the US Federal Reserve, and, above all, the announced end of the European Central Bank's securities purchase programme. After a positive beginning of the year and in line with 2017, from February the markets showed a progressive widening of spreads, which continued until the end of the period, with high volatility and sporadic short periods of renewed purchases by traders, which however did not change the underlying negative trend. In the summer months, spreads were affected by the significant slowdown in purchases of the ECB, as well as by the trade tensions and crises in several countries such as Turkey and Argentina.
At sector level, 2018 ended with underperformance of Investment Grade securities compared to the High Yield segment, also penalised by their greater sensitivity to the performance of risk-free rates. The very small spreads recorded at the beginning of the year contributed to sharpen the negative performance. During the year, financial securities showed greater weakness than industrial ones, probably due to a closer link between banks and country risk, especially in Italy, as well as the lack of technical support provided by the Corporate Sector Purchase Programme. In this regard, at the end of December 2018, (non-financial) corporate bonds held by the central bank amounted to approximately 178 billion euro. Also based on the data provided by the central bank, in October 2018, around 12% of the ECB's corporate bond portfolio was comprised of securities from Italian issuers. At its last meeting of the year, the ECB confirmed that it would end QE in December 2018, but also confirmed its intention to continue reinvesting maturities for an extended period of time, even past the date when it starts raising interest rates.
With regard to the primary market, 2018 saw a generalised decrease in issues compared to 2017 (e.g. around -15% for non-financial corporate issues, source: Thompson One) also as a result of the pre-funding actions implemented by companies in the previous years. The performance was characterised by high volumes at the beginning of the year, with issuers willing to anticipate probable moves by the ECB, while the subsequent increase in volatility and rates turned into a more wait-and-see approach, with issuers attempting to exploit the sporadic phases of tightening of the spreads.

The emerging economies and markets

In 2018, following significant growth in the first half, the year-on-year growth of the GDP in emerging countries lost ground. With regard to a sample of countries that covers 75% of the GDP of emerging countries, year-on-year growth decreased from 5.1% in the first half to 4.8% in the third quarter. For all of 2018, according to the preliminary IMF estimates of January 2019, the GDP of emerging countries is expected to increase by 4.6%, compared to 4.7% in 2017. Though the Chinese economy is slowing, due to greater growth of India, Asia maintained growth estimated at 6.5% (as in 2017), confirming its position as the most dynamic global area. On the contrary, the estimates of the IMF see Latin America as the area with the weakest regional growth (+1.1%).
In the countries where ISP subsidiaries are located, the economy continued to show robust performance overall in the first three quarters of 2018, amounting to 3.1%, the same growth rate recorded in 2017. In CEE countries growth accelerated further (4.6% in the first three quarters of 2018 compared to 4.3% in all of 2017), but slowed in SEE countries (to 3.8% from 5.3%) due to the slowdown in the Romanian economy, which returned to a more sustainable level following the peak it reached in 2017 (+6.9%). As regards the other countries where ISP subsidiaries are located, growth slowed, though slightly, in Moldova, while it accelerated slightly in Russia and Ukraine, and significantly in Egypt. Indeed, in the fiscal year ended in June 2018 the country was among the most dynamic ones in the MENA region, with a growth rate exceeding 5%.
In 2018, year-on-year inflation in the sample that represents 75% of the GDP of emerging countries reached a peak of 4.4% in October, then slowed in the ending months of the year, due to the decrease in food and hydrocarbon prices, closing the year at 3.6%, substantially unchanged compared to the end of 2017.

Among the countries where Intesa Sanpaolo subsidiaries are located, in the CEE and SEE countries the most recent figures on price trends showed a slowdown in the last few months of 2018 as a result of the drop in energy prices, despite a positive output gap and sustained growth in wages. In December, the year-on-year performance of inflation fluctuated between 1.1% in Poland and 2.7% in Hungary in the CEE area and between 0.8% in Croatia and 3.3% in Romania in the SEE region. In most cases, inflation remained within the targets set by the respective central banks, with the sole exception of Poland, where it fell below the lower limit of the target range. In the CIS area, inflation ended the year increasing to 4.3% in Russia, above the target value, while it ended the year decreasing by a single decimal place (9.8%) in Ukraine. Inflation slowed significantly in Egypt (12% at the end of 2018), with the gradual elimination of the effects of the sharp depreciation of the exchange rate and the review of subsidies.

In 2018, several emerging country central banks raised their key interest rates. In some cases (Argentina and Turkey) the authorities had to combat a currency crisis with sharp increases in the cost of money. In others, such as certain Asian countries (India, Indonesia, the Philippines and Malaysia) the restrictive measures were a response to the increase in inflation. Also in Asia, the Chinese central bank left interest rates unchanged, but reduced its mandatory reserve rate to support credit demand. In Latin America, in the first half of the year, the strength of the US dollar led the central banks (including those of Brazil and Peru) to close the bearish phase that had begun at the end of 2016.
Among the countries where ISP subsidiaries are located, in CEE and SEE countries, interest rates rose in the Czech Republic and in Romania, in response to the increase in inflation, while – faced with substantially stable inflation and a continuing prudent monetary position of the ECB – the monetary policy conditions remained accommodating elsewhere. In the CIS countries, in Russia the central bank cut the benchmark rate by 50 basis points in the first part of the year, in response to inflation that dropped below the target. However, in the second half, due to the weakening of the rouble and in order to combat inflationary pressures linked to the announced VAT increase, it raised the benchmark rate by 25 basis points, bringing it back to 7.5%. In Ukraine as well, to combat an inflation rate above the target, the central bank implemented increases totalling 350 basis points, bringing the benchmark rate to 18%.

With regard to the financial markets, in 2018, the increase in dollar rates and the currency difficulties that affected several stock markets favoured an appreciation of the US dollar against emerging countries (OITP index 9.4%), specifically against Argentina and Turkey, but also against Brazil, South Africa, India and Indonesia. In countries where ISP subsidiaries are located, the main currencies followed the Euro, which depreciated by 5% on the US dollar, with the Polish zloty and Hungarian forint specifically weak even against the Euro. In the CIS area, the Russian rouble depreciated by 16.3%, penalised by the recovery in oil prices and the additional sanctions. Lastly, the new agreement for financial support from the IMF favoured a slight appreciation of the Ukrainian hryvnia (+1.3%). The Egyptian pound even depreciated slightly (0.9%), despite an inflation rate that remains high, supported by the high premium paid on interest rates.
The concerns of a slowdown in the global economy – along with the uncertainties linked to the trade dispute between the United States and China and local geopolitical tensions – weighed on the various stock markets. The MSCI composite index of emerging countries' stocks dropped by 15.5%, following the indices of advanced countries downwards. The drops were particularly large on the Asian stock markets (Shanghai -24.5%) and in Gulf oil countries (Dubai -24.9%). With regard to countries where ISP subsidiaries are located, numerous stock markets in CEE and SEE countries outperformed the EuroStoxx, specifically Serbia (+5%) and Slovakia (+2%). In the CIS area, in Russia the stock index dropped by 7.6%, while the Ukrainian stock market was stronger (-2.4%). In the MENA area, the Egyptian stock market also declined (-13.2%), despite the strong performance of the economy.
The political tensions in numerous countries, along with the financial risks linked to the rise in US interest rates, resulted in an increase in the EMBI+ spread (average figure +116 basis points). The greatest expansion regarded the EMBI+ spread of Latin American countries (around 150 basis points), which was impacted by the crises in Argentina and Venezuela. With regard to countries where ISP subsidiaries are located, the spread rose by over 150 basis points in Ukraine (to 600 basis points) and by 40 basis points in Russia (to 170 basis points), as well as by 60 basis points in Egypt (to 360 basis points), while it decreased slightly in Croatia and Serbia and remained at low levels in the CEE area.
The improvement in its fiscal and external positions allowed Russia to reconquer an investment grade rating (which it lost between 2015 and 2016) from all three leading rating agencies. Even Egypt benefited from an upgrade in its sovereign debt rating (B for Fitch and S&P and B3 for Moody's). Also regarding ISP subsidiaries, rating upgrades were obtained by Ukraine (Caa1 for Moody's) following a new agreement with the IMF, Czech Republic (now AA- for Fitch), Poland (now A+ for S&P) and Croatia (now BB+ or equivalent).

The Italian banking system

Interest rates and spreads

In 2018, bank interest rates reached new record lows. However, from the summer the first rate rises on new loans emerged, due to the increase in the yield spread of Italian bonds in relation to German bonds. The annual average of interest rates applied to businesses on new loans of large amounts remained essentially stable compared to 2017, while those on loans of smaller amounts decreased year-on-year. Compared to Europe, Italian rates on new loans to businesses remained below the Eurozone average, for smaller loans and for loans of over 1 million euro. However, the negative spread decreased in the second half. Rates on mortgage loans to households also reached new record lows, to then reverse the trend slightly, following repricing actions. Considering that interest rates on new loans continue to be very low, the rates on outstanding loans continued to fall, between phases of stability.
The average rate on deposits remained sticky, marginally lower than the average in 2017. With regard to overnight deposits, the high levels of liquidity on accounts justified the stability of rates near zero, with slight decreases at the most. Conversely, the average rate on time deposits was more variable, with signs of rising near the end of the year. The continuation of a moderate decline in the average rate on the stock of bonds contributed to a further decrease in the overall cost of customer deposits, also favoured by the shifting of the aggregate towards less costly forms of funding.
Nonetheless, as a result of the continuing reduction in the average interest rate on the stock of loans, the spread between lending and funding rates narrowed slightly, especially in the first half of the year, to then remain essentially stable in the second half. For the seventh consecutive year, the mark-down on on-demand deposits confirmed its negative level, showing marginal recovery in the last part of the year. At the same time, the mark-up was further reduced due to the fall in short-term lending rates.

Loans

The moderate growth in bank loans continued. Bank lending to the private sector strengthened, with the yoy change compared to 2017 reaching +3.0% in April and then slowing down to a more moderate pace of 2.3% in November (data adjusted for securitisations). The improvement was due to the return to growth for loans to non-financial companies, together with the continued positive performance of loans to households. Overall, the latter maintained an average growth rate of 2.8% yoy, the same as in the last quarter of 2017, thanks both to home loans and consumer credit. Disbursements of mortgage loans remained at high levels, seeing growth again from July to October, with an upturn that could be linked to expectations of interest rate increases. Fixed-rate mortgages remained predominant, because of interest rates still at lows. The trend in mortgage loans to households seemed consistent with the more moderate pace of residential property transactions, already seen in 2017, compared to the double-digit growth posted in 2016. Consumer credit disbursed by banks continued to grow at a rate of between 8% and 9% yoy with regard to stock.
Loans to non-financial companies at the beginning of 2018 saw a jump in the growth rate to 2% year-on-year, after around two years of stagnation. Subsequently, the trend became more moderate on average. The supply-side incentives provided by the Eurosystem's targeted refinancing operations probably contributed to the upturn at the beginning of the year. The performance of loans continued to be characterised by different dynamics depending on sector and company size. Loans to manufacturing and service companies continued to grow, whereas loans to construction companies continued to decline, though less than in 2017. Loans to smaller companies decreased further.
The performance of loans to businesses was shaped by a moderately increasing demand and a supply scenario that remained positive for most of the year, but became slightly more cautious in the final months. According to the lending survey conducted by the Bank of Italy, up to the third quarter, banks continued to cautiously reduce their margins and improve other contractual terms and conditions, driven by competition and the lower perceived risk. Nonetheless, the stance became slightly more restrictive in the last part of the year, as a result of lower risk tolerance. Business confidence in credit access conditions also continued to be favourable for most of the year, with a slight restriction in the last quarter. On the other hand, throughout 2018 the increase in business demand continued, especially for long-term loans, mainly driven by low interest rates. The liquidity situation remained largely relaxed and was considered sufficient or more than sufficient by a large majority of companies. Business debt as a percentage of GDP continued to fall,
In 2018, Italian banks made a great deal of progress in reducing asset risk. The credit quality indices improved significantly, due to the lower inflows of non-performing exposures and to the sales and securitisations carried out by banks. The stock of net bad loans continued to decline, falling to 37.5 billion euro in November, down by 26.5 billion euro compared to December 2017 and more than halved on the end of 2016 (-49 billion, -57%). Net bad loans as a percentage of total loans fell to 2.2%, down 2.7 percentage points compared to December 2016. The default rate in terms of flow of non-performing loans in relation to total performing loans on an annualised basis remained at the pre-crisis levels reached in the second half of 2017, standing at 1.7% in the third quarter of 2018.

Direct deposits

Customer deposits in 2018 also confirmed the trends observed previously, with growth in deposits driven by the increase in overnight deposits, which, however, slowed slightly in the fourth quarter. At the same time, the double-digit decline in time deposits carried on. The performance of customer deposits continued to benefit from strong growth in overnight deposits of non-financial companies, though slowing in the last few months of the year, and the solidity of household deposits. Once again, growth in deposits held by residents was offset by the reduction in the stock of bank bonds, the trend of which was affected by customer portfolio reallocation processes. Overall, customer deposits fluctuated between substantial stability and slight growth, equal to +0.6% on average year-on-year from January to November. Also taking into account the Eurosystem refinancing, which has dropped slightly since March, total bank deposits grew by 0.5% on average year-on-year.

Indirect deposits and asset management

For assets under administration, the sharp decline in debt securities held in custody by banks on behalf of households continued. This performance was still reflecting the fall in bank bonds, while the decline in government bonds slowed. In particular, in the second and third quarters, Italian government bonds rose once again, for the first time following over five years of decreases.
With regard to assets under management, mutual funds and portfolio management schemes experienced a sharp slowdown in 2018. In particular, funds saw net outflows in the last four months of the year, closing the year with only marginally positive total inflows. The main causes should be attributed to the continuing tensions on the financial markets, the uncertainty regarding economic policy in Italy and the increase in the risk premium on sovereign debt, as well as the gradual rise in US interest rates. In the last four months of the year, outflows regarded long-term funds, including multi-asset (flexible and balanced) funds. Nonetheless, over the entire year, multi-asset funds achieved positive total net inflows, along with equity and money-market funds, while, conversely, bond funds recorded sharp outflows. Moreover, the boost from Individual Savings Plans gradually decreased. A similar trend was seen for portfolio management, which suffered a sharp weakening of inflows both for the institutional component and for retail mandates.
Traditional life insurance, on the other hand, benefited from the adverse situation in the markets, returning to growth in cumulative new business in 2018 after declining for three consecutive years. Differently, the adverse situation on the markets caused a decrease in new business for unit-linked policies which, due to their nature, reflect the performance of mutual funds. The offering of multi-line products played a fundamental role and, above all, reduced the drop in collected premiums to products with a higher financial content.

Income statement and balance sheet aggregates

Economic results

General aspects

A condensed reclassified consolidated income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary and if material, to account for changes in the scope of consolidation.

In particular, as permitted by IFRS 1, the figures from periods prior to the first-time adoption of IFRS 9 have not been restated in respect of the recognition and measurement of financial instruments. Accordingly, the income statement figures from periods prior to the first quarter of 2018 reflect the prescriptions and measurement approach outlined in IAS 39.

In further detail, as previously reported, the 2017 income statement includes the impact of the acquisition, with effect from the third quarter, of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza and Veneto Banca and, with effect from the fourth quarter, of subsidiaries Banca Apulia, Banca Nuova, Veneto Banka (Croatia), Veneto Banka Sh.a (Albania), Sec Servizi and Servizi Bancari (hereinafter also the "Aggregate Set").

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

Consequently, unless otherwise indicated, the comments in the Report on operations refer to income components net of the effects of the Aggregate Set.

For the sole purpose of permitting a like-for-like comparison with performance in 2018, the figures for the first three quarters of 2017 have also been reconstructed based on management records – since separate records ceased to be kept in the fourth quarter of 2017 following the IT migration in early December 2017 of the former Banca Popolare di Vicenza and Veneto Banca accounts – to reflect retroactively the effects on the income statement of the assets and liabilities of the former Banca Popolare di Vicenza and Veneto Banca (the Aggregate Set). These figures are shown in specific columns of the reclassified income statement and the reclassified income statement on a quarterly basis ("Aggregate" figures).

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

In summary, the reclassifications and aggregations of the consolidated income statement are as follows:

- dividends relating to shares or units in portfolio, which have been reallocated to the item Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on financial assets and liabilities pertaining to insurance companies (measured in accordance with IAS 39, by virtue of the Group's exercise of the option to defer application of IFRS 9), which include the shares of Net interest income, Dividends and the Income from financial assets and liabilities relating to insurance business, has been reclassified, along with net premiums and the balance of income and expenses from insurance business, to the specific item Income from insurance business, to which the effect of the adjustment of the technical reserve has also been attributed, in respect of the component borne by the insured parties, relating to the impairment of the securities held in the portfolios of the Group's insurance companies;
- differentials on derivatives, classified to the trading book and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, fair value adjustments in hedge accounting, profits (losses) on financial assets and liabilities measured at fair value through profit or loss, profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on sale or repurchase of financial liabilities, which have been reallocated to the single item Profits (losses) on financial assets and liabilities designated at fair value;
- the recoveries of expenses, taxes and duties have been subtracted from Other administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of financial assets measured at amortised cost (loans and debt securities), which have been allocated to Net adjustments to loans;
- Net adjustments/recoveries for credit risk associated with financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, the effects on the income statement of the changes in contracts and the net provisions for risks and charges for credit risk relating to commitments and guarantees given, attributed to the single item Net adjustments to loans;
- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which was included among Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows, in keeping with the treatment of the time value of financial assets measured at amortised cost;
- Net losses for credit risk associated with financial assets measured at amortised cost other than loans and net impairment losses on equity investments, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and Net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified to Impairment (net of tax) of goodwill and other intangible assets;

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

Reclassified income statement

(millions of euro)

	2018	2017	Changes vs 2017		2017 Aggregate	Changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	7,276	7,265	11	0.2	7,436	-160	-2.2
Net fee and commission income	7,887	7,867	20	0.3	8,057	-170	-2.1
Income from insurance business	1,084	933	151	16.2	933	151	16.2
Profits (Losses) on financial assets and liabilities designated at fair value	1,609	1,316	293	22.3	1,283	326	25.4
Other operating income (expenses)	19	92	-73	-79.3	131	-112	-85.5
Operating income	**17,875**	**17,473**	**402**	**2.3**	**17,840**	**35**	**0.2**
Personnel expenses	-5,843	-5,687	156	2.7	-6,045	-202	-3.3
Other administrative expenses	-2,784	-2,738	46	1.7	-2,934	-150	-5.1
Adjustments to property, equipment and intangible assets	-843	-811	32	3.9	-844	-1	-0.1
Operating costs	**-9,470**	**-9,236**	**234**	**2.5**	**-9,823**	**-353**	**-3.6**
Operating margin	**8,405**	**8,237**	**168**	**2.0**	**8,017**	**388**	**4.8**
Net adjustments to loans	-2,394	-3,304	-910	-27.5	-3,311	-917	-27.7
Other net provisions and net impairment losses on other assets	-187	-217	-30	-13.8	-234	-47	-20.1
Other income (expenses)	524	4,746	-4,222	-89.0	4,746	-4,222	-89.0
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**6,348**	**9,462**	**-3,114**	**-32.9**	**9,218**	**-2,870**	**-31.1**
Taxes on income	-1,659	-1,482	177	11.9	-1,481	178	12.0
Charges (net of tax) for integration and exit incentives	-120	-300	-180	-60.0	-300	-180	-60.0
Effect of purchase price allocation (net of tax)	-157	327	-484		327	-484	
Levies and other charges concerning the banking industry (net of tax)	-340	-649	-309	-47.6	-678	-338	-49.9
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-22	-42	-20	-47.6	230	-252	
Net income (loss)	**4,050**	**7,316**	**-3,266**	**-44.6**	**7,316**	**-3,266**	**-44.6**

Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Quarterly development of the reclassified income statement

(millions of euro)

	2018				2017			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	1,738	1,844	1,839	1,855	1,837	1,807	1,816	1,805
Net fee and commission income	1,959	1,924	1,991	2,013	2,153	1,951	1,902	1,861
Income from insurance business	238	271	281	294	183	227	240	283
Profits (Losses) on financial assets and liabilities designated at fair value	273	242	472	622	538	184	366	228
Other operating income (expenses)	-18	-12	21	28	9	11	32	40
Operating income	**4,190**	**4,269**	**4,604**	**4,812**	**4,720**	**4,180**	**4,356**	**4,217**
Personnel expenses	-1,524	-1,424	-1,455	-1,440	-1,610	-1,444	-1,343	-1,290
Other administrative expenses	-797	-676	-651	-660	-836	-682	-635	-585
Adjustments to property, equipment and intangible assets	-233	-206	-200	-204	-235	-202	-188	-186
Operating costs	**-2,554**	**-2,306**	**-2,306**	**-2,304**	**-2,681**	**-2,328**	**-2,166**	**-2,061**
Operating margin	**1,636**	**1,963**	**2,298**	**2,508**	**2,039**	**1,852**	**2,190**	**2,156**
Net adjustments to loans	-698	-519	-694	-483	-1,229	-643	-737	-695
Other net provisions and net impairment losses on other assets	-76	-25	-35	-51	-134	-24	-56	-3
Other income (expenses)	512	2	8	2	861	72	3,617	196
Income (Loss) from discontinued operations	-	-	-1	1	-	-	-	-
Gross income (loss)	**1,374**	**1,421**	**1,576**	**1,977**	**1,537**	**1,257**	**5,014**	**1,654**
Taxes on income	-174	-433	-508	-544	-249	-343	-445	-445
Charges (net of tax) for integration and exit incentives	-54	-31	-16	-19	-227	-20	-41	-12
Effect of purchase price allocation (net of tax)	-49	-38	-26	-44	364	-26	-5	-6
Levies and other charges concerning the banking industry (net of tax)	-59	-81	-83	-117	3	-192	-178	-282
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-
Minority interests	-	-5	-16	-1	-	-26	-8	-8
Net income (loss)	**1,038**	**833**	**927**	**1,252**	**1,428**	**650**	**4,337**	**901**

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

Quarterly development of the reclassified income statement – Aggregate figures

(millions of euro)

	2018				2017			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter Aggregate	Second quarter Aggregate	First quarter Aggregate
Net interest income	1,738	1,844	1,839	1,855	1,837	1,828	1,891	1,880
Net fee and commission income	1,959	1,924	1,991	2,013	2,153	1,984	1,992	1,928
Income from insurance business	238	271	281	294	183	227	240	283
Profits (Losses) on financial assets and liabilities designated at fair value	273	242	472	622	538	185	349	211
Other operating income (expenses)	-18	-12	21	28	9	19	47	56
Operating income	**4,190**	**4,269**	**4,604**	**4,812**	**4,720**	**4,243**	**4,519**	**4,358**
Personnel expenses	-1,524	-1,424	-1,455	-1,440	-1,610	-1,471	-1,506	-1,458
Other administrative expenses	-797	-676	-651	-660	-836	-694	-729	-675
Adjustments to property, equipment and intangible assets	-233	-206	-200	-204	-235	-206	-202	-201
Operating costs	**-2,554**	**-2,306**	**-2,306**	**-2,304**	**-2,681**	**-2,371**	**-2,437**	**-2,334**
Operating margin	**1,636**	**1,963**	**2,298**	**2,508**	**2,039**	**1,872**	**2,082**	**2,024**
Net adjustments to loans	-698	-519	-694	-483	-1,229	-648	-738	-696
Other net provisions and net impairment losses on other assets	-76	-25	-35	-51	-134	-31	-61	-8
Other income (expenses)	512	2	8	2	861	72	3,617	196
Income (Loss) from discontinued operations	-	-	-1	1	-	-	-	-
Gross income (loss)	**1,374**	**1,421**	**1,576**	**1,977**	1,537	1,265	4,900	1,516
Taxes on income	-174	-433	-508	-544	-249	-366	-434	-432
Charges (net of tax) for integration and exit incentives	-54	-31	-16	-19	-227	-20	-41	-12
Effect of purchase price allocation (net of tax)	-49	-38	-26	-44	364	-26	-5	-6
Levies and other charges concerning the banking industry (net of tax)	-59	-81	-83	-117	3	-192	-193	-296
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-	-
Minority interests	-	-5	-16	-1	-	-11	110	131
Net income (loss)	**1,038**	**833**	**927**	**1,252**	**1,428**	**650**	**4,337**	**901**

Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Operating income

Operating income amounted to 17,875 million euro, up slightly (+0.2%) on the Aggregate figure for 2017, due to the increase in profits (losses) on financial assets and liabilities designated at fair value (+25.4%) and income from insurance business (+16.2%), against a decline in net interest income, fee and commission income and other operating income.

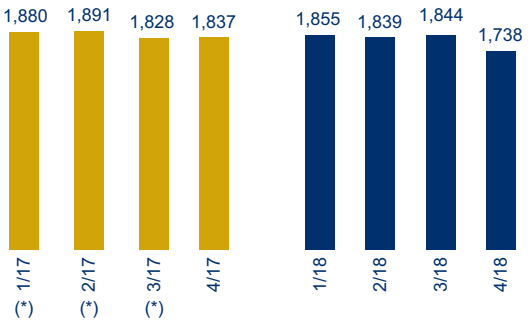
Net interest income

(millions of euro)

	2018	2017	Changes amount	Changes %
Relations with customers	7,563	7,500	63	0.8
Securities issued	-2,406	-2,710	-304	-11.2
Customer dealing	**5,157**	**4,790**	**367**	**7.7**
Instruments measured at amortised cost which do not constitute loans	268	42	226	
Other financial assets and liabilities designated at fair value through profit or loss	90	82	8	9.8
Other financial assets designated at fair value through other comprehensive income	755	675	80	11.9
Financial assets and liabilities	**1,113**	**799**	**314**	**39.3**
Relations with banks	**102**	**197**	**-95**	**-48.2**
Differentials on hedging derivatives	**-339**	**29**	**-368**	
Non-performing assets	**1,148**	**1,410**	**-262**	**-18.6**
Other net interest income	**95**	**40**	**55**	
Net interest income	**7,276**	**7,265**	**11**	**0.2**

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

Quarterly development
Net interest income
(millions of euro)



(*) Aggregate figures

Net interest income of 7,276 million euro declined by 2.2% on the Aggregate figure and increased by 0.2% on 2017, as shown in the table above. Against the backdrop of interest rates at historical lows, performance was conditioned by the lower interest on non-performing assets due to pro-active management of NPLs and in particular to the disposal of bad loans in the Intrum transaction, together with the more limited contribution of hedging of core deposits also following the actions taken in light of the changed expectations regarding the interest rate curve.
Customer dealing contributed 5,157 million euro.
Interest on financial assets amounted to 1,113 million euro.
Net interest income on the interbank market came to 102 million euro, benefiting from the modest cost of interbank funding.

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Relations with customers	1,804	1,918	1,931	1,910	-5.9	-0.7	1.1
Securities issued	-581	-580	-626	-619	0.2	-7.3	1.1
Customer dealing	**1,223**	**1,338**	**1,305**	**1,291**	**-8.6**	**2.5**	**1.1**
Instruments measured at amortised cost which do not constitute loans	73	68	68	59	7.4	-	15.3
Other financial assets and liabilities designated at fair value through profit or loss	26	22	27	15	18.2	-18.5	80.0
Other financial assets designated at fair value through other comprehensive income	220	230	158	147	-4.3	45.6	7.5
Financial assets and liabilities	**319**	**320**	**253**	**221**	**-0.3**	**26.5**	**14.5**
Relations with banks	**37**	**24**	**15**	**26**	54.2	60.0	-42.3
Differentials on hedging derivatives	**-130**	**-126**	**-56**	**-27**	3.2		
Non-performing assets	**270**	**262**	**298**	**318**	3.1	-12.1	-6.3
Other net interest income	**19**	**26**	**24**	**26**	-26.9	8.3	-7.7
Net interest income	**1,738**	**1,844**	**1,839**	**1,855**	**-5.7**	**0.3**	**-0.9**

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

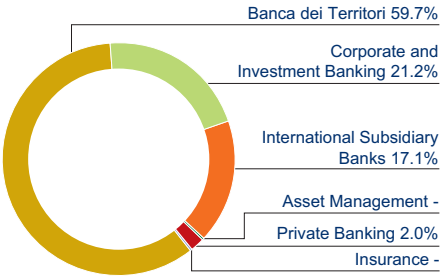
Net interest income in the fourth quarter of 2018 was lower than the quarterly average for the previous quarters, due in part to the lower interest in 2018 on non-performing assets as a result of pro-active management of NPLs, and in particular to the disposal of bad loans in the Intrum transaction.

(millions of euro)

	2018	2017	2017	changes vs 2017 Aggregate	
			Aggregate	amount	%
Banca dei Territori	4,636	4,323	4,647	-11	-0.2
Corporate and Investment Banking	1,645	1,636	1,659	-14	-0.8
International Subsidiary Banks	1,324	1,309	1,312	12	0.9
Private Banking	159	172	172	-13	-7.6
Asset Management	1	1	1	-	-
Insurance	-	-	-	-	-
Total business areas	**7,765**	**7,441**	**7,791**	**-26**	**-0.3**
Corporate Centre	-489	-176	-355	134	37.7
Intesa Sanpaolo Group	**7,276**	**7,265**	**7,436**	**-160**	**-2.2**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Business areas
Net interest income



The Banca dei Territori Division, which accounts for approximately 60% of business area results, and Corporate and Investment Banking recorded a slight decrease in net interest income (-0.2%, or -11 million euro, and -0.8%, or -14 million euro, respectively). The Private Banking Division, which in relative terms has a lesser impact on the consolidated accounts, also declined (-7.6% or -13 million euro). By contrast, the net interest income of the International Subsidiary Banks increased (+0.9% or +12 million euro). The increase in the net interest expense of the Corporate Centre was mostly due to the deleveraging of bad loans (including in connection with the Intrum transaction) and the resulting lesser time value effect.

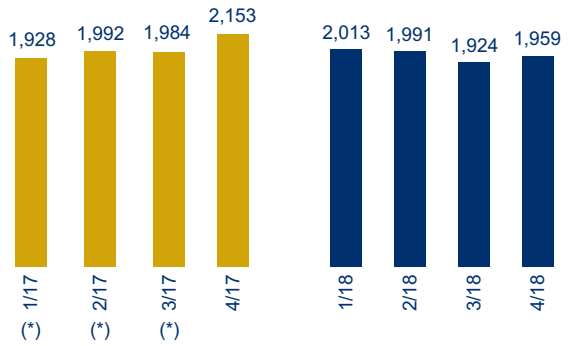
Net fee and commission income

(millions of euro)

	2018			2017			Changes	
	Income	Expense	Net	Income	Expense	Net	amount	%
Guarantees given / received	353	-84	269	378	-89	289	-20	-6.9
Collection and payment services	658	-214	444	608	-196	412	32	7.8
Current accounts	1,260	-	1,260	1,139	-	1,139	121	10.6
Credit and debit cards	1,035	-592	443	887	-514	373	70	18.8
Commercial banking activities	**3,306**	**-890**	**2,416**	**3,012**	**-799**	**2,213**	**203**	**9.2**
Dealing and placement of securities	805	-199	606	952	-214	738	-132	-17.9
Currency dealing	53	-3	50	45	-2	43	7	16.3
Portfolio management	3,028	-724	2,304	3,014	-692	2,322	-18	-0.8
Distribution of insurance products	1,462	-	1,462	1,509	-	1,509	-47	-3.1
Other	219	-41	178	220	-42	178	-	-
Management, dealing and consultancy activities	**5,567**	**-967**	**4,600**	**5,740**	**-950**	**4,790**	**-190**	**-4.0**
Other fee and commission	**1,129**	**-258**	**871**	**1,081**	**-217**	**864**	**7**	**0.8**
Total	**10,002**	**-2,115**	**7,887**	**9,833**	**-1,966**	**7,867**	**20**	**0.3**

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

Quarterly development
Net fee and commission income
(millions of euro)



(*) Aggregate figures

Net fee and commission income in 2018, which accounts for over 44% of operating income, amounted to 7,887 million euro, showing a decrease of 2.1% on the Aggregate figure and an increase of 0.3% on the previous year (as shown in the table above), due to the reduced contribution of management, dealing and consultancy activities and to the greater resilience of fee and commission income from traditional banking business.
The sales network's efforts with regard to asset management successfully focused on retaining managed assets in the presence of high market volatility. Nonetheless, profitability was adversely affected by the lower net inflow and the segment's performance.
Reference is made to Part L of these Notes to the Consolidated Financial Statements which provides the breakdown of fee and commission income and expense by business area, as required by IFRS 15, paragraphs 114 and 115, which require the disaggregation of revenues from contracts with customers.

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Guarantees given / received	63	75	72	59	-16	4.2	22.0
Collection and payment services	127	108	117	92	18	-7.7	27.2
Current accounts	320	308	313	319	4	-1.6	-1.9
Credit and debit cards	124	118	109	92	5	8.3	18.5
Commercial banking activities	**634**	**609**	**611**	**562**	**4**	**-0.3**	**8.7**
Dealing and placement of securities	94	113	191	208	-17	-40.8	-8.2
Currency dealing	13	12	13	12	8	-7.7	8.3
Portfolio management	569	570	569	596	-	0.2	-4.5
Distribution of insurance products	342	364	378	378	-6	-3.7	-
Other	48	46	38	46	4	21.1	-17.4
Management, dealing and consultancy activities	**1,066**	**1,105**	**1,189**	**1,240**	**-4**	**-7.1**	**-4.1**
Other net fee and commission income	**259**	**210**	**191**	**211**	**23**	**9.9**	**-9.5**
Net fee and commission income	**1,959**	**1,924**	**1,991**	**2,013**	**2**	**-3.4**	**-1.1**

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

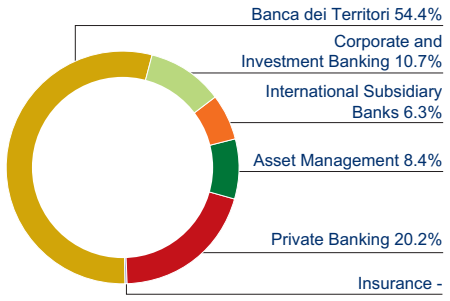
On a quarterly basis, the current year showed a slowdown, primarily due to dealing and placement of securities, asset management and distribution of insurance products, with a modest recovery in the fourth quarter.

(millions of euro)

	2018	2017	2017 Aggregate	changes vs 2017 Aggregate amount	%
Banca dei Territori	4,551	4,283	4,644	-93	-2.0
Corporate and Investment Banking	898	939	939	-41	-4.4
International Subsidiary Banks	524	486	493	31	6.3
Private Banking	1,696	1,697	1,714	-18	-1.1
Asset Management	701	718	718	-17	-2.4
Insurance	-	-	-	-	-
Total business areas	**8,370**	**8,123**	**8,508**	**-138**	**-1.6**
Corporate Centre	-483	-256	-451	32	7.1
Intesa Sanpaolo Group	**7,887**	**7,867**	**8,057**	**-170**	**-2.1**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Business areas
Net fee and commission income



With regard to business areas, the Banca dei Territori Division, which accounts for over half the fee and commission income of the business units, recorded a decline (-2%, or -93 million euro) in fee and commission income, specifically that deriving from asset management, negatively impacted by the unfavourable financial market performance. Declines were also recorded in the Corporate and Investment Banking Division (-4.4% or -41 million euro), mainly due to the performance of the commercial banking segment, particularly on loans and guarantees, and of investment banking, as well as in the Asset Management Division (-2.4% or -17 million euro) and in the Private Banking Division (-1.1% or -18 million euro). By contrast, the International Subsidiary Banks recorded growth (+6.3% or +31 million euro).

Income from insurance business

(millions of euro)

Captions (a)	2018			2017			Changes	
	Life	Non-life	Total	Life	Non-life	Total	amount	%
Technical margin	**134**	**129**	**263**	**2**	**95**	**97**	**166**	
Net insurance premiums (b)	7,779	401	8,180	6,472	345	6,817	1,363	20.0
Net charges for insurance claims and surrenders (c)	-8,612	-103	-8,715	-10,191	-93	-10,284	-1,569	-15.3
Net charges for changes in technical reserves (d)	81	-2	79	2,512	-	2,512	-2,433	-96.9
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	1,072	-	1,072	1,423	-	1,423	-351	-24.7
Net fees on investment contracts (f)	329	-	329	286	1	287	42	14.6
Commission expenses on insurance contracts (g)	-495	-120	-615	-493	-107	-600	15	2.5
Other technical income and expense (h)	-20	-47	-67	-7	-51	-58	9	15.5
Net investment result	**842**	**14**	**856**	**966**	**12**	**978**	**-122**	**-12.5**
Operating income from investments	-1,962	14	-1,948	4,651	12	4,663	-6,611	
Net interest income	*1,803*	*3*	*1,806*	*1,936*	*4*	*1,940*	*-134*	*-6.9*
Dividends	*239*	*3*	*242*	*225*	*2*	*227*	*15*	*6.6*
Gains/losses on disposal	*451*	*8*	*459*	*1,720*	*6*	*1,726*	*-1,267*	*-73.4*
Valuation gains/losses	*-4,381*	*-*	*-4,381*	*844*	*-*	*844*	*-5,225*	
Portfolio management fees paid (i)	*-74*	*-*	*-74*	*-74*	*-*	*-74*	*-*	*-*
Gains (losses) on investments pertaining to insured parties	2,804	-	2,804	-3,685	-	-3,685	6,489	
Insurance products (j)	*-1,017*	*-*	*-1,017*	*-1,504*	*-*	*-1,504*	*-487*	*-32.4*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-39*	*-*	*-39*	*81*	*-*	*81*	*-120*	
Investment products (l)	*3,860*	*-*	*3,860*	*-2,262*	*-*	*-2,262*	*6,122*	
Income from insurance business gross of consolidation effects	**976**	**143**	**1,119**	**968**	**107**	**1,075**	**44**	**4.1**
Consolidation effects	-35	-	-35	-142	-	-142	-107	-75.4
Income from insurance business	**941**	**143**	**1,084**	**826**	**107**	**933**	**151**	**16.2**

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

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

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

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

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

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

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

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

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

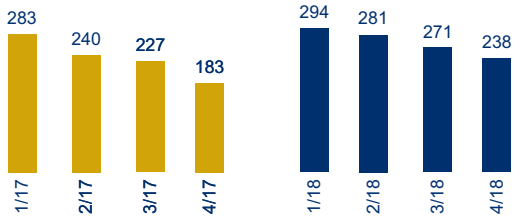
(i) The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

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

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

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

Quarterly development
Income from insurance business
(millions of euro)



In 2018, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, recorded growth in net revenues, which amounted to 1,084 million euro, compared to the 933 million euro recorded in 2017. This performance was primarily due to the increase in the technical margin, which extended to both the life and non-life businesses. By contrast, the net investment result was influenced by the adverse effects of the portfolio valuation in 2018 and the decline in realised gains compared with the previous year.

(millions of euro)

Captions (a)	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Technical margin	**67**	**53**	**66**	**77**	**26.4**	**-19.7**	**-14.3**
Net insurance premiums (b)	1,696	3,078	1,607	1,799	-44.9	91.5	-10.7
Net charges for insurance claims and surrenders (c)	-2,192	-1,699	-2,188	-2,636	29.0	-22.3	-17.0
Net charges for changes in technical reserves (d)	580	-1,580	354	725			-51.2
Gains (Losses) on investments pertaining to insured parties on insurance products (e)	68	346	387	271	-80.3	-10.6	42.8
Net fees on investment contracts (f)	65	103	66	95	-36.9	56.1	-30.5
Commission expenses on insurance contracts (g)	-137	-173	-143	-162	-20.8	21.0	-11.7
Other technical income and expense (h)	-13	-22	-17	-15	-40.9	29.4	13.3
Net investment result	**159**	**214**	**233**	**250**	**-25.7**	**-8.2**	**-6.8**
Operating income from investments	-3,323	1,081	754	-460		43.4	
Net interest income	*453*	*456*	*457*	*440*	*-0.7*	-0.2	3.9
Dividends	*48*	*58*	*86*	*50*	*-17.2*	-32.6	72.0
Gains/losses on disposal	*-250*	*103*	*214*	*392*		-51.9	-45.4
Valuation gains/losses	*-3,556*	*484*	*14*	*-1,323*			
Portfolio management fees paid (i)	*-18*	*-20*	*-17*	*-19*	*-10.0*	17.6	-10.5
Gains (losses) on investments pertaining to insured parties	3,482	-867	-521	710		66.4	
Insurance products (j)	*-50*	*-371*	*-320*	*-276*	*-86.5*	15.9	15.9
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)	*-2*	*26*	*-68*	*5*			
Investment products (l)	*3,534*	*-522*	*-133*	*981*			
Income from insurance business gross of consolidation effects	**226**	**267**	**299**	**327**	**-15.4**	**-10.7**	**-8.6**
Consolidation effects	12	4	-18	-33			-45.5
Income from insurance business	**238**	**271**	**281**	**294**	**-12.2**	**-3.6**	**-4.4**

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

For notes, see the previous table

At the quarterly level, income from insurance business declined progressively, essentially due to the fluctuations in the financial components.

(millions of euro)

Business	2018				2017
	Periodic premiums	Single premiums	Total	*of which new business*	
Life insurance business	**174**	**7,607**	**7,781**	***7,607***	**6,473**
Premiums issued on traditional products	156	6,891	7,047	*6,891*	5,803
Premiums issued on unit-linked products	8	4	12	*4*	16
Premiums issued on capitalisation products	-	1	1	*1*	1
Premiums issued on pension funds	10	711	721	*711*	653
Non-life insurance business	**146**	**266**	**412**	136	**355**
Premiums issued	167	340	507	*332*	432
Change in premium reserves	-21	-74	-95	*-196*	-77
Premiums ceded to reinsurers	**-5**	**-8**	**-13**	-8	**-11**
Net premiums from insurance products	**315**	**7,865**	**8,180**	***7,735***	**6,817**
Business on index-linked contracts	-	-	-	-	-
Business on unit-linked contracts	78	11,417	11,495	*11,425*	16,055
Total business from investment contracts	**78**	**11,417**	**11,495**	***11,425***	**16,055**
Total business	**393**	**19,282**	**19,675**	***19,160***	**22,872**

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

In 2018, business in the insurance segment remained at high levels, at approximately 19.7 billion euro, though below the premiums of the same period of the previous year (22.9 billion euro). Unit-linked investment contracts with lower capital absorption remain the main product, although traditional life insurance policies are recovering and open-ended pension funds and individual pension plans are growing; the non-life business also expanded.
New business was nearly 19.2 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

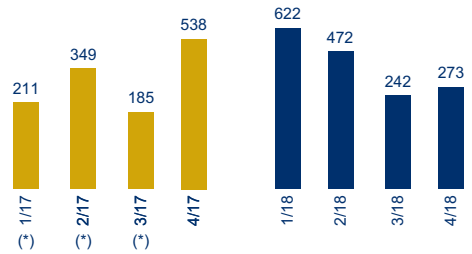
Profits (Losses) on financial assets and liabilities designated at fair value

(millions of euro)

	2018	2017	changes	
			amount	%
Interest rates	384	433	-49	-11.3
Equity instruments	562	234	328	
Currencies	38	-44	82	
Structured credit products	10	28	-18	-64.3
Credit derivatives	35	-26	61	
Commodity derivatives	18	5	13	
Income from operations on assets designated at fair value through profit or loss	**1,047**	**630**	**417**	**66.2**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	562	686	-124	-18.1
Profits (Losses) on financial assets and liabilities designated at fair value	**1,609**	**1,316**	**293**	**22.3**

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

Quarterly development
Profits (Losses) on financial assets and liabilities designated at fair value
(millions of euro)



(*) Aggregate figures

Profits (Losses) on financial assets and liabilities designated at fair value amounted to 1,609 million euro in 2018, up sharply on the like-for-like Aggregate figure and on the previous year. On a like-for-like basis, the increase was 25.4%, or +326 million euro, benefiting from the 264 million euro deriving from the measurement of the investment in NTV at fair value in the first quarter, in view of its subsequent sale. The annual change remains positive (+4.8%) even net of this non-recurring component, due to business in loans and securities measured at fair value and the greater contribution of dealings in securities measured through Other Comprehensive Income, together with the more significant contribution of the investment banking segment.

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Interest rates	90	86	147	61	4.7	-41.5	
Equity instruments	96	85	97	284	12.9	-12.4	-65.8
Currencies	-12	40	-16	26			
Structured credit products	**6**	**-1**	**3**	**2**			50.0
Credit derivatives	5	-14	23	21			9.5
Commodity derivatives	8	3	3	4		-	-25.0
Income from operations on assets designated at fair value through profit or loss	**193**	**199**	**257**	**398**	**-3.0**	**-22.6**	**-35.4**
Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities	80	43	215	224	86.0	-80.0	-4.0
Income (Losses) on financial assets and liabilities designated at fair value	**273**	**242**	**472**	**622**	**12.8**	**-48.7**	**-24.1**

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

The figure for the fourth quarter of 2018 was higher than in the third quarter but lower than in the first and second quarters, when there was increased dealing in securities, significantly scaled back in the second half of the year, owing in part to the performance of the spread on Italian government bonds.

Other operating income (expenses)

Other operating income (expenses) amounted to 19 million euro, compared with an Aggregate figure of 131 million euro and with 92 million euro in 2017. This item includes the income and expenses from continuing operations - except for recoveries of expenses, taxes and duties, which are deducted from the sub-captions of administrative expenses - as well as profits on investments carried at equity. The decline compared with 2017 is attributable to both components.

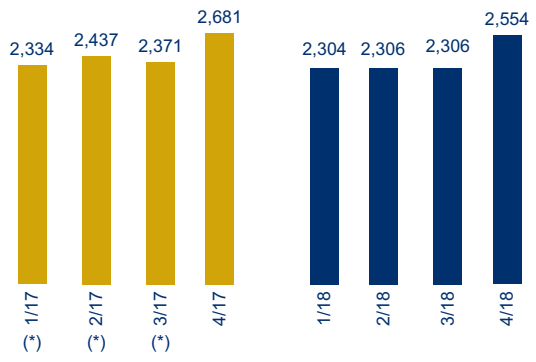
Operating costs

(millions of euro)

	2018	2017	Changes	
			amount	%
Wages and salaries	4,078	3,926	152	3.9
Social security charges	1,034	1,009	25	2.5
Other	731	752	-21	-2.8
Personnel expenses	**5,843**	**5,687**	**156**	**2.7**
Information technology expenses	674	654	20	3.1
Management of real estate assets expenses	601	581	20	3.4
General structure costs	389	394	-5	-1.3
Professional and legal expenses	385	426	-41	-9.6
Advertising and promotional expenses	136	128	8	6.3
Indirect personnel costs	84	92	-8	-8.7
Other costs	407	387	20	5.2
Indirect taxes and duties	915	917	-2	-0.2
Recovery of expenses and charges	-807	-841	-34	-4.0
Administrative expenses	**2,784**	**2,738**	**46**	**1.7**
Property and equipment	317	335	-18	-5.4
Intangible assets	526	476	50	10.5
Adjustments	**843**	**811**	**32**	**3.9**
Operating costs	**9,470**	**9,236**	**234**	**2.5**

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

Quarterly development
Operating costs
(millions of euro)



(*) Aggregate figures

Close attention continued to be devoted to managing operating costs, which amounted to 9,470 million euro in 2018, down by 3.6% on the Aggregate figure and up by 2.5% on 2017, as shown in the table above.

Personnel expenses amounted to 5,843 million euro, down by 3.3% on a like-for-like basis. The savings resulting from staff downsizing (-4% in average terms), inclusive of the redundancies negotiated in the agreements entered into with trade unions in 2017, were more than enough to compensate for the inertial increase in remuneration and greater incentives for growth.

Administrative expenses continued their favourable trend which has distinguished the Intesa Sanpaolo Group since its establishment, and stood at 2,784 million euro, down by 5.1% on a like-for-like basis as a result of the savings achieved on the main items of expenses.

Amortisation and depreciation came to 843 million euro, in line with the figure reported on a like-for-like basis in 2017.

The cost/income ratio for the period was 53%, a significant improvement on the 55.1% recorded in the previous year on a like-for-like basis, due to the solid stability of revenues and cost savings, and essentially in line with the ratio for 2017 (52.9%).

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Wages and salaries	1,072	978	1,031	997	9.6	-5.1	3.4
Social security charges	266	250	262	256	6.4	-4.6	2.3
Other	186	196	162	187	-5.1	21.0	-13.4
Personnel expenses	**1,524**	**1,424**	**1,455**	**1,440**	**7.0**	**-2.1**	**1.0**
Information technology expenses	174	167	164	169	4.2	**1.8**	**-3.0**
Management of real estate assets expenses	153	153	143	152	-	7.0	-5.9
General structure costs	103	95	91	100	8.4	4.4	-9.0
Professional and legal expenses	134	96	85	70	39.6	12.9	21.4
Advertising and promotional expenses	56	27	33	20		-18.2	65.0
Indirect personnel costs	29	22	8	25	31.8		-68.0
Other costs	119	86	94	108	38.4	-8.5	-13.0
Indirect taxes and duties	234	229	229	223	2.2	-	2.7
Recovery of expenses and charges	-205	-199	-196	-207	3.0	1.5	-5.3
Administrative expenses	**797**	**676**	**651**	**660**	**17.9**	**3.8**	**-1.4**
Property and equipment	78	80	79	80	-2.5	1.3	-1.3
Intangible assets	155	126	121	124	23.0	4.1	-2.4
Adjustments	**233**	**206**	**200**	**204**	**13.1**	**3.0**	**-2.0**
Operating costs	**2,554**	**2,306**	**2,306**	**2,304**	**10.8**	**-**	**0.1**

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

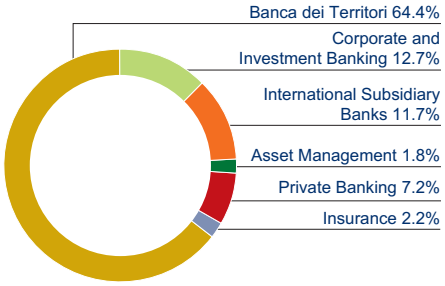
At the quarterly level, the figure in the fourth quarter of 2018 was higher than in the three previous quarters due to the customary seasonal effects, which extend to both personnel expenses and administrative expenses.

(millions of euro)

	2018	2017	2017 Aggregate	Changes vs 2017 Aggregate	
				amount	%
Banca dei Territori	5,361	4,864	5,710	-349	-6.1
Corporate and Investment Banking	1,060	1,039	1,042	18	1.7
International Subsidiary Banks	975	926	956	19	2.0
Private Banking	597	581	586	11	1.9
Asset Management	151	157	157	-6	-3.8
Insurance	187	178	178	9	5.1
Total business areas	**8,331**	**7,745**	**8,629**	**-298**	**-3.5**
Corporate Centre	1,139	1,491	1,194	-55	-4.6
Intesa Sanpaolo Group	**9,470**	**9,236**	**9,823**	**-353**	**-3.6**

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Business areas
Operating costs



At the level of operating costs, the Banca dei Territori Division, which accounts for over 64% of all costs for the business areas, reported savings compared to the previous year (-6.1%, or -349 million euro) thanks to lower personnel and administrative expenses. Conversely, costs increased for Corporate and Investment Banking (+1.7%, or +18 million euro), the International Subsidiary Banks (+2%, or +19 million euro) and Private Banking (+1.9%, or +11 million euro). Insurance reported an increase (+5.1%, or +9 million euro), attributable to all expense components. Asset Management reported a decrease (-3.8%, or -6 million euro) in relation to personnel expenses.

Operating margin

In 2018, the operating margin was 8,405 million euro, up by 4.8% compared with the Aggregate figure, due to resilient revenues in spite of a challenging scenario and a sharp reduction in operating costs.
Compared with the figure recorded in 2017, the operating margin was up by 2%.

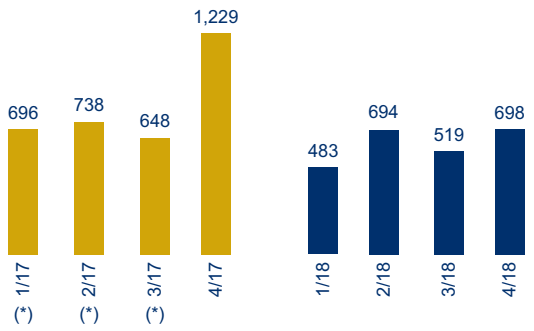
Net adjustments to loans

(millions of euro)

	2018	2017	Changes	
			amount	%
Bad loans	-1,167	-2,580	-1,413	-54.8
Unlikely to pay	-1,174	-1,042	132	12.7
Past due loans	-374	-242	132	54.5
Stage 3 loans	**-2,715**	**-3,864**	**-1,149**	**-29.7**
of which debt securities	*-3*	-	*3*	-
Stage 2 loans	-12	-	12	-
of which debt securities	*8*	-	*8*	-
Stage 1 loans	256	496	-240	-48.4
of which debt securities	-	-	-	-
Net losses/recoveries on impairment of loans	**-2,471**	**-3,368**	**-897**	**-26.6**
Profits/losses from changes in contracts without derecognition	**-11**	**-**	**11**	**-**
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**88**	**64**	**24**	**37.5**
Net adjustments to loans	**-2,394**	**-3,304**	**-910**	**-27.5**

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

Quarterly development
Net adjustments to loans
(millions of euro)



(*) Aggregate figures

In 2018, net adjustments to loans amounted to 2,394 million euro, down 27.7% compared to the Aggregate figure for 2017. The decrease of over 900 million euro was entirely due to lower adjustments to bad loans, only partly offset by moderate increases on other non-performing loans and lower recoveries on the Stage 1 loan portfolio. Given a significant decline in non-performing loans as a percentage of total loans, the cost of credit, expressed as the ratio of net adjustments to net loans, decreased significantly on the previous year, amounting to 61 basis points.
In detail, bad loans required total net adjustments of 1,167 million euro, compared to 2,580 million euro in 2017, with a coverage ratio of 67.2%. Net impairment losses on loans included in the unlikely-to-pay category, totalling 1,174 million euro, increased compared to the previous year, with a coverage ratio of 36.2%. Net impairment losses on past due loans amounted to 374 million euro, with a coverage ratio of 25.6%. The coverage ratio for forborne positions within the non-performing loans category was 40.9% at the end of December 2018. Finally, the stage 1 and stage 2 components of performing loans presented recoveries of 244 million euro, resulting in a coverage ratio of 0.6%.

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Bad loans	-368	-194	-422	-183	89.7	-54.0	
Unlikely to pay	-149	-343	-438	-244	-56.6	-21.7	79.5
Past due loans	-84	-88	-120	-82	-4.5	-26.7	46.3
Stage 3 loans	**-601**	**-625**	**-980**	**-509**	**-3.8**	**-36.2**	**92.5**
of which debt securities	-	-3	-	-		-	-
Stage 2 loans	-127	18	136	-39		-86.8	
of which debt securities	5	-4	6	1			
Stage 1 loans	6	99	121	30	-93.9	-18.2	
of which debt securities	-18	4	5	9		-20.0	-44.4
Net losses/recoveries on impairment of loans	**-722**	**-508**	**-723**	**-518**	**42.1**	-29.7	39.6
Profits/losses from changes in contracts without derecognition	**-7**	**1**	**-4**	**-1**			
Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given	**31**	**-12**	**33**	**36**			-8.3
Net adjustments to loans	**-698**	**-519**	**-694**	**-483**	**34.5**	**-25.2**	**43.7**

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

Adjustments to loans in the fourth quarter of 2018 were higher than in the previous quarter, also as a result of the updating of the macroeconomic scenarios underlying the models required by IFRS 9.

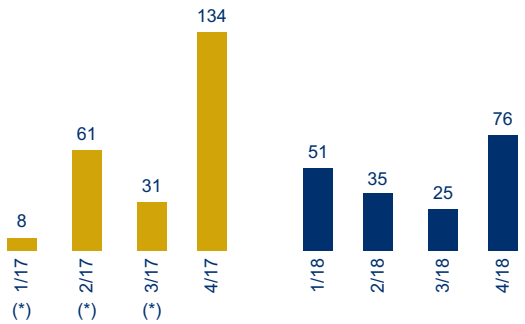
Other net provisions and net impairment losses on other assets

(millions of euro)

	2018	2017	Changes amount	Changes %
Other net provisions	-125	-150	-25	-16.7
Net impairment losses on instruments designated at fair value through other comprehensive income	-2	-	2	-
Net impairment losses on other assets	-55	-67	-12	-17.9
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-5	-	5	-
Other net provisions and net impairment losses on other assets	**-187**	**-217**	**-30**	**-13.8**

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

Quarterly development
Net provisions and net impairment losses on other assets
(millions of euro)



(*) Aggregate figures

Within the layout of the reclassified income statement, this caption primarily consists of other net provisions for risks and charges and net impairment losses on other assets and on securities designated at fair value. In 2018, other net provisions and net impairment losses on other assets amounted to 187 million euro, compared with the Aggregate figure of 234 million euro and the 217 million euro recognised in 2017. The decrease should primarily be viewed in conjunction with the lower net provisions for risks and charges.

(millions of euro)

	2018				Changes %		
	Fourth quarter (A)	Third quarter (B)	Second quarter (C)	First quarter (D)	(A/B)	(B/C)	(C/D)
Other net provisions	-30	-23	-35	-37	30.4	-34.3	-5.4
Net impairment losses on instruments designated at fair value through other comprehensive income	-1	2	10	-13		-80.0	
Net impairment losses on other assets	-43	-3	-8	-1		-62.5	
Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	**-2**	**-1**	**-2**	**-**		**-50.0**	**-**
Other net provisions and net impairment losses on other assets	**-76**	**-25**	**-35**	**-51**		**-28.6**	**-31.4**

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

At the quarterly level, the fourth quarter showed a higher rate, driven by write-downs of real estate and repossessed assets of the international subsidiary banks.

Other income (expenses)
In this caption of the reclassified income statement, the "profits (losses) on financial assets measured at amortised cost other than loans, equity investments and other investments" are aggregated together with other income and expenses not strictly linked to operations.
In 2018, they amounted to 524 million euro, compared with the 1,246 million euro recorded in the previous year, net of the public contribution of 3.5 billion euro received to offset the impacts on capital ratios of the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, recorded under this caption at the time. The year 2017 had also benefited from the recognition of non-recurring income: the capital gains on the disposal of the equity investment in Allfunds Bank (811 million euro), the fair value measurement due to the reclassification of the investment in Bank of Qingdao (190 million euro), no longer included amongst companies subject to significant influence, and those generated by the sale of a stake in NTV and the fair value measurement resulting from the reclassification of the remaining equity investment of an additional 109 million euro. Other income in 2018 primarily consisted of the capital gain on the Intrum transaction (443 million euro).

Gross income (loss)
Income before tax from continuing operations came to 6,348 million euro, up 11% compared with the Aggregate figure and 6.5% compared with 2017, in both cases net of the above-mentioned public contribution.

Taxes on income
Current and deferred taxes came to 1,659 million euro for a tax rate of 26.1%, slightly higher than the Aggregate figure for 2017 (25.9%), net of the aforementioned public contribution, and include the impact of the recognition of new deferred tax assets of 140 million euro as a result of the changes introduced by the 2019 Budget Act (Law 145 of 30 December 2018) to the rules governing the deductibility of the impacts of the first-time adoption of the IFRS 9.

Charges (net of tax) for integration and exit incentives
The caption came to 120 million euro, compared with the 300 million euro recognised in 2017, which included the 179 million euro of estimated integration costs of the former Venetian banks not covered by the public contribution and a provision set aside for the shareholders of the former Venetian banks.

Effect of purchase price allocation (net of tax)
This caption comprises amounts attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition of investments and/or aggregate assets. In 2018, such charges amounted to 157 million euro, compared with a positive effect of 327 million euro recognised in 2017, the year of recognition of the effect of the acquisition of certain assets and liabilities of the former Venetian banks amounting to 378 million euro following the purchase price allocation (PPA) in accordance with IFRS 3.

Levies and other charges concerning the banking industry (net of tax)
The caption includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In 2018, those charges, which include the contributions to the resolution fund and the deposit guarantee scheme and the write-off of the subordinated security issued by Banca Carige and subscribed within the framework of the intervention of the Voluntary Scheme of the National Interbank Deposit Guarantee Fund, amounted to 340 million euro, net of tax, down compared with the 678 million euro of the Aggregate Set in 2017, which also included the charges relating to the Atlante Fund.

Minority interests
In 2018, net income attributable to minority interests amounted to 22 million euro, compared with an Aggregate figure of net losses attributable to minority interests of 230 million in 2017, broken down into 42 million euro of net income attributable to minority interests and the net negative 272 million euro primarily attributable to net losses of the acquired Aggregate Set.

Net income (loss)
As a result of the above trends, the Group ended 2018 with net income of 4,050 million euro, up by 6.1%, excluding the aforementioned public contribution.

Balance sheet aggregates

General aspects

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

The format adopted includes not only the figures for the reporting period, but also the comparative figures as at 1 January 2018 aimed at providing an account of the effects of the first-time adoption of IFRS 9 and thus at permitting a consistent comparison.

Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation, if material.

Certain aggregations and reclassifications have been made with respect to the model provided in Circular 262/05 of the Bank of Italy. The restated financial statements are obtained by making appropriate adjustments to historical data to reflect the significant effects of such changes retroactively.

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

Aggregations and reclassifications of captions refer to:

- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
- the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
- the separate presentation of financial assets and liabilities pertaining to the insurance business, measured in accordance with IAS 39, in application of the deferral approach, by the Group's insurance companies;
- the inclusion of Hedging derivatives and Fair value changes of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the aggregation in one single caption of Property and equipment and Intangible assets;
- the separate presentation of Due to banks at amortised cost;
- the aggregation of Due to customers at amortised cost and Securities issued into one caption;
- the aggregation into one caption (Allowances for risks and charges) of allowances for specific purposes (Employee termination indemnities, Allowances for risks and charges, Allowances for commitments and financial guarantees given);
- the presentation of Reserves as an aggregate and net of any treasury shares.

Reclassified balance sheet

(millions of euro)

Assets	31.12.2018	01.01.2018	Changes	
			amount	%
Due from banks	68,723	71,685	-2,962	-4.1
Loans to customers	393,550	399,539	*-5,989*	*-1.5*
Loans to customers measured at amortised cost	*392,945*	*399,152*	*-6,207*	*-1.6*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*605*	*387*	*218*	*56.3*
Financial assets measured at amortised cost which do not constitute loans	14,183	11,557	2,626	22.7
Financial assets at fair value through profit or loss	41,536	42,166	*-630*	*-1.5*
Financial assets at fair value through other comprehensive income	60,441	59,960	481	0.8
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	149,546	152,582	-3,036	-2.0
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	423	529	
Investments in associates and companies subject to joint control	943	678	265	39.1
Property, equipment and intangible assets	16,449	14,449	2,000	13.8
Tax assets	17,253	18,019	-766	-4.3
Non-current assets held for sale and discontinued operations	1,297	627	670	
Other assets	22,848	22,843	5	-
Total Assets	**787,721**	**794,528**	**-6,807**	**-0.9**

(millions of euro)

Liabilities	31.12.2018	01.01.2018	Changes	
			amount	%
Due to banks at amortised cost	107,815	99,992	7,823	7.8
Due to customers at amortised cost and securities issued	405,960	416,635	-10,675	-2.6
Financial liabilities held for trading	41,895	41,459	436	1.1
Financial liabilities designated at fair value	4	3	1	33.3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	1,312	-502	-38.3
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	68,233	-433	-0.6
Tax liabilities	2,433	2,515	-82	-3.3
Liabilities associated with non-current assets held for sale and discontinued operations	258	264	-6	-2.3
Other liabilities	19,264	19,958	-694	-3.5
Technical reserves	80,797	82,926	-2,129	-2.6
Allowances for risks and charges	6,254	7,427	-1,173	-15.8
of which allowances for commitments and financial guarantees given	*510*	*535*	*-25*	*-4.7*
Share capital	9,085	8,732	353	4.0
Reserves	37,690	33,578	4,112	12.2
Valuation reserves	-913	-878	35	4.0
Valuation reserves pertaining to insurance companies	9	417	-408	-97.8
Equity instruments	4,103	4,103	-	-
Minority interests	407	536	-129	-24.1
Net income (loss)	4,050	7,316	-3,266	-44.6
Total liabilities and shareholders' equity	**787,721**	**794,528**	**-6,807**	**-0.9**

The amount of property and equipment and intangible assets for 2018 includes 975 million euro relating to concession rights, net of the financial component, connected with the motorway concession held by Autostrade Lombarde (through the subsidiary Brebemi), consolidated starting from 31 December 2018.

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

Quarterly development of the reclassified balance sheet

(millions of euro)

Assets	2018					2017			
	31/12	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due from banks	68,723	71,076	69,797	70,541	71,685	72,166	79,724	75,702	61,964
Loans to customers	393,550	395,422	399,859	401,115	399,539	411,978	399,999	405,235	402,817
Loans to customers measured at amortised cost	*392,945*	*394,700*	*399,238*	*400,501*	*399,152*	*411,978*	*399,999*	*405,235*	*402,817*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*605*	*722*	*621*	*614*	*387*	-	-	-	-
Financial assets measured at amortised cost which do not constitute loans	14,183	12,528	12,181	11,688	11,557	-	-	-	-
Financial assets measured at fair value through profit or loss	41,536	41,377	42,158	42,115	42,166	39,590	42,541	44,996	47,176
Financial assets measured at fair value through other comprehensive income	60,441	67,149	61,811	60,531	59,960	65,068	68,569	67,716	76,870
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	149,546	153,350	152,229	153,550	152,582	152,582	150,391	147,621	145,744
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	638	682	476	423	423	433	305	887
Investments in associates and companies subject to joint control	943	637	647	654	678	678	655	732	769
Property, equipment and intangible assets	16,449	14,348	14,406	14,396	14,449	14,449	12,434	12,558	12,578
Tax assets	17,253	16,930	16,934	17,175	18,019	16,888	16,836	17,058	16,919
Non-current assets held for sale and discontinued operations	1,297	3,694	3,609	751	627	627	788	778	783
Other assets	22,848	19,813	19,405	20,168	22,843	22,843	18,931	20,623	24,335
Total Assets	**787,721**	**796,962**	**793,718**	**793,160**	**794,528**	**797,292**	**791,301**	**793,324**	**790,842**

Liabilities and Shareholders' Equity	2018					2017			
	31/12	30/9	30/6	31/3	1/1	31/12	30/9	30/6	31/3
Due to banks at amortised cost	107,815	106,125	97,675	96,907	99,992	99,992	100,000	99,831	103,006
Due to customers at amortised cost and securities issued	405,960	417,758	424,785	417,691	416,635	416,635	416,774	411,618	412,703
Financial liabilities held for trading	41,895	39,866	39,482	39,753	41,459	41,221	41,717	42,556	44,825
Financial liabilities designated at fair value	4	4	4	4	3	3	3	4	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	905	1,413	1,394	1,312	1,312	1,397	1,341	1,333
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	71,069	70,337	69,058	68,233	68,233	65,466	62,891	60,637
Tax liabilities	2,433	2,205	2,121	2,554	2,515	2,515	2,228	2,139	2,351
Liabilities associated with non-current assets held for sale and discontinued operations	258	312	261	266	264	264	296	295	302
Other liabilities	19,264	18,887	19,695	20,594	19,958	20,218	18,504	27,982	24,200
Technical reserves	80,797	80,449	79,842	82,656	82,926	82,926	83,211	83,593	84,405
Allowances for risks and charges	6,254	6,565	6,876	7,241	7,427	7,219	7,043	7,018	5,444
of which allowances for commitments and financial guarantees given	*510*	*490*	*473*	*503*	*535*	*327*	*399*	*440*	*547*
Share capital	9,085	9,084	8,732	8,732	8,732	8,732	8,732	8,732	8,732
Reserves	37,690	37,949	37,212	40,796	33,578	36,843	37,301	37,300	40,273
Valuation reserves	-913	-1,631	-1,366	-760	-878	-1,206	-2,327	-2,240	-2,555
Valuation reserves pertaining to insurance companies	9	-44	3	429	417	417	419	404	398
Equity instruments	4,103	4,103	4,103	4,103	4,103	4,103	4,102	4,102	3,358
Minority interests	407	344	364	490	536	549	547	520	526
Net income (loss)	4,050	3,012	2,179	1,252	7,316	7,316	5,888	5,238	901
Total Liabilities and Shareholders' Equity	**787,721**	**796,962**	**793,718**	**793,160**	**794,528**	**797,292**	**791,301**	**793,324**	**790,842**

The amount of property and equipment and intangible assets for 2018 includes 975 million euro relating to concession rights, net of the financial component, connected with the motorway concession held by Autostrade Lombarde (through the subsidiary Brebemi), consolidated starting from 31 December 2018.

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

BANKING BUSINESS

Loans to customers

Loans to customers: breakdown

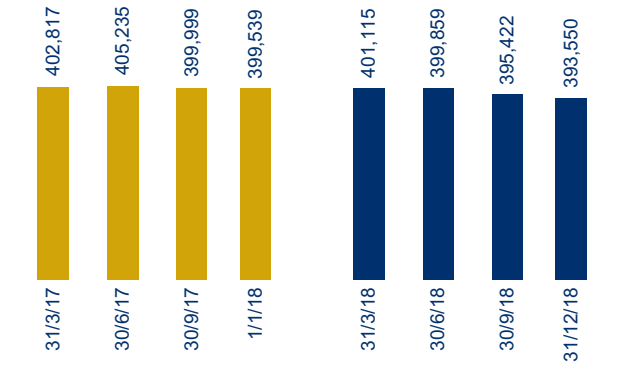
(millions of euro)

	31.12.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	21,927	5.6	22,082	5.6	-155	-0.7
Mortgages	173,793	44.2	173,163	43.3	630	0.4
Advances and other loans	142,486	36.2	144,424	36.1	-1,938	-1.3
Commercial banking loans	**338,206**	**86.0**	**339,669**	**85.0**	**-1,463**	**-0.4**
Repurchase agreements	**33,641**	**8.5**	**31,483**	**7.9**	**2,158**	**6.9**
Loans represented by securities	**5,112**	**1.3**	**5,859**	**1.5**	**-747**	**-12.7**
Non-performing loans	**16,591**	**4.2**	**22,528**	**5.6**	**-5,937**	**-26.4**
Loans to customers	**393,550**	**100.0**	**399,539**	**100.0**	**-5,989**	**-1.5**

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

Loans to customers at the Group level amounted to 394 billion euro as at 31 December 2018, down by 1.5% compared to the beginning of the year, owing solely to non-performing loans (-26.4%, or -5.9 billion euro). Among the various types of loans, there were decreases in advances and other loans (-1.3%, or -1.9 billion euro, primarily attributable to corporate positions) and in loans represented by securities, offset by an increase in repurchase agreements (+6.9%, or +2.2 billion euro) and, to a lesser extent, in mortgage loans.
In the domestic medium/long-term loan market, disbursements to households in 2018 (including the small business accounts having similar needs to family businesses) reached 19.8 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 15.4 billion euro. During the period, medium/long-term disbursements to segments included in the scope of the Corporate Division amounted to 13.6 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to 49.5 billion euro. On the whole, medium/long-term disbursements for the Group during the year, including the international subsidiary banks' operations, were 59.9 billion euro.
As at 31 December 2018, the Group's share of the Italian domestic market was 17.5% for total loans.

Quarterly development
Loans to customers
(millions of euro)

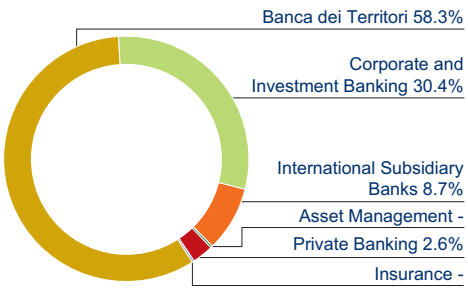


(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Banca dei Territori	212,278	212,433	-155	-0.1
Corporate and Investment Banking	110,742	114,317	-3,575	-3.1
International Subsidiary Banks	31,538	28,610	2,928	10.2
Private Banking	9,530	7,988	1,542	19.3
Asset Management	228	361	-133	-36.8
Insurance	-	22	-22	
Total business areas	**364,316**	**363,731**	**585**	**0.2**
Corporate Centre	29,234	35,808	-6,574	-18.4
Intesa Sanpaolo Group	**393,550**	**399,539**	**-5,989**	**-1.5**

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

Business areas
Loans to customers



In the analysis of loans by business area, the Banca dei Territori Division, which accounts for almost 60% of the aggregate of the Group's business areas, recorded substantial stability year-to-date (-0.1%), due to the increase in medium/long-term loans, above all to individuals, fully absorbed by the drop in the short-term component, especially to businesses. The Corporate and Investment Banking Division's loans were down by 3.6 billion euro (-3.1%), mainly due to the structured finance and global corporate segment, while business with international customers increased. Conversely, the loans of the International Subsidiary Banks Division grew (+10.2%), specifically due to the increase in the loans - mainly medium/long-term ones - issued by the subsidiaries operating in Slovakia, Serbia, Croatia, Egypt and Hungary. Turning to the other divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division increased by 19.3%, driven by the growth of repurchase agreements with institutional customers and current accounts.
The decline posted by the Corporate Centre is mainly related to the deleveraging process associated with Capital Light Bank.

Loans to customers: credit quality

(millions of euro)

	31.12.2018		01.01.2018		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Bad loans	7,138	1.8	10,562	2.6	-3,424
Unlikely to pay	9,101	2.3	11,592	2.9	-2,491
Past due loans	352	0.1	374	0.1	-22
Non-Performing Loans	**16,591**	**4.2**	**22,528**	**5.6**	**-5,937**
Non-performing loans in Stage 3 (subject to impairment)	*16,531*	*4.2*	22,456	*5.6*	-5,925
Non-performing loans measured at fair value through profit or loss	*60*	-	*72*	-	-12
Performing loans	**371,772**	**94.5**	**371,152**	**92.9**	**620**
Stage 2	*42,564*	*10.8*	*50,111*	*12.5*	*-7,547*
Stage 1	*328,766*	*83.6*	*320,726*	*80.3*	*8,040*
Performing loans measured at fair value through profit or loss	*442*	*0.1*	*315*	*0.1*	*127*
Performing loans represented by securities	**5,112**	**1.3**	**5,859**	**1.5**	**-747**
Stage 2	*970*	*0.2*	*639*	*0.2*	331
Stage 1	*4,142*	*1.1*	*5,220*	*1.3*	-1,078
Loans held for trading	**75**	-	-	-	**75**
Total loans to customers	**393,550**	**100.0**	**399,539**	**100.0**	**-5,989**
of which forborne performing	***7,937***		***7,626***		***311***
of which forborne non-performing	***5,437***		***6,704***		***-1,267***
Loans to customers classified as discontinued operations (*)	**934**		**279**		**655**

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

(*) As at 31 December 2018, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 502 million euro, total adjustments of 180 million euro, net exposure of 322 million euro) and the so-called "high-risk" loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 740 million euro, total adjustments of 128 million euro, net exposure of 612 million euro).

As at 31 December 2018, the Group's net non-performing loans, which at the end of 2018 no longer included the bad loans sold to Intrum, amounted to 16.6 billion euro, down by 26.4% compared with the beginning of the year, continuing the gradual decrease witnessed in the previous year. There was also a significant decrease in non-performing assets as a percentage of total net loans to customers to 4.2%. The coverage ratio for non-performing loans remained high at 54.5%, in accordance with the de-risking strategy outlined in the Business Plan.

In further detail, at the end of 2018 bad loans came to 7.1 billion euro (net of adjustments), down on the beginning of the year (-32.4%), and represented 1.8% of total loans. During the same period, the coverage ratio stood at 67.2%. Loans included in the unlikely-to-pay category amounted to 9.1 billion euro, down by 21.5%, accounting for 2.3% of total loans to customers, with a coverage ratio of 36.2%. Past due loans amounted to 352 million euro, down by 5.9% since the beginning of the year, with a coverage ratio of 25.6%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 5.4 billion euro, with a coverage ratio of 40.9%, while forborne exposures in the performing loans category amounted to 7.9 billion euro.
Overall, the coverage ratio of performing loans amounted to 0.6%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

(millions of euro)

Captions	31.12.2018			01.01.2018			Change
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Bad loans	21,734	-14,596	7,138	34,192	-23,630	10,562	-3,424
Unlikely to pay	14,268	-5,167	9,101	17,390	-5,798	11,592	-2,491
Past due loans	473	-121	352	475	-101	374	-22
Non-Performing Loans	**36,475**	**-19,884**	**16,591**	**52,057**	**-29,529**	**22,528**	**-5,937**
Non-performing loans in Stage 3 (subject to impairment)	*36,396*	*-19,865*	*16,531*	*51,939*	*-29,483*	*22,456*	*-5,925*
Non-performing loans measured at fair value through profit or loss	*79*	*-19*	*60*	*118*	*-46*	*72*	*-12*
Performing loans	**373,877**	**-2,105**	**371,772**	**373,569**	**-2,417**	**371,152**	**620**
Stage 2	*43,880*	*-1,316*	*42,564*	*51,684*	*-1,573*	*50,111*	*-7,547*
Stage 1	*329,555*	*-789*	*328,766*	*321,570*	*-844*	*320,726*	*8,040*
Performing loans measured at fair value through profit or loss	*442*	*-*	*442*	*315*	*-*	*315*	*127*
Performing loans represented by securities	**5,131**	**-19**	**5,112**	**5,913**	**-54**	**5,859**	**-747**
Stage 2	*986*	*-16*	*970*	*662*	*-23*	*639*	*331*
Stage 1	*4,145*	*-3*	*4,142*	*5,251*	*-31*	*5,220*	*-1,078*
Loans held for trading	***75***	***-***	***75***	***-***	***-***	***-***	**75**
Total loans to customers	**415,558**	**-22,008**	**393,550**	**431,539**	**-32,000**	**399,539**	**-5,989**
of which forborne performing	**8,322**	**-385**	**7,937**	**7,954**	**-328**	**7,626**	**311**
of which forborne non-performing	**9,192**	**-3,755**	**5,437**	**11,134**	**-4,430**	**6,704**	**-1,267**
Loans to customers classified among non-current assets held for sale and discontinued operations(*)	**1,244**	**-310**	**934**	**314**	**-35**	**279**	**655**

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

(*) As at 31 December 2018, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 502 million euro, total adjustments of 180 million euro, net exposure of 322 million euro) and the so-called “high-risk” loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 740 million euro, total adjustments of 128 million euro, net exposure of 612 million euro).

Other banking business financial assets and liabilities: breakdown

(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Financial assets held for trading	38,731	39,653	-922	-2.3
of which financial derivatives at fair value	*25,186*	*23,616*	*1,570*	*6.6*
of which credit derivatives at fair value	*716*	*1,160*	*-444*	*-38.3*
Financial assets designated at fair value	208	214	-6	-2.8
Financial assets mandatorily measured at fair value	2,597	2,299	298	13.0
Financial assets at fair value through profit or loss	**41,536**	**42,166**	**-630**	**-1.5**
Financial assets at fair value through other comprehensive income	**60,441**	**59,960**	**481**	**0.8**
Instruments measured at amortised cost which do not constitute loans	**14,183**	**11,557**	**2,626**	**22.7**
Total financial assets	**116,160**	**113,683**	**2,477**	**2.2**
Financial liabilities held for trading (*)	**-32,777**	**-34,359**	**-1,582**	**-4.6**
of which financial derivatives at fair value	*-26,605*	*-24,663*	*1,942*	*7.9*
of which credit derivatives at fair value	*-757*	*-1,243*	*-486*	*-39.1*

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

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

The table above shows the breakdown of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include protected capital certificates, which are already included in the direct deposits from banking business aggregates.
Total financial assets, excluding insurance companies, were up by 2.2% compared with the beginning of the year, whereas financial liabilities held for trading declined by 4.6%.

Net banking business financial assets and liabilities at fair value through profit or loss

(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Bonds and other debt securities at fair value through profit or loss	12,294	13,952	-1,658	-11.9
of which designated at fair value (fair value option)	*208*	*214*	*-6*	*-2.8*
Equities and quotas of UCI at fair value through profit or loss	*3,340*	*3,438*	*-98*	*-2.9*
Other assets at fair value through profit or loss	-	-	-	-
of which designated at fair value (fair value option)	-	-	-	-
Financial assets at fair value through profit or loss (excluding derivative contracts)	**15,634**	**17,390**	**-1,756**	**-10.1**
Financial liabilities held for trading (excluding derivative contracts) (*)	**-5,415**	**-8,453**	**-3,038**	**-35.9**
Net value of financial derivatives	-1,419	-1,047	372	35.5
Net value of credit derivatives	-41	-83	-42	-50.6
Net value of trading derivatives	**-1,460**	**-1,130**	**330**	**29.2**
Financial assets / liabilities, net at fair value through profit or loss	**8,759**	**7,807**	**952**	**12.2**

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

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

Net financial assets and liabilities at fair value through profit or loss, excluding insurance companies, amounted to approximately 8.8 billion euro, up by 12.2% compared with 1 January 2018. That trend was mainly due to the containment of financial liabilities held for trading against a decline in financial assets measured at fair value through profit or loss.

Banking business financial assets measured at fair value through other comprehensive income

(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Equities at fair value through other comprehensive income	3,161	3,163	-2	-0.1
Debt instruments designated at fair value through other comprehensive income	57,280	56,797	483	0.9
of which Stage 3	*-*	*1*	*-1*	
of which Stage 2	*247*	*604*	*-357*	*-59.1*
of which Stage 1	*57,033*	*56,192*	*841*	*1.5*
Financial assets designated at fair value through other comprehensive income	**60,441**	**59,960**	**481**	**0.8**

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

Other financial assets measured at fair value through other comprehensive income, excluding insurance companies, amounted to 60.4 billion euro, up by 0.8% year-to-date due to debt securities, particularly those classified to Stage 1. The equity component, which has a marginal weight, remained stable.

Banking business instruments measured at amortised cost which do not constitute loans

(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Instruments measured at amortised cost which do not constitute loans	**14,183**	**11,557**	**2,626**	**22.7**
of which Stage 3	*5*	*-*	*5*	*-*
of which Stage 2	*3,243*	*3,374*	*-131*	*-3.9*
of which Stage 1	*10,935*	*8,183*	*2,752*	*33.6*

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

Instruments measured at amortised which do not constitute loans, excluding insurance companies, amounted to 14.2 billion euro, up by 22.7% due to the instruments classified to Stage 1, which accounted for approximately 77% of the total aggregate.

Customer financial assets

(millions of euro)

	31.12.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	415,082	45.5	423,738	44.8	-8,656	-2.0
Direct deposits from insurance business and technical reserves	149,358	16.4	152,403	16.1	-3,045	-2.0
Indirect customer deposits	495,809	54.4	520,779	55.1	-24,970	-4.8
Netting (a)	-148,553	-16.3	-151,092	-16.0	-2,539	-1.7
Customer financial assets	**911,696**	**100.0**	**945,828**	**100.0**	**-34,132**	**-3.6**

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

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

As at 31 December 2018, customer financial assets amounted to approximately 912 billion euro, down compared with the beginning of the year, mostly due to indirect customer deposits, with declines in both assets under administration and assets under management, together with direct deposits from banking business and, to a lesser extent, deposits from insurance business.

Direct deposits from banking business

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

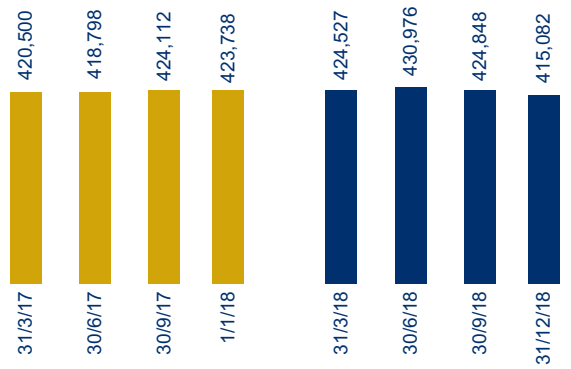
(millions of euro)

	31.12.2018	% breakdown	01.01.2018	% breakdown	Changes amount	Changes %
Current accounts and deposits	290,587	70.0	288,899	68.2	1,688	0.6
Repurchase agreements and securities lending	24,105	5.8	21,303	5.0	2,802	13.2
Bonds	62,312	15.0	68,773	16.2	-6,461	-9.4
Certificates of deposit	5,151	1.2	4,913	1.2	238	4.8
Subordinated liabilities	10,782	2.6	13,411	3.2	-2,629	-19.6
Other deposits	22,145	5.4	26,439	6.2	-4,294	-16.2
of which designated at fair value (*)	*9,122*	*2.2*	*7,103*	*1.7*	*2,019*	*28.4*
Direct deposits from banking business	**415,082**	**100.0**	**423,738**	**100.0**	**-8,656**	**-2.0**

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

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

Quarterly development
Direct deposits from banking business
(millions of euro)



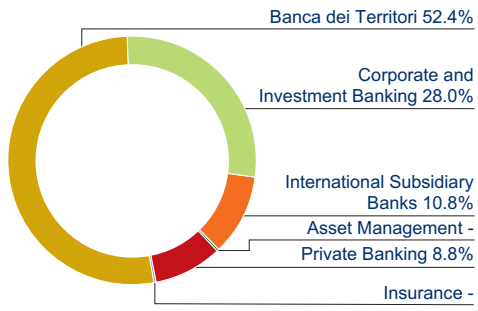
Direct deposits from banking business came to 415 billion euro, down by 2% on the beginning of the year, due to different performances for the various types of funding.
Specifically, the decrease was essentially due to bonds (-6.5 billion euros), subordinated liabilities (-2.6 billion euro) and other funding (-4.3 billion euro, including commercial paper and certificates). Repurchase agreements and securities lending (+2.8 billion euro), in addition to current accounts and deposits (+1.7 billion euro), contributed positively.
At 31 December 2018, the domestic market share of the Group's direct deposits, consisting of deposits and bonds, was 18.1%.

(millions of euro)

	31.12.2018	01.01.2018	Changes amount	Changes %
Banca dei Territori	191,588	191,976	-388	-0.2
Corporate and Investment Banking	102,449	107,148	-4,699	-4.4
International Subsidiary Banks	39,384	35,862	3,522	9.8
Private Banking	32,103	31,410	693	2.2
Asset Management	6	6	-	-
Insurance	-	-	-	-
Total business areas	**365,530**	**366,402**	**-872**	**-0.2**
Corporate Centre	49,552	57,336	-7,784	-13.6
Intesa Sanpaolo Group	**415,082**	**423,738**	**-8,656**	**-2.0**

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

Business areas
Direct deposits from banking business



In the analysis of deposits by business area, the Banca dei Territori Division, which accounts for over half of the aggregate of the Group's business areas, was down slightly year-to-date (-0.2%), due to the decline in securities issued, only partly offset by the increase in amounts due to customers as a result of the greater liquidity in the deposits of personal and small and medium enterprise customers. The Corporate and Investment Banking Division recorded a decline of 4.7 billion euro (-4.4%) due to securities issued, particularly by the Irish subsidiary and, to a lesser extent, amounts due to global corporate, financial institutions and international customers. The progress achieved by the International Subsidiary Banks Division (+3.5 billion euro or +9.8%) should be viewed in conjunction with the performance of the amounts due to customers of the subsidiaries operating in Slovakia, Croatia and Egypt. The Private Banking Division reported growth of 0.7 billion euro (+2.2%), primarily concentrated in customer current account deposits. The decrease in the Corporate Centre's funding was primarily due to repurchase agreements with institutional customers and commercial papers.

Indirect customer deposits

(millions of euro)

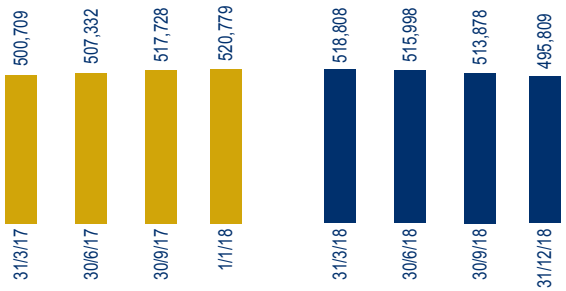
	31.12.2018		01.01.2018		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds [a]	115,288	23.3	119,684	23.0	-4,396	-3.7
Open-ended pension funds and individual pension plans	8,871	1.8	8,221	1.5	650	7.9
Portfolio management [b]	52,652	10.6	59,173	11.4	-6,521	-11.0
Technical reserves and financial liabilities of the insurance business	140,332	28.3	140,567	27.0	-235	-0.2
Relations with institutional customers	13,450	2.7	11,895	2.3	1,555	13.1
Assets under management	**330,593**	**66.7**	**339,540**	**65.2**	**-8,947**	**-2.6**
Assets under administration and in custody	**165,216**	**33.3**	**181,239**	**34.8**	**-16,023**	**-8.8**
Indirect customer deposits	**495,809**	**100.0**	**520,779**	**100.0**	**-24,970**	**-4.8**

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

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

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

Quarterly development
Indirect customer deposits
(millions of euro)



As at 31 December 2018, the Group's indirect customer deposits amounted to approximately 496 billion euro, down by 4.8% compared with the beginning of the year, due to the decline in assets under administration and assets under management.
Assets under management, which account for nearly two-thirds of the total aggregate, were down by 8.9 billion euro (-2.6%), due to the lower value of assets caused by the negative market performance, which exceeded the net placement by the distribution networks. There were declines in portfolio management schemes (-11%) and mutual funds (-3.7%), whose returns were negatively impacted by the unfavourable market performance. Open-ended pension funds and individual pension policies (+7.9%) and business with institutional customers (+13.1%) performed more dynamically, albeit with a more modest weight. The technical reserves and financial liabilities of the insurance business remained essentially stable (-0.2%). In the period, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 19 billion euro.
Assets under administration declined by 16 billion euro (-8.8%), also essentially due to negative market performance.

Net interbank position

The net interbank position as at 31 December 2018 stood at net debt of 39.1 billion euro, up compared to 1 January of the same year (net debt of 28.3 billion euro). Amounts due to banks, equal to 107.8 billion euro, include a 60.6 billion euro exposure to the ECB, following participation in the TLTRO II refinancing operations.

INSURANCE BUSINESS

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

(millions of euro)

	31.12.2018	01.01.2018	Changes	
			amount	%
Financial assets held for trading and hedging derivatives (IAS 39)	310	490	-180	-36.7
of which financial derivatives at fair value	*50*	*10*	*40*	
of which credit derivatives at fair value	*1*	-	*1*	-
Financial assets designated at fair value	74,314	74,715	-401	-0.5
Financial assets available for sale	74,922	77,377	-2,455	-3.2
Investments held to maturity	-	-	-	-
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	**149,546**	**152,582**	**-3,036**	**-2.0**
Loans to Banks	922	405	517	
Loans to customers	30	18	12	66.7
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	**952**	**423**	**529**	
Financial assets pertaining to insurance companies measured pursuant to IAS 39	**150,498**	**153,005**	**-2,507**	**-1.6**
Financial liabilities held for trading (*)	44	67	-23	-34.3
of which financial derivatives at fair value	*44*	*65*	*-21*	*-32.3*
of which credit derivatives at fair value	-	2	*-2*	
Due to Banks (**)	5	1	4	
Financial liabilities pertaining to insurance companies measured pursuant to IAS 39	**49**	**68**	**-19**	**-27.9**

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

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

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

Financial assets and liabilities pertaining to insurance companies pursuant to IAS 39, summarised in the table above, amounted to 150 billion euro and 49 million euro, respectively. The decline in assets (-1.6%) was essentially attributable to the available-for-sale portfolio.

Direct deposits from insurance business and technical reserves

(millions of euro)

	31.12.2018	% breakdown	01.01.2018	% breakdown	Changes amount	Changes %
Financial liabilities of the insurance business designated at fair value (IAS 39) (*)	**67,756**	**45.4**	**68,166**	**44.8**	**-410**	**-0.6**
Index-linked products	*-*	*-*	*1*	*-*	*-1*	
Unit-linked products	*67,756*	*45.4*	*68,165*	*44.8*	*-409*	*-0.6*
Technical reserves	**80,797**	**54.1**	**82,926**	**54.3**	**-2,129**	**-2.6**
Life business	80,009	53.6	82,248	53.9	-2,239	-2.7
Mathematical reserves	*71,569*	*47.9*	*71,320*	*46.8*	*249*	*0.3*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*6,093*	*4.1*	*5,843*	*3.8*	*250*	*4.3*
Other reserves	*2,347*	*1.6*	*5,085*	*3.3*	*-2,738*	*-53.8*
Non-life business	788	0.5	678	0.4	110	16.2
Other insurance deposits (***)	**805**	**0.5**	**1,311**	**0.9**	**-506**	**-38.6**
Direct deposits from insurance business and technical reserves	**149,358**	**100.0**	**152,403**	**100.0**	**-3,045**	**-2.0**

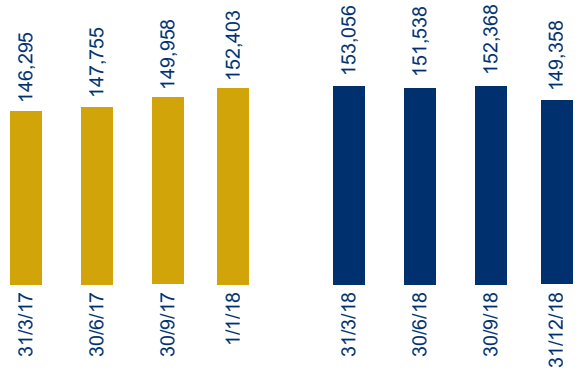
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

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

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

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

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



Direct deposits from insurance business amounted to 149 billion euro as at 31 December 2018, down by 2% on the beginning of the year. Technical reserves, which constitute the amounts owed to customers taking out traditional policies or policies with significant insurance risk, recorded a decrease of 2.1 billion euro (-2.6%), attributable to the life business (-2.2 billion euro), against a moderate increase in the non-life business (+0.1 billion euro). Financial liabilities measured at fair value, consisting essentially of unit-linked products, decreased by 0.4 billion euro (-0.6%).

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

(millions of euro)

Captions	31.12.2018	01.01.2018	Changes	
			amount	%
Investments in associates and companies subject to joint control	-	-	-	-
Property and equipment	355	328	27	8.2
Other	3	16	-13	-81.3
Assets held for sale	939	283	656	
Individual assets	**1,297**	**627**	**670**	
Discontinued operations	**-**	**-**	-	-
Liabilities associated with non-current assets held for sale and discontinued operations	**-258**	**-264**	**-6**	**-2.3**
Non-current assets held for sale and discontinued operations and related liabilities	**1,039**	**363**	**676**	

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

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At the end of December 2018, assets held for sale amounted to 1 billion euro, up by 0.7 billion euro compared to the previous year.
As at 31 December 2018, Non-current assets held for sale included the portfolio of bad loans, unlikely-to-pay loans and performing loans soon to be sold (net exposure of 322 million euro) and the so-called “high-risk” loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (net exposure of 612 million euro).

SHAREHOLDERS' EQUITY

As at 31 December 2018, the Group's shareholders' equity, including the net income for the period, came to 54,024 million euro compared to the 53,268 million euro at the beginning of the year. The increase in shareholders' equity was due to the performance of reserves and share capital; the latter rose from 8,732 million euro to 9,085 million euro as a result of the merger of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo, together with the 2018-2021 LECOIP 2.0 Long-term Incentive Plan reserved for employees and based on financial instruments.

Valuation reserves

(millions of euro)

	Reserve 01.01.2018	Change of the period	Reserve 31.12.2018
Financial assets designated at fair value through other comprehensive income (debt instruments)	120	-609	-489
Financial assets designated at fair value through other comprehensive income (equities)	72	117	189
Property and equipment	1,238	18	1,256
Cash flow hedges	-916	100	-816
Foreign exchange differences	-1,000	-11	-1,011
Non-current assets held for sale and discontinued operations	-	-	-
Financial liabilities designated at fair value through profit or loss (change in its creditworthiness)	-	-	-
Actuarial profits (losses) on defined benefit pension plans	-675	300	-375
Portion of the valuation reserves connected with investments carried at equity	-63	88	25
Legally-required revaluations	346	-38	308
Valuation reserves (excluding valuation reserves pertaining to insurance companies)	**-878**	**-35**	**-913**
Valuation reserves pertaining to insurance companies	**417**	**-408**	**9**

Valuation reserves recorded a decline of 35 million euro in the banking component and of 408 million euro in the insurance component.
Amongst the various components, the decline in reserves on debt securities and in the insurance component was primarily due to the performance of the spread on Italian government bonds. Actuarial profits / (losses) increased, driven by the realignment of the reserves for the portions corresponding to the bond redeemed following the acceptance of the voluntary lump-sum conversion offer made to participants in the supplementary pension fund "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino".

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

(millions of euro)

	Shareholders' equity	of which Net income (loss) as at 31.12.2018
Parent Company's balances as at 31 December 2018	**47,211**	**3,686**
Effect of consolidation of subsidiaries subject to control	1,086	5,012
Effect of valuation at equity of companies subject to joint control and other significant equity investments	-252	47
Elimination of adjustments to equity investments and recognition of impairment of goodwill	5,851	292
Dividends collected during the period	-	-4,972
Other	128	-15
Consolidated balances as at 31 December 2018	**54,024**	**4,050**

OWN FUNDS AND CAPITAL RATIOS

(millions of euro)

Own funds and capital ratios	31.12.2018		31.12.2017
	IFRS9 "Fully loaded"	IFRS9 "Transitional"	
Own funds			
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	33,072	37,241	38,051
Additional Tier 1 capital (AT1) net of regulatory adjustments	4,856	4,856	5,414
TIER 1 CAPITAL	**37,928**	**42,097**	**43,465**
Tier 2 capital net of regulatory adjustments	7,631	6,781	7,908
TOTAL OWN FUNDS	**45,559**	**48,878**	**51,373**
Risk-weighted assets			
Credit and counterparty risks	236,324	237,237	249,784
Market and settlement risk	21,147	21,147	17,833
Operational risks	17,671	17,671	18,597
Other specific risks (a)	391	391	611
RISK-WEIGHTED ASSETS	**275,533**	**276,446**	**286,825**
% Capital ratios			
Common Equity Tier 1 capital ratio	12.0%	13.5%	13.3%
Tier 1 capital ratio	13.8%	15.2%	15.2%
Total capital ratio	16.5%	17.7%	17.9%

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

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2018 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.
The regulations governing own funds provided for the gradual introduction of the Basel 3 framework based on a transitional period, during which some elements to be fully included in or deducted from Common Equity when the framework is “fully loaded” only have a partial percent impact on Common Equity Tier 1 capital. With effect from 2018, these transitional provisions no longer apply, with the exception of the filter on valuation reserves for actuarial gains or losses (IAS 19), for which a specific transitional treatment is still in place, although it will expire after the current year. Specific transitional provisions (i.e. grandfathering) also remain in place for subordinated instruments that do not meet the Basel 3 requirements, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (ending in 2022).
As already discussed in detail, application of IFRS 9 - Financial Instruments, endorsed by Regulation (EU) 2016/2067 of 22 November 2016, in replacement of the previous standard IAS 39, has become mandatory from 1 January 2018. Accordingly, first-time adoption (FTA) of the Standard took effect from the accounting date of 1 January 2018. This entailed the restatement of the financial instruments according to the new classification criteria and the recalculation of their values, where necessary, to take account of the new impairment and classification rules. The effects of this process, in respect of first-time adoption only, have been recognised through shareholders' equity.
On the subject of the introduction of IFRS 9, on 12 December 2017 the European Parliament enacted Regulation (EU) 2017/2395 updating the CRR by adding the new Article 473a "Introduction of IFRS 9", which allows banks to mitigate the impacts on own funds of the introduction of the new accounting standard.
In this regard, the Intesa Sanpaolo Group chose to adopt the "static approach" envisaged in the aforementioned Regulation. This approach permits the re-inclusion in Common Equity of a gradually decreasing amount, ending in 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022), of the impact of IFRS 9, calculated net of the tax effect, based on the comparison of the IAS 39 adjustments as at 31 December 2017 and the IFRS 9 adjustments as at 1 January 2018, excluding the reclassification of financial instruments, and after eliminating the shortfall as at 31 December 2017.
Regulation (EU) 2017/2395 also lays down the reporting obligations that entities are required to publish, while charging the EBA with issuing specific guidelines on this subject. In implementation of the Regulation, on 12 January 2018, the EBA issued specific guidelines according to which banks that adopt a transitional treatment of the impact of IFRS 9 (such as the static approach mentioned above) are required to publish, with quarterly frequency, the fully loaded consolidated figures (as if the transitional treatment had not been applied) and the transitional consolidated figures for Common Equity Tier 1 (CET1) capital, Tier 1 capital, total capital, total risk-weighted assets, capital ratios and the leverage ratio.
As at 31 December 2018, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 48,878 million euro, against risk-weighted assets of 276,446 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. As at that same date, considering the full inclusion of the impact of IFRS 9, Own Funds stood at 45,559 million euro, compared to risk-weighted assets of 275,533 million euro. Own funds calculated considering the full impact of IFRS 9 (i.e., on a “fully-loaded” basis) take account of the provisions of the 2019 Budget Act calling for the adjustments upon first-time adoption of the Standard to be applied in instalments for tax purposes, with the recognition of the resulting DTAs. These DTAs have been considered at 5% of their book value for the purposes of calculating transitional own funds, in accordance with Article 473a of the CRR with regard to the application of the static approach, whereas they have been fully included among deductible elements in fully-loaded own funds. The impact of

such DTAs on fully-loaded own funds is nonetheless temporary since they will be phased out over a period of 10 years, starting in 2018.
Common Equity Tier 1 capital includes the net income for the year, less the related dividend, calculated on the basis of the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments and charitable giving).
With regard to the POP (Performance-based Option Plan) – a long-term incentive plan for top management, risk-takers and key managers – the effect of the exercise of the right of novation, whereby Intesa Sanpaolo attributed the obligation to deliver the shares to the POP Counterparty, essentially representing an alternative approach to direct purchase of own shares on the market by Intesa Sanpaolo, was accounted as a decline in equity of 160 million euro, with the ensuing reduction in Common Equity Tier 1 capital of like amount.
The events that impacted Common Equity Tier 1 Capital as at 31 December 2018 included the share capital increase with payment connected with the "LECOIP 2.0" Long-Term Investment Plan, targeted at Managers that are not Risk Takers and remaining personnel, and the mandatory conversion of savings shares, considered Additional Tier 1 instruments, into ordinary shares eligible for inclusion in Common Equity Tier 1 Capital.
On the basis of the foregoing, solvency ratios as at 31 December 2018, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 13.5%, a Tier 1 ratio of 15.2% and a total capital ratio of 17.7%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 December 2018 were as follows: a Common Equity ratio of 12.0%, a Tier 1 ratio of 13.8% and a Total capital ratio of 16.5%.
On 8 February 2019 – Intesa Sanpaolo has received notification of the ECB's final decision concerning the capital requirement that the Bank has to meet, on a consolidated basis, as of 1 March 2019, following the results of the Supervisory Review and Evaluation Process (SREP). The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.96% under the transitional arrangements for 2019 and 9.33% on a fully loaded basis.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

Captions	31.12.2018	31.12.2017
Group Shareholders' equity	54,024	56,205
Minority interests	407	399
Shareholders' equity as per the Balance Sheet	**54,431**	**56,604**
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
- Other equity instruments eligible for inclusion in AT1	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-4	-9
- Minority interests eligible for inclusion in T2	-4	-5
- Ineligible minority interests on full phase-in	-372	-335
- Ineligible net income for the period (a)	-3,534	-3,500
- Treasury shares included under regulatory adjustments	204	94
- Other ineligible components on full phase-in	-134	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,466**	**48,219**
Regulatory adjustments (including transitional adjustments) (b)	**-9,225**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,241**	**38,051**

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

(b) Adjustments for the transitional period as at 31 December 2018 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (95% in 2018) set to decrease progressively until 2022.

Performance of risk-weighted assets

(millions of euro)

Risk-weighted assets as at 31.12.2017	**286,825**
Decreased credit risk	-12,547
Increased market and settlement risk	3,314
Decreased operational risk	-926
Decreased other specific risks	-220
Risk-weighted assets as at 31.12.2018	**276,446**

In 2018, credit risk decreased by approximately 12.5 billion euro. The increase in risk-weighted assets resulting from the update of the time series of risk parameters and the lapse of the transitional grandfathering provisions applicable to the equity portfolio were more than offset by the effects of the repayment of significant exposures, the sale of defaulted loans following the Intrum-Savoy transaction and risk-mitigation measures.
Risk-weighted assets associated with market risks increased by approximately 3.3 billion euro due to heightened market volatility, which penalised the financial and sovereign exposures in the portfolio.
Lastly, the reduction in operational risks (-0.9 billion euro) was attributable to all components, in particular the AMA - Advanced Measurement Approach (-0.6 billion euro due to the decrease in the categories Processes and Internal Violations), TSA - Standardised Approach (-0.2 billion euro due to the decrease in the relevant indicator of certain subsidiaries) and BIA - Basic approach (-0.1 due to the inclusion of Banca Nuova in the internal model scope).

Breakdown of consolidated results by business area and geographical area

Breakdown of consolidated results by business area and geographical area

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

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

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in 2018.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

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

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre	Total
Operating income								
2018	9,306	3,748	1,942	1,878	717	1,106	-822	17,875
2017	8,717	3,401	1,907	1,909	785	1,067	-313	17,473
2017 Aggregate	9,407	3,428	1,920	1,927	785	1,067	-694	17,840
% change [(a)]	-1.1	9.3	1.1	-2.5	-8.7	3.7	18.4	0.2
Operating costs								
2018	-5,361	-1,060	-975	-597	-151	-187	-1,139	-9,470
2017	-4,864	-1,039	-926	-581	-157	-178	-1,491	-9,236
2017 Aggregate	-5,710	-1,042	-956	-586	-157	-178	-1,194	-9,823
% change [(a)]	-6.1	1.7	2.0	1.9	-3.8	5.1	-4.6	-3.6
Operating margin								
2018	3,945	2,688	967	1,281	566	919	-1,961	8,405
2017	3,853	2,362	981	1,328	628	889	-1,804	8,237
Aggregate	3,697	2,386	964	1,341	628	889	-1,888	8,017
% change [(a)]	6.7	12.7	0.3	-4.5	-9.9	3.4	3.9	4.8
Net income (loss)								
2018	1,547	1,798	648	849	455	648	-1,895	4,050
2017	1,564	1,585	861	880	493	613	1,320	7,316
2017 Aggregate	1,443	1,598	830	889	493	613	1,450	7,316
% change [(a)]	7.2	12.5	-21.9	-4.5	-7.7	5.7		-44.6
Loans to customers								
31.12.2018	212,278	110,742	31,538	9,530	228	-	29,234	393,550
01.01.2018	212,433	114,317	28,610	7,988	361	22	35,808	399,539
% change [(b)]	-0.1	-3.1	10.2	19.3	-36.8		-18.4	-1.5
Direct deposits from banking business								
31.12.2018	191,588	102,449	39,384	32,103	6	-	49,552	415,082
01.01.2018	191,976	107,148	35,862	31,410	6	-	57,336	423,738
% change [(b)]	-0.2	-4.4	9.8	2.2	-	-	-13.6	-2.0
Risk-weighted assets								
31.12.2018	91,996	84,166	31,300	7,670	946	-	60,368	276,446
31.12.2017	92,983	80,485	30,767	10,218	914	-	71,458	286,825
% change [(b)]	-1.1	4.6	1.7	-24.9	3.5	-	-15.5	-3.6
Absorbed capital								
31.12.2018	8,510	7,787	3,463	746	100	4,084	5,583	30,273
31.12.2017	8,601	7,446	3,406	986	99	3,947	6,609	31,094
% change [(b)]	-1.1	4.6	1.7	-24.3	1.0	3.5	-15.5	-2.6

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The change expresses the ratio between 2018 and 2017 Aggregate.

(b) The change expresses the ratio between 31.12.2018 and 1.1.2018 where not specified otherwise.

BUSINESS AREAS

Banca dei Territori

(millions of euro)

Income statement	2018	2017	Changes vs 2017		2017 Aggregate	Changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	4,636	4,323	313	7.2	4,647	-11	-0.2
Net fee and commission income	4,551	4,283	268	6.3	4,644	-93	-2.0
Income from insurance business	1	-	1	-	-	1	-
Profits (Losses) on financial assets and liabilities designated at fair value	75	68	7	10.3	67	8	11.9
Other operating income (expenses)	43	43	-	-	49	-6	-12.2
Operating income	**9,306**	**8,717**	**589**	**6.8**	**9,407**	**-101**	**-1.1**
Personnel expenses	-3,310	-3,025	285	9.4	-3,533	-223	-6.3
Other administrative expenses	-2,045	-1,834	211	11.5	-2,170	-125	-5.8
Adjustments to property, equipment and intangible assets	-6	-5	1	20.0	-7	-1	-14.3
Operating costs	**-5,361**	**-4,864**	**497**	**10.2**	**-5,710**	**-349**	**-6.1**
Operating margin	**3,945**	**3,853**	**92**	**2.4**	**3,697**	**248**	**6.7**
Net adjustments to loans	-1,412	-1,141	271	23.8	-1,169	243	20.8
Other net provisions and net impairment losses on other assets	-71	-73	-2	-2.7	-82	-11	-13.4
Other income (expenses)	-	-	-	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**2,462**	**2,639**	**-177**	**-6.7**	**2,446**	**16**	**0.7**
Taxes on income	-899	-1,028	-129	-12.5	-955	-56	-5.9
Charges (net of tax) for integration and exit incentives	-14	-44	-30	-68.2	-45	-31	-68.9
Effect of purchase price allocation (net of tax)	-2	-3	-1	-33.3	-3	-1	-33.3
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**1,547**	**1,564**	**-17**	**-1.1**	**1,443**	**104**	**7.2**

(millions of euro)

	31.12.2018	01.01.2018	changes	
			amount	%
Loans to customers	212,278	212,433	-155	-0.1
Direct deposits from banking business	191,588	191,976	-388	-0.2

	31.12.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	91,996	92,983	-987	-1.1
Absorbed capital	8,510	8,601	-91	-1.1

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

Banca dei Territori's operating income was 9,306 million euro in 2018, amounting to over half of the Group's consolidated operating income, down 1.1% on a like-for-like basis on the previous year. In detail, net fee and commission income decreased (-2%), mostly attributable to the assets under management segment, impacted by the unfavourable performance of the financial markets which penalised returns on funds, portfolio management and insurance policies. The lower placements of asset management products were only partially offset by the higher placements of third-party bonds. There were increases in commercial banking, specifically in fee and commission income on current accounts and deposits, loans and guarantees and other services. Net interest income remained at similar levels as 2017 (-0.2%).
Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, profits (losses) on financial assets and liabilities at fair value increased (+11.9%), while other net operating income declined (-12.2%). Operating costs, equal to 5,361 million euro, were down (-6.1%) due to the savings on personnel expenses, attributable to the reduction in the average workforce, and on administrative expenses, due to lower service costs, mainly in

the real estate sector, also in relation to the rationalisation of the branch network. The operating margin amounted to 3,945 million euro, up 6.7% on the previous year. Gross income amounted to 2,462 million euro, remaining stable (+0.7%) despite higher adjustments to loans, which increased coverage of past due and unlikely-to-pay positions. Lastly, after allocation to the Division of taxes of 899 million euro, charges for integration of 14 million euro and the effects of purchase price allocation for 2 million euro, net income amounted to 1,547 million euro, up 7.2%.
In the fourth quarter, net income decreased on the third quarter, due to the usual increase in operating costs typical of the end of the year, against substantially stable revenues and lower adjustments to loans.

The balance sheet figures at the end of December 2018 showed substantial stability in loan and deposit volumes year-to-date. In particular, the performance of loans to customers, amounting to 212,278 million euro (-155 million euro, or -0.1%) was due to the increase in medium/long-term loans to individuals, fully absorbed by the drop in the short-term component, especially to businesses. The decrease in direct deposits from banking business, amounting to 191,588 million euro (-388 million euro, -0.2%) was attributable to the reduction in securities issued, only partially offset by the increase in amounts due to customers.

Business	Traditional lending and deposit collection operations in Italy and associated financial services.
Mission	To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through: – widespread local coverage; – focus on the characteristics of local markets, and the needs of customer segments serviced; – development of service levels to customers using different channels in order to improve the efficiency of the commercial offering; – exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, banks and branches as points of reference for the Group at local level; – exploitation of the company specialised in medium-term lending, leasing, factoring, advisory services and structured finance transactions, reporting to the Business Unit.
Organisational structure	
Retail Individuals and Businesses Sales & Marketing, SME Sales & Marketing and Multichannel Integration	Overseeing the Retail sector, which consists of the segments Retail Individuals (families and other individuals with financial assets of up to 100,000 euro) and Retail Businesses (businesses with less complex requirements), the Personal area (individual customers with financial assets of between 100,000 euro and 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.
Mediocredito Italiano	Specialised in medium-term lending, leasing, factoring, advisory services and structured finance operations to support the needs of investment, development and innovation of businesses and the local areas.
Banca 5	A “proximity bank”, linked with a non-captive network of points of sale, focused on instant banking and targeting categories of customers who rarely use banking products and services.
Banca Prossima	Serves non-profit organisations.
Distribution structure	Approximately 4,000 branches, including Retail and Business branches, distributed broadly throughout Italy. The network structure consists of 8 Regional Governance Centres, each of which directly reports to the Regional Manager. There are three Commercial Managers (one specialist for each business area, i.e. Retail, Personal and SME) in each Centre, coordinating around 400 commercial areas, in order to improve commercial focus and ensure the best possible service levels.

As part of the programme set out in the Business Plan to simplify the Group structure by gradually reducing the number of legal entities, in 2018 the following were incorporated into Intesa Sanpaolo: Banca Nuova, from 7 April, Cassa di Risparmio del Veneto and Cassa di Risparmio del Friuli Venezia Giulia, from 23 July, and Banco di Napoli and Cassa dei Risparmi di Forlì e della Romagna, from 26 November.

Retail Individuals and Businesses Sales & Marketing, SME Sales & Marketing and Multichannel Integration

Investment

The diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the Recommended Portfolios. The offer of investment products was extended by: 82 new windows and 14 new fixed-maturity funds, including the multi-asset and multi-strategy “Eurizon Top Selection” range and “tactical” funds with a low annual cost, to support the process of converting on demand deposits; the Class I policies "Progetto Dedicato", reserved as a “welcoming product” for customers of the former Banca Popolare di Vicenza, Veneto Banca, Banca Apulia and Banca Nuova, and “Scelta Sicura”, dedicated to customers with excess liquidity on their current accounts; a new internal fund of the unit-linked "ISPL Prospettiva 2.0" of Intesa Sanpaolo Life, "Obbligazionario High Yield in Valuta"; and the placement of 42 certificates issued by Banca IMI and six bonds of third-party issuers (in USD).
The advanced advisory service for retail and personal customers launched in 2017, “Valore Insieme”, was also expanded. It is divided into three differentiated packages which, using a detailed analysis of customer requirements, assists them with all their needs, by offering customised solutions in different areas: securities, real estate, protection and security, and succession planning. A new offering is dedicated to subscribers of “Valore Insieme”, comprised of three portfolios (one for each financial profile) of around 10-15 Luxembourg funds with continuous placement, which represent the best management expertise of Eurizon Capital SA and Epsilon SGR.

Transactional products

“BancoCard Basic” and “BancoCard Plus” are the two new Intesa Sanpaolo debit cards that combine normal functionality with the ability to make contactless payments of up to 25 euro without entering a PIN.

Loans

“PerTe Prestito Diretto” is the special-purpose loan that can be purchased online by current account holders with a multi-channel contract that has been active for at least 30 days. Thanks to agreements entered into with merchants, it enables customers to buy the goods/services through a loan disbursed directly to the merchant and with favourable financial terms (specifically, 0% APR and Annual Effective Global Rate).Intesa Sanpaolo is the first Italian bank to provide financing under the APE Volontario programme (cash advances against pension entitlement), an experimental system introduced by the 2017 Budget Act and extended into 2019, available to workers wishing to retire early who meet certain requirements. The financing is structured as an income bridge with a maximum term of 43 months and an amount selected by the customer in view of his or her future retirement pension, paid monthly until the customer begins to collect a pension.

Mortgages

The range of mortgage loans for private individuals covers all aspects of customers' home ownership dreams and needs with innovative products such as “Mutuo Giovani” and “MutuoUp”. A free new service, “Mutuo In Tasca”, is also available to customers interested in purchasing a home who have not yet chosen a property. The service provides six months to look for home, with the certainty of being able to count on the Bank's financial support, and a transparent understanding of the amount and term of the mortgage loan that may be granted. The service can also provide advances to cover down payments and pay notary's and estate agent's fees.

Protection

An Insurance Questionnaire was introduced to develop insurance advice and increase the level of protection cover. In accordance with the Insurance Distribution Directive currently being transposed into Italian law, the Questionnaire explores customers' insurance needs and current cover to generate a custom commercial proposal. In June, the catalogue of offerings for individuals in Health, Home and Household areas was renewed with “XME Protezione”, a multi-guarantee insurance solution that is flexible and modular, which protects the customer and his/her household through a single policy, featuring guarantees that can be modified over time and a structure of increasing discounts based on the number of guarantees. As part of the “Tutela Business” line of insurance solutions designed for retail businesses and small and medium enterprises, “Tutela Business Manifattura” was launched, a flexible multi-guarantee policy dedicated to companies with up to 25 workers that operate in manufacturing, processing and maintenance, craft businesses and certain service fields.

Young people

The range of products dedicated to those under the age of 18 was expanded to include "XME Conto UP!" which grows along with the customer, offering a modular range of transaction products personalised to suit the accountholder's age, with an emphasis on teaching the value of savings. Moreover, to assist parents in communicating the value of money and savings to their children, in December, "XME Dindi", an innovative technological piggy bank, became available. As part of the “Alternanza Scuola-Lavoro” work-study project, promoted to foster knowledge of the working world for young people in the last three years of secondary school, training workshops were organised, with opportunities for active learning. Agreements also continued to be reached with new partners in connection with “PerTe Prestito Con Lode”, a flexible product that meets young people's increasing educational needs. Intesa Sanpaolo was the main sponsor for the third year of X-Factor, Sky’s musical talent show, and the “Festival dei Giovani di Gaeta”, and once again sponsored the 2018 Milan Games Week, the most important videogame event in Italy, and Lucca Comics&Games, the leading European event dedicated to the world of comics, fantasy and gaming and launched marketing initiatives in partnership with Panini and Tim.

Multichannel Project

In 2018, Intesa Sanpaolo's position as Italy's number one digital bank was further consolidated, with a highly significant growth trend in the ISP Mobile App: more than 3 million active users compared to the over 8 million multi-channel customers, of which almost 2 million have already activated OkeySmart, the new OTP (One-Time Password) software that is simpler and more secure than the physical token, in compliance with the requirements of the PSD2 European Directive on payment services in the internal market. During the year, around 40 million transactions were carried out, along with over 31 million after-sales operations on payment cards. 85% of products in the retail catalogue can be purchased online. At the end of 2018, the App was integrated with new sales functionalities in Remote Offering mode for Motor policies (ViaggiaConMe, MotoConMe). The range of mobile services was expanded with the release of the Intesa Sanpaolo Investo App, which allows customers to trade securities and monitor their assets. The process of evolution of digital payments was also consolidated, specifically through "XME Pay", the new digital wallet that allows customers to pay in shops with cards or directly from the account, store loyalty cards and identity documents and make completely secure online purchases, with the possibility to create one shot or long-lasting virtual cards. "XME Pay" integrates Masterpass, Mastercard's solution for making payments without entering the card number and also includes account to account payment methods using Bancomat Pay (JiffyPay) payments.
In response to the obligation of electronic invoicing for all transactions carried out between parties resident in Italy effective from 1 January 2019, in October, Intesa Sanpaolo began to market "Digifattura", a new modular product for managing the entire electronic invoicing process (receivables and payables) and storing such invoices pursuant to law. The product comes in two versions that can be adapted to the needs of customer companies of any size.
The Online Branch network continued to grow. Thanks to around 900 managers and 15 branches, it effectively integrates the various contact channels (telephone calls, emails, chats, video chats and social networks), offering customers operational and commercial support with high service level standards. The Online Branch network is also an actual sales channel, due to its remote offerings, which supplement the offerings at the branches.

Agreements

At the end of 2018, the Italian Banking Association and the main trade associations signed the new "2019 Agreement for Credit", taking effect in January 2019 and valid up to 31 December 2020. With the "Recovering Companies 2.0" initiative, building on the "Recovering Companies" initiative of the previous agreement, it once again offers the possibility for SMEs "in good standing" to suspend principal payments on their loans for a maximum of twelve months and extend the repayment schedules of their mortgage loans and due dates of their short-term loans and credit for farm activities. The addendum "Promoting a new business culture for sustainable growth" was signed within the framework of the 2017-2019 agreement with Confindustria Piccola Industria, aimed at promoting the acceleration, digitalisation and competitiveness of businesses by providing them with access to a total pool of financing of 90 billion euro to allow companies to take advantage of the opportunities provided by the "fourth industrial revolution". The addendum's contents regard training, generational handover, value chains and economic, social and environmental sustainability. Under the Impresa 4.0 national plan (formerly Industria 4.0), to support and facilitate processes of innovation, investment in new technologies and the digitalisation of businesses, agreements continued to be signed with trade associations, to provide ad hoc assistance to member businesses and their customers, in the form of loans, non-financial services, sales support, specific measures to facilitate internationalisation and exports, training and collaboration in the design of innovative projects. In support of the Italian tourism industry, Intesa Sanpaolo signed a partnership agreement with the Ministry of Cultural Heritage and Activities and Tourism, making available a three-year funding plan of 5 billion euro to companies in tourism and related industries, intended for the renovation and modernisation of hospitality facilities, improved accessibility of destinations, higher quality hospitality services and training for operators through processes of innovation and digitalisation. The agreement is to culminate in the drafting of a comprehensive Pact for Tourism 4.0 aimed at fostering the development of the industry. As part of the continuing commitment to supporting the growth and development of Italian agricultural and food businesses signalled by the three-year agreement with the Ministry of Agricultural, Food and Forestry Policies (MIPAAF) "Diamo credito all'agroalimentare italiano" which calls for funding of 8 billion euro for the period 2017-2019, within the framework of the master agreement between the Italian Banking Association and MIPAAF, Intesa Sanpaolo renewed its agreements with the payor regional authorities (AVEPA, AGREA, ARCEA and AGEA) to permit agricultural companies located in the territories in question to immediately have access to the grants provided under the 2018 Common Agricultural Policy. In addition, the Bank renewed its agreement with the European Investment Bank to provide funding of 150 million euro in support of the projects pursued by companies in the agricultural and food industry.

Internationalisation

Intesa Sanpaolo supports Italian companies throughout the world with comprehensive services for exports and international expansion, and a large international network in the approximately 40 countries where the Group operates. Intesa Sanpaolo and the Italian Trade Agency (ICE) signed a new agreement to facilitate the growth of Italian companies abroad by supporting them in all stages of the internationalisation process with advice, training and information. The Bank also reinforced its partnership with SACE (a member of the CDP group) through the signing of three agreements intended to provide the tools needed by companies in the international growth process, from medium/long-term "International+" loans, for which a funding of 100 million euro has been made available, to contractual guarantees for the award and performance of international contracts and the implementation of supply arrangements, confirmation of the export letters of credit used to pay for goods and services and debt recovery services.

Loans

In relation to the Impresa 4.0 national plan and the measures contained in the 2018 Stability Law regarding tax incentives for investments in new business assets required for technological renewal, Intesa Sanpaolo extended the solutions introduced the previous year in support of business growth involving, in addition to specialist support, medium/long-term loans, with various possible combinations available. In support of investments in Italian businesses, through Mediocredito Italiano the Group provided innovative small, medium and micro-enterprises with 300 million euro, as part of a programme supported by the European Investment Fund and the European Commission. Each loan has a maximum amount of 7.5 million euro and is subject to favourable financial conditions. Half of the total funding made available will benefit from the European InnovFin guarantee, which will allow for the funding of particularly innovative projects and lending to companies with higher risk profiles.
Intesa Sanpaolo has joined "Resto al Sud", an initiative focused on start-ups launched by young residents of Southern Italy, promoted by the Italian Ministry of the Economy, Invitalia (Italy's National Agency for Promotion of Investment and Business Development) and the Italian Banking Association, with total financial resources of 1.250 billion euro made available by the Development and Cohesion Fund. Intesa Sanpaolo is supporting young people in pursuing their entrepreneurial endeavours by providing financing solutions such as Crescita Impresa and NeoImpresa, which cover 65% of expenses, while Invitalia is offering an outright grant covering the remaining 35% and a grant covering the interest due to the Bank.
For new business customers registered with the register of innovative start-ups, the Bank has launched the offer "Startup Innovative", a set of products at discounted prices that complements the other initiatives aimed at making the Bank a key player in training and acceleration in this segment, such as "B Heroes", a programme promoted in collaboration with Im foundation.

Sviluppo Filiere

Support continued to be provided for businesses through the "Sviluppo Filiere" programme, which focuses on the relationship between companies and their suppliers and which exceeded 600 participating lead companies by the end of the year, with 15,000 potential suppliers, for a turnover of 70 billion euro.

Dialogo Industriale

In 2018, "Dialogo Industriale" was introduced to business branches. This is a new approach to relations which improves the capacity to listen to and understand businesses' industrial and financial needs and the specific characteristics of companies and the sectors they operate in, with the possibility of accompanying entrepreneurs in their growth and development processes, providing the most appropriate answers and solutions to their objectives, with positive impacts also on the efficiency of the lending process and loan quality, due to the in-depth study of the customer company's current and future situation.

Product companies

In 2018, Mediocredito Italiano recorded a sales volume of medium- and long-term products of 7 billion euro, (+9.6% compared with 2017), whilst factoring turnover was 59.6 billion euro (-5.6%).
Mediocredito Italiano disbursed loans totalling 5.8 billion euro (+14.6% compared to 2017). With 5.2 billion euro of loans disbursed (+15%), the Banca dei Territori Division accounts for 89.7% of total volumes, whilst the Corporate and Investment Banking Division, with 577 million euro (+23%), represents 10% of volumes disbursed.
The Specialist Desks dedicated to the principal economic sectors generated medium/long-term loan disbursements of 975 million euro (16.9% of the total disbursed), up by 38.6% compared with 2017. During the year, the Structured Finance Advisory organisational unit, which originated loans of 1,033 million euro, became fully operational.
In the lease segment, a selective strategy was maintained for assets that can be financed, aimed at mitigating credit risk. Mediocredito Italiano entered into lease contracts with a value of 1.3 billion euro (-8.3% compared to the previous year). Contracts entered into by customers of the Banca dei Territori Division amounted to 1.15 billion euro (-6%), representing 89.4% of total volumes. Customers in the Corporate Division signed contracts totalling 112.8 million euro, equal to 8.7% of total volumes (-23% compared to the previous year). Turning to factoring, in 2018 Mediocredito reported a turnover of 59.6 billion euro (-5.6% compared to 2017), confirming its position as the leading Italian operator. The breakdown into without recourse and with recourse showed that the percentage of without recourse decreased compared to the previous year (-3%). At the end of December 2018, the amount outstanding declined to 14.2 billion euro (-0.6% compared with the beginning of the year) and advances amounted to around 12 billion euro (-1.4%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated amount to 14.4 billion euro (-11.4% on the previous year), accounting for 24.3% of total turnover.

Banca 5 (formerly Banca ITB), is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to a non-captive network of points of sale. It is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted.
The bank has around 20,000 customers which are owners of the non-captive points of sales (-5% compared to 2017) located throughout the country. The decrease was due to an improvement in the composition, with the transition of over 1,800 customers to the latest generation terminal and the closure of low yield and old technology accounts. During the year, the new business linked to retail customers served through non-captive points of sale was implemented, with the equipping of points of sale which offer withdrawal and transfer services, in addition to traditional collection and payment products. The services provided are classified into three main macro areas: services for individuals (postal and bank bill payment slips, F24 tax forms, car property tax, mobile phone and prepaid card top-ups) with around 82 million transactions carried out at the non-

captive points of sales in the year, with an amount transacted of 7.1 billion euro (+6% on 2017); services for businesses, relating to the collections of businesses through SDD, which generated around 1 million transactions, with an amount transacted of 1.7 billion euro (+6.2%); services to the non-captive points of sale, relating to fees for current accounts and use of the terminal, revenues for account activation and for credit line services (-11% in terms of revenues).

Banca Prossima

Banca Prossima operates in the non-profit sector through 84 local branches and 233 specialists distributed throughout Italy. In 2018, the bank continued acquiring new customers for the Group, with around 64,600 customers at the end of December 2018. Financial assets amounted to 5 billion euro, of which 3.7 billion euro in direct deposits, while lending operations presented an approved amount of 2.8 billion euro (of which 2 billion euro had been used).
The current service model enabled the bank to effectively support its customers, optimising commercial initiatives and oversight of the relationships.
During the year, the business plan that guided the activities of the bank was structured: approximately 66 initiatives were realised to develop the relationship with non-profit organisations and better meet their needs.
Innovative Group initiatives such as the Welfare Hub platform, to enable non-profit organisations to also offer their employees company welfare, were also extended to Banca Prossima customers. Moreover, to support the new business endeavours of young people in Southern Italy, Banca Prossima also joined the "Resto al Sud" programme, involving incentives guaranteed by the Central Guarantee Fund for SMEs.
EIB financing continued to be marketed under the current agreement during the year, resulting in the disbursement of 11 loans with a value of 42 million euro. In crowdfunding initiatives, 113 projects have now been published on the Terzo Valore portal (of which 15 in 2018) and collaboration with the Group's fund-raising portal, For Funding, continued. Throughout 2018, the organisation of meetings as opportunities for reflection on financial matters such as market scenarios and investment proposals continued, in collaboration with Eurizon, with meetings held throughout Italy, involving customers and non-customers. Lastly, in view of the bank’s incorporation into Intesa Sanpaolo, planned for 2019, in the second half of 2018 analyses were launched of the specific products, services, agreements and processes of Banca Prossima to identify the methods for integration.

Corporate and Investment Banking

(millions of euro)

Income statement	2018	2017	Changes vs 2017		2017 Aggregate	2017 changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	1,645	1,636	9	0.6	1,659	-14	-0.8
Net fee and commission income	898	939	-41	-4.4	939	-41	-4.4
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	1,190	809	381	47.1	813	377	46.4
Other operating income (expenses)	15	17	-2	-11.8	17	-2	-11.8
Operating income	**3,748**	**3,401**	**347**	**10.2**	**3,428**	**320**	**9.3**
Personnel expenses	-426	-418	8	1.9	-418	8	1.9
Other administrative expenses	-626	-612	14	2.3	-615	11	1.8
Adjustments to property, equipment and intangible assets	-8	-9	-1	-11.1	-9	-1	-11.1
Operating costs	**-1,060**	**-1,039**	**21**	**2.0**	**-1,042**	**18**	**1.7**
Operating margin	**2,688**	**2,362**	**326**	**13.8**	**2,386**	**302**	**12.7**
Net adjustments to loans	-139	-198	-59	-29.8	-204	-65	-31.9
Other net provisions and net impairment losses on other assets	-7	-2	5		-2	5	
Other income (expenses)	1	85	-84	-98.8	85	-84	-98.8
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**2,543**	**2,247**	**296**	**13.2**	**2,265**	**278**	**12.3**
Taxes on income	-737	-655	82	12.5	-660	77	11.7
Charges (net of tax) for integration and exit incentives	-8	-7	1	14.3	-7	1	14.3
Effect of purchase price allocation (net of tax)	-	-	-	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**1,798**	**1,585**	**213**	**13.4**	**1,598**	**200**	**12.5**

(millions of euro)

	31.12.2018	01.01.2018	changes	
			amount	%
Loans to customers	110,742	114,317	-3,575	-3.1
Direct deposits from banking business (a)	102,449	107,148	-4,699	-4.4
	31.12.2018	**31.12.2017**	**changes**	
			amount	**%**
Risk-weighted assets	84,166	80,485	3,681	4.6
Absorbed capital	7,787	7,446	341	4.6

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The item includes capital protected certificates.

In 2018, the **Corporate and Investment Banking Division** recorded operating income of 3,748 million euro (representing over 20% of the Group's consolidated total), up 9.3% on a like-for-like basis compared to the previous year.
In detail, net interest income, amounting to 1,645 million euro, was down slightly (-0.8%). Net fee and commission income, amounting to 898 million euro, fell by 4.4%, due to the downward trend in the commercial banking segment, particularly on loans and guarantees, and in the investment banking segment. Profits on financial assets and liabilities designated at fair value, equal to 1,190 million euro, increased by 46.4%, partly due to the positive effect of 264 million euro resulting from the fair value measurement and subsequent sale of the investment in NTV. Operating costs amounted to 1,060 million euro, up slightly on 2017 (+1.7%), due to higher administrative and personnel expenses. As a result of the above revenue and cost trends, the operating margin rose by 12.7% to 2,688 million euro. Gross income, amounting to 2,543 million euro, was up 12.3%, partly due to lower adjustments to loans. Lastly, net income came to 1,798 million euro, compared to 1,598 million euro in 2017 (+12.5%).

In the fourth quarter of 2018, the Corporate and Investment Banking Division recorded a decrease in revenues and in the main income margins compared to the third quarter, essentially due to the seasonal effect of operating costs typical of the last part of the year and increased adjustments to loans.

The Division's intermediated volumes decreased compared to the beginning of the year (-3.7%). In detail, loans to customers, amounting to 110,742 million euro, decreased by 3.6 billion euro (-3.1%), mainly due to structured finance and global corporate segments against growing business with international customers. Direct deposits from banking business, amounting to 102,449 million euro, posted a decline (-4.7 billion euro, or -4.4%), attributable to securities issued, particularly by the Irish subsidiary and, to a lesser extent, amounts due to corporate, financial institutions and international customers.

Business	Corporate, Investment Banking and Public Finance, in Italy and abroad.
Mission	To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking operations. To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group.
Organisational structure	
Global Corporate Department	The Department develops and manages relationships with Italian and foreign corporates with diverse needs and multinational presence, and with domestic Public Entities. It ensures the provision of a global, integrated offering of products and services by specific economic sector for customers under its remit, integrating traditional commercial banking products and services with those of investment banking and capital markets, pursuing cross-selling of products and services overseen by the Corporate and Investment Banking Division, by other Divisions and by the Group's product companies, availing itself centrally of the commercial action of the Industry units, and locally of the Italian network (Areas) and of the international network of the International Department. The coverage is also completed through two units specifically dedicated to strategic investment banking deals to support industries (Global Strategic Coverage) and geographical areas (Network Origination Coverage). The specialisation by industry includes all industrial sectors: Automotive & Industrials; Basic Materials & Healthcare; Energy; Food & Beverage and Distribution; Infrastructure & Real Estate Partners; Public Finance; Retail and Luxury; Telecom, Media and Technology. The Business Solutions industry also manages highly complex customers, transversally across the various sectors.
International Department	The Department ensures the international development of the Division in agreement with the other relationship and product structures, ensures the correct management of operational and commercial activities of the international branches and representative offices and oversees the management of the international subsidiary banks (Intesa Sanpaolo Bank Luxembourg S.A., Intesa Sanpaolo Bank Ireland Plc and Intesa Sanpaolo Brasil S.A. - Banco Multiplo, Banca Intesa - Russia), ensuring their overall coordination.
Financial Institutions Department	The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its highly sophisticated approach to relations with such customers is widely diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.
Global Transaction Banking Department	The Department is responsible for transaction banking products and services for the entire Group.
Proprietary Trading	The Sub-Department is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives.
Global Markets and Investment Banking & Structured Finance	The scope of the Division also includes the M&A, capital markets, structured finance and primary markets (equity and debt capital market) activities performed by Banca IMI.
Distribution structure	In Italy, the Corporate and Investment Banking Division has a total of 27 branches dedicated to corporate customers and public customers. At the international level, it operates in 25 countries in support of the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity.

Global Corporate Department

In 2018, the Global Corporate Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of investment banking transactions to the benefit of Italian and international customers. Support continued to be provided to corporate and public customers, drawing on the specialised expertise developed with the industry model. To reinforce origination activity, two specialist teams were created with the aim of developing strategic investment banking and structured finance deals, while improving cross-industry commercial coverage. In accordance with the International Growth project – a part of the Business Plan – international commercial growth efforts continued in support of important international counterparties.
The Group participated in numerous syndicated loans, including those to ACS, TIM, Vinci, Lavazza, Financiere Agache, Philip Morris, General Motors, Leonardo, Acciona, Iberdrola, Cheniere Energy, HeidelbergCement, Ferrovie dello Stato Italiane and Mubadala. Attention should also be drawn to support for acquisition financing in important operations realised during the year both in Europe and in the rest of the world: the acquisition by Takeda of Shire, by Michael Kors of Versace, by Comcast of Sky, by Blackstone of Thomson Reuters, by Global Infrastructure Partners (GIP) of Hornsea and by Keurig Green Mountain of Dr Pepper Snapple, subsequently acting as passive bookrunner in the bond. The Group took part in the acquisition of Prét-à-Manger by JAB and of the super-premium tequila Patrón by the Bacardi group.
The refinancing of NTV and that of the Marcegaglia Group were finalised. The Bank also acted as co-documentation agent in the Coty refinancing and as co-manager in the bond issued subsequently, as lender in project financing operations for Open Fiber and as bookrunner in the bridge to bond facility in favour of Essilor Luxottica. In the Middle East and North Africa, new customer development initiatives were implemented, in particular with the Dubai Electricity and Water Authority and TAQA (Abu Dhabi Electricity and Water Authority).
The Group was mandated lead arranger in the leveraged buyout of Recordati, financed the takeover bid on El Towers by F2i and supported the acquisition of Monsanto by Bayer.
In equity capital markets business, the Bank participated in the public tender offer by ACS/Hochtief and Atlantia.
In M&A deals, it acted as financial advisor to the fund HG Capital in the acquisition of Dada.
In debt capital markets operations, the Bank acted as sole lead manager in the Toyota retail bond issue, as co-manager in the bond issued by KME, Deutsche Telekom and Daimler, as bookrunner in the bond issues by TIM, RCI Banque, General Motors, Pirelli, ACEA, EP Infrastructure and Piaggio, and as joint bookrunner in the Enel green bond issue, the Iberdrola green hybrid bond issue and in the bonds of Gas Natural Fenosa and Telefonica. It also acted as final investor and sole bookrunner in the Eni private placement.
In cooperation with the Banca dei Territori Division, corporate welfare projects were also launched through the digital Welfare Hub platform and a Referral Agreement was signed with the insurance broker AON for the offering of brokerage services to the Division's corporate customers.
In cooperation with the Banca dei Territori Division and the Global Transaction Banking Department of the Corporate and Investment Banking Division, the new contract was signed with INPS for payment of pension instalments in Italy. Finally, the range of services offered to international customers was expanded to include the confirming platform that the Bank made available to its customers in partnership with a leading international firm.

International Department

In 2018, the International Department continued work on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets, specifically on the Australian market in view of the upcoming transformation of the current representative office of Sydney into a corporate branch.
As part of projects aimed at increasing competitiveness on customers, coverage and products in markets of strategic interest, the Department defined specific interventions to optimise synergies and opportunities for cross-selling.
The Division’s current international network is present in 25 countries through 14 wholesale branches, 11 representative offices and four corporate banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A. and Banca Intesa - Russia).

Financial Institutions Department

In 2018, the Financial Institutions Department, in synergy with Banca IMI, continued to assist its Italian and international customers in particularly complex and strategically important operating and extraordinary finance deals. In the banking sector, it provided advice and financing in the restructuring and sale of problematic assets, acted as joint bookrunner in senior debt issues and provided strategic advice. Among others, it is worth noting the debt refinancing relating to the acquisition of NEXI (former ICBPI - Istituto Centrale delle Banche Popolari Italiane), financial advice to the Holding Cassa Centrale Banca and to Banca Asti for the buyback of minorities in Biverbanca, as well as to Sparkasse for bancassurance partnerships.
With regard to business with non-banking customers (asset managers, insurers and non-banking financial service providers), the Group structured new products for the insurance business, participated in the securitisation of performing assets, specifically in the consumer credit sector (with operators such as Compass, Dynamica and IBL Banca) and, as arranger and lender, in operations on non-performing assets, both with foreign operators, funds in particular, and with Italian players (including Intrum). During the period, the Bank also participated in financing capital calls of funds (Algebris, Towers Watson).
In the real estate sector, a medium-term pool loan was granted to COIMA Res SIIQ.
During the year, the Group participated in the placement of bonds on behalf of the Ministry of the Economy and Finance and Cassa Depositi e Prestiti, in addition to collaborating with Poste, occupational pension funds and banking foundations.
Regarding operations with banks in emerging markets, in 2018, operations in Turkey were subject to careful monitoring and selective reductions of exposure. Conversely, operations in Gulf countries, in Saudi Arabia and in Egypt grew, both to support Italian customers and in the form of direct loans to local banks.
The Bank also supported Italian export financing in Sub-Saharan Africa and the Middle East and played a leading role in projects in infrastructure, oil and gas and aviation in Turkey, Oman, Zambia, Angola and Qatar. Mention should be made of

the commodities financing deals in Egypt, Russia and Kazakhstan for Egyptian General Oil Corporation, Metalloinvest, Uralkali and KazmunaiGas.
In the supply chain finance and receivables discounting sectors, the Bank participated, both directly and through third-party platforms, in discount programmes for numerous American and European customers, including Dell, Keurig, AT&T, Virgin Media and Vodafone. With regard to financial sponsors, the Group participated in numerous operations, including Investindustrial/Artsana/HTL Strefa, NB/Rigoni and CVC/Recordati in Italy and in KKR/Selecta, Blackstone/Thomson Reuters and ADIA/UPL internationally.
Lastly, the Group participated in the listing of SPACs and investment vehicles, such as SPAXS and NB Aurora, and in direct lending to private equity funds, including DeA Alternative Investments and NBRP III.

Global Transaction Banking Department

In 2018 the Global Transaction Banking Department expanded its international presence through projects such as instant payment and GPI, where Intesa Sanpaolo is among the most innovative banks.
The Department is monitoring the project for the entry into force of PSD2 regulations, developing aspects of compliance with the Directive, as well as a set of innovative services such as Open Banking, which activated its first customers during the year.
In line with the Business Plan and in order to increase the level of digitalisation of customer services, an offering was launched which, through partnerships with third-party partners, enables mobile management of payments using various solutions. Lastly, it is worth noting the project to improve the digital experience of business and corporate customers by redesigning corporate banking channels.

Proprietary Trading

In 2018, Proprietary Trading reported a decline in revenues on 2017, driving its contribution into negative territory.
The risk exposure to structured credit products amounted to 2,018 million euro as at 31 December 2018 with respect to funded and unfunded ABSs/CDOs, compared to 2,279 million euro as at 31 December 2017. In this context, the exposure to funded and unfunded ABSs/CDOs at fair value went from 2,034 million euro in December 2017 to 1,818 million euro in December 2018, down in relation to the repayments and sales carried out during the year.
The Hedge Fund portfolio as at 31 December 2018 amounted to 146 million euro in the trading book and 88 million euro in the banking book, down compared to 416 million euro and 19 million euro respectively as at 31 December 2017. During 2018, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure.

Global Markets and Investment Banking & Structured Finance

In 2018, Banca IMI operated in international financial markets characterised by increased volatility and a climate of general risk aversion. For the Global Market Securities Area, 2018 started off positively for fixed income and equity products. In the second half of the year, the decrease in liquidity due to growing tensions on public debt resulted in an overall increase in operations in futures and ETFs. The Market Hub platform showed record volumes of ETD batches dealt on the markets. Also thanks to the Global Market Solutions and Financing Area, Banca IMI maintained its leadership in Italy both in the structuring and active management of financial risk and in the securitisation and asset based financing sector. It offered customers solutions designed to optimise funding and economic and regulatory capital, deconsolidating assets and improving net financial position. The Finance & Investments Area achieved positive performance by managing the risks of the banking book and the derivatives portfolio, and monitoring the bank's liquidity position.
In the equity markets, on the Italian market Banca IMI participated in important operations such as the IPO by SPAXS and the capital increases by IGD and Fila. Internationally, the bank participated in the capital increase by Bayer, the IPO by DWS and the listing of the D-Shares of Qingdao Haier on the Frankfurt stock exchange. It also participated in the tender offers of Dada, Yoox Net-A-Porter and EI Towers.
In the debt capital markets, the bank participated in operations on Telecom Italia, Iren, Terna and Toyota in the corporate investment grade segment, as well as on Refinitiv/Reuters, Recordati and Coty Inc. in the corporate high yield segment. In the area of financial institutions, Banca IMI also handled the issues of Cassa Depositi e Prestiti and the Republic of Italy, and carried out transactions with customers in emerging markets.
In M&A Advisory, it supported F2i and Mediaset in the voluntary takeover bid on EI Towers which was concluded with the company's delisting, Enel Green Power in the sale of 50% of EF Solare, F2i in the acquisition of RTR and BC Partners in the acquisition of Forno d'Asolo.

With regard to structured finance, in 2018 Banca IMI recorded growth in intermediated volumes in project financing in the energy and telco sectors on the domestic market, and an increase in operations in the EMEA area. In the infrastructure market, the bank supported motorway and airport concessionaires and water services operators. In the domestic leveraged finance segment, it maintained a selective approach in pursuing new business opportunities, specifically in delisting operations such as Guala Closures and Recordati.
The real estate desk carried out intense origination activity, with an asset-light, geographical diversification approach, as well as specialised advisory activities in Italy and abroad.
In the Italian corporate lending market, the bank participated in the structuring and organisation of loans for leading Italian and international companies.
Lastly, in 2018 the Corporate Finance BdT structure was expanded in order to ensure direct coverage of target customers of the network and to manage the execution of extraordinary finance operations for all business customers.

International Subsidiary Banks

(millions of euro)

Income statement	2018	2017	Changes vs 2017		2017 Aggregate	2017 changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	1,324	1,309	15	1.1	1,312	12	0.9
Net fee and commission income	524	486	38	7.8	493	31	6.3
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	171	173	-2	-1.2	176	-5	-2.8
Other operating income (expenses)	-77	-61	16	26.2	-61	16	26.2
Operating income	**1,942**	**1,907**	**35**	**1.8**	**1,920**	**22**	**1.1**
Personnel expenses	-531	-502	29	5.8	-516	15	2.9
Other administrative expenses	-362	-346	16	4.6	-359	3	0.8
Adjustments to property, equipment and intangible assets	-82	-78	4	5.1	-81	1	1.2
Operating costs	**-975**	**-926**	**49**	**5.3**	**-956**	**19**	**2.0**
Operating margin	**967**	**981**	**-14**	**-1.4**	**964**	**3**	**0.3**
Net adjustments to loans	-117	-149	-32	-21.5	-152	-35	-23.0
Other net provisions and net impairment losses on other assets	-41	-6	35		-8	33	
Other income (expenses)	10	214	-204	-95.3	214	-204	-95.3
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**819**	**1,040**	**-221**	**-21.3**	**1,018**	**-199**	**-19.5**
Taxes on income	-138	-163	-25	-15.3	-163	-25	-15.3
Charges (net of tax) for integration and exit incentives	-35	-19	16	84.2	-28	7	25.0
Effect of purchase price allocation (net of tax)	-	-	-	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-2	-	2	-	-	2	-
Minority interests	4	3	1	33.3	3	1	33.3
Net income (loss)	**648**	**861**	**-213**	**-24.7**	**830**	**-182**	**-21.9**

(millions of euro)

	31.12.2018	01.01.2018	changes	
			amount	%
Loans to customers	31,538	28,610	2,928	10.2
Direct deposits from banking business	39,384	35,862	3,522	9.8

	31.12.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	31,300	30,767	533	1.7
Absorbed capital	3,463	3,406	57	1.7

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

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

The figures presented above and commented on below include the non-performing assets of CIB Bank (FUT) and the figures for Pravex Bank (both previously under the scope of the Capital Light Bank), as well as the Bucharest branch (former Venetian Banks), included in Intesa Sanpaolo Bank Romania, and Veneto Banka Sh.A. (Albania) and Veneto Banka d.d. (Croatia). The latter two banks were merged during the year. Eximbank has been consolidated with effect from 1 April 2018 but was excluded from the 2017 figures. Finally, Banca Intesa - Russia is not included within the scope of the Division, as it has been assigned to the Corporate and Investment Banking Division in accordance with the targets set out in the 2018-2021 Business Plan.

In 2018, the Division's operating income came to 1,942 million euro, up 1.1% on a like-for-like basis compared to the previous year (+1.6% at fixed exchange rates). A detailed analysis shows that net interest income came to 1,324 million euro (+0.9%),

mainly due to the performance reported by Bank of Alexandria (+22 million euro), Banca Intesa Beograd (+15 million euro), and Intesa Sanpaolo Bank Romania (+13 million euro), which was partly offset by PBZ - including Intesa Sanpaolo Banka Bosna i Hercegovina, Intesa Sanpaolo Bank (Slovenia) and Veneto Banka d.d. (total of -22 million euro) and VUB Banka (-17 million euro). Net fee and commission income, equal to 524 million euro, increased (+6.3%) compared to 2017. The increase is attributable to VUB Banka (+14 million), PBZ - including Intesa Sanpaolo Banka Bosna i Hercegovina, Intesa Sanpaolo Bank (Slovenia) and Veneto Banka d.d. (+10 million), Banca Intesa Beograd (+8 million) and Bank of Alexandria (+4 million). Among the other revenue components, net profits (losses) on financial assets and liabilities at fair value, equal to 171 million euro, decreased (-2.8%), while other operating costs increased.
Operating costs of 975 million euro increased by 2% (+2.6% at fixed exchange rates), specifically on personnel expenses (+2.9%).
As a result of the revenue and cost performance described above, the operating margin was essentially stable (+0.3%) at 967 million euro. Gross income, amounting to 819 million euro, decreased compared to 1,018 million euro for 2017 (-19.5%), which had benefited from the positive effect from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect, there was a slight decrease (-1.1%). The Division closed 2018 with net income of 648 million euro (-21.9%).
In the fourth quarter of 2018, the operating margin remained steady compared with the third quarter, as a result of the increase in revenues, which offset the growth in operating costs typical of the end of the year. Gross income and net income were adversely impacted by the increase in adjustments to loans and provisions.

The Division's intermediated volumes increased compared to the beginning of the year (+10%), due to the positive performance of loans to customers (+2.9 billion euro, or +10.2%), as well as direct deposits from banking business (+3.5 billion euro, or +9.8%) mainly driven by the amounts due to customers.

In 2018, the International Subsidiary Banks Division continued the process of moving towards a common operating model in the areas of governance, control/support, commercial strategy, and information technology.
With the aim of reinforcing and optimising the international subsidiary banks' presence in their territories of reference, the strategy for repositioning the Slovenian bank was defined and the action plan for its development was designed within the framework of the South-eastern Europe Hub. During the year, a strategic partnership was also formalised between the Czech and Slovak and Hungarian banks and the governance model defined at the level of the Central Europe Hub was implemented. In addition, the integration of the entities originating from the former Venetian Banks was completed in Romania, Albania and Croatia, while the integration works are under way in Moldova.
In commercial dealings, the Customer Relationship Management method continued to be extended to the Corporate-SME segment in Slovakia and the features and services of digital channels to be expanded in Croatia, Hungary and Egypt, while the adoption project was completed in Albania.
With regard to the service model, the pilot phase of the programme to adopt the Group's target distribution model was completed during the year in Slovakia, Croatia, Serbia and Hungary and the advisory model was also implemented in investment services in Croatia, Hungary, Slovenia and Slovakia.
In information technology, the implementation of the target core banking system continued at the Serbian bank, while the analysis was launched for the Slovak-Czech bank, while the transfer of the Hungarian bank's data centre to Italy is being finalised.
Lastly, during the period, the target operating model and the product mix of Qingdao Yicai Wealth Management in China were finalised.

Business	It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.
Mission	Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division.
Organisational structure	
South-Eastern Europe	Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.
Central-Eastern Europe	Presence in Slovakia, Slovenia and Hungary.
Commonwealth of Independent States & South Mediterranean	Presence in Egypt, Ukraine and Moldova.
Distribution structure	Over 1,000 branches in 12 countries.

South-Eastern Europe

In 2018, the operating income of the **Privredna Banka Zagreb** group (including Veneto Banka d.d.) amounted to 500 million euro, down on 2017 (-1.9%), due to the unfavourable performance of net interest income and other operating costs, not completely offset by the increase in fee and commission income and net profits (losses) on financial assets and liabilities designated at fair value. Operating costs of 208 million euro increased (+1.5%), primarily due to the rising trend in personnel expenses. The operating margin came to 292 million euro (-4.2%). Gross income amounted to 249 million euro (+13%), benefiting from the lower adjustments to loans, while net income was 204 million euro (+25.3%).

Banca Intesa Beograd, including Intesa Leasing Beograd, generated an operating margin of 142 million euro, up 8.2% on the previous year. Operating income increased by 7.5%, due to the performance of net interest income and net fee and commission income. Operating costs increased (+6.4%). Gross income amounted to 115 million euro (+5.1%), while net income was 101 million euro (+3.2%).

Intesa Sanpaolo Banka Bosna i Hercegovina closed 2018 with an operating margin of 21 million euro, up on the previous year (+2.4%). This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Gross income, amounting to 20 million euro, increased by 26.3%, while net income came to 18 million euro (+43.9%).

Intesa Sanpaolo Bank Albania (including Veneto Banka Sh.A.) reported an operating margin of 11 million euro, down on 2017 (-18.5%), due to the fall in revenues and the increase in operating costs. Gross income amounted to 5.2 million euro (-37.4%). Net income, equal to 3.4 million euro, fell by 42.7%.

Intesa Sanpaolo Bank Romania reported an operating margin of 11 million euro, compared to the essential break-even of 2017, due to the increase in operating income (+20.6%), attributable to higher interest income, and lower costs (-12.1%). The company closed the year with net income of 1.2 million euro, compared to -11 million euro in the previous year.

Central-Eastern Europe

Intesa Sanpaolo Bank (Slovenia) reported an operating income of 77 million euro, up by 1.7% on 2017, mainly due to the higher profits on financial assets and liabilities measured at fair value. Operating costs were down (-2.6%). Gross income more than doubled, benefiting from the decline in net adjustments to loans. The same trend was seen in net income, which amounted to 11 million euro in 2018.

The **VUB Banka Group** reported an operating margin of 274 million euro, up slightly on 2017 (+0.5%) as a result of a declining trend in operating costs (-2.2%) against a decrease in operating income (-0.8%). Gross income amounted to 216 million euro, down by 6.9%, mainly due to greater provisions for risks and charges. Net income came to 160 million euro (-8.4%).

The **CIB Bank group** reported operating income of 167 million euro, down by 6.4% on 2017, due to the decline in its main components, particularly net interest income. Operating costs decreased (-6%), especially personnel and administrative expenses. Net income came to 43 million euro, down 45.8% on the previous year.

Commonwealth of Independent States & South Mediterranean

Pravex reported a negative operating margin (-3.3 million euro), compared with -7.4 million euro in 2017, as a result of the increase in operating income (+34.7%), attributable to the positive performance by net interest income, and stable operating costs. The net loss, equal to -4 million euro, remained at levels similar to that of the previous year.

Bank of Alexandria reported an operating margin of 187 million euro, up 2.1% compared to 2017 (+6.6% at fixed exchange rates). Operating income of 297 million euro increased (+5.3%, +9.9% at fixed exchange rates), due to the performance of net interest income and fee and commission income. Operating costs rose (+11.2%; +16.1% at fixed exchange rates) across all expense captions. Net income came to 122 million euro, substantially stable on the previous year (+4.2% at fixed exchange rates).

Private Banking

(millions of euro)

Income statement	2018	2017	Changes vs 2017		2017 Aggregate	2017 changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	159	172	-13	-7.6	172	-13	-7.6
Net fee and commission income	1,696	1,697	-1	-0.1	1,714	-18	-1.1
Income from insurance business	-	-	-	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	14	30	-16	-53.3	31	-17	-54.8
Other operating income (expenses)	9	10	-1	-10.0	10	-1	-10.0
Operating income	**1,878**	**1,909**	**-31**	**-1.6**	**1,927**	**-49**	**-2.5**
Personnel expenses	-349	-336	13	3.9	-336	13	3.9
Other administrative expenses	-237	-230	7	3.0	-235	2	0.9
Adjustments to property, equipment and intangible assets	-11	-15	-4	-26.7	-15	-4	-26.7
Operating costs	**-597**	**-581**	**16**	**2.8**	**-586**	**11**	**1.9**
Operating margin	**1,281**	**1,328**	**-47**	**-3.5**	**1,341**	**-60**	**-4.5**
Net adjustments to loans	5	8	-3	-37.5	8	-3	-37.5
Other net provisions and net impairment losses on other assets	-13	-35	-22	-62.9	-35	-22	-62.9
Other income (expenses)	11	8	3	37.5	8	3	37.5
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**1,284**	**1,309**	**-25**	**-1.9**	**1,322**	**-38**	**-2.9**
Taxes on income	-404	-392	12	3.1	-396	8	2.0
Charges (net of tax) for integration and exit incentives	-30	-33	-3	-9.1	-33	-3	-9.1
Effect of purchase price allocation (net of tax)	-1	-4	-3	-75.0	-4	-3	-75.0
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-	-
Net income (loss)	**849**	**880**	**-31**	**-3.5**	**889**	**-40**	**-4.5**

(millions of euro)

	31.12.2018	01.01.2018	changes	
			amount	%
Assets under management (1)	111,955	116,202	-4,247	-3.7

	31.12.2018	31.12.2017	changes	
			amount	%
Risk-weighted assets	7,670	10,218	-2,548	-24.9
Absorbed capital	746	986	-240	-24.3

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

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

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

In 2018, the Division generated gross income of 1,284 million euro, down on a like-for-like basis (-38 million euro, or -2.9%) compared with 2017 mainly as a result of lower operating income (-49 million euro) and higher operating costs (+11 million euro), only partly offset by lower provisions (-22 million euro).
In detail, the performance of operating income was attributable to lower net interest income (-13 million euro), due to the continued very low levels of interest rates on the entire yield curve and on negative values in the short-term segment, to profits (losses) on financial assets and liabilities designated at fair value (-17 million euro) and fee and commission income (-18 million euro), in relation to a less favourable mix of products managed. Operating costs increased (+1.9%): the increase

in personnel expenses, related to the strengthening of the workforce, mainly in the commercial area, was only partly offset by the reduction in amortisation and depreciation.
The decrease in provisions is correlated with those for litigation, disputes, revocatory actions and complaints from customers, as a result of the closing of several positions with expenses lower than those estimated.
Lastly, net income was 849 million euro (-40 million euro, or -4.5%), also as a result of an extraordinary charge of 25 million euro incurred to settle a tax dispute which increased the tax rate for the year.

The values of assets under administration have been recognised in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.
As at 31 December 2018, assets gathered, which also include the contribution of the trust mandates for SIREF Fiduciaria, amounted to 179.6 billion euro (-5.5 billion euro compared to the beginning of the year). This was attributable to the negative market performance, which more than offset the positive net inflows. The assets under management component amounted to 112 billion euro (-4.2 billion euro).

With regard to significant corporate events, on 10 April 2018, Fideuram acquired 94.6% of the share capital of Morval Vonwiller Holding. This transaction is part of the project for the international development of the Private Banking Division set out in the 2018-2021 Business Plan, which identifies the acquisition of the Morval Vonwiller group, operating in private banking and wealth management, with head office in Switzerland and international presence, as a strategic opportunity for expanding operations outside Italy.

On 30 June 2018 (with effect from 1 January 2018 for accounting and tax purposes), the integration of the two fiduciary companies of the Private Banking Division was finalised by merger by incorporation of Fideuram Fiduciaria into Sirefid, which concurrently changed its name to SIREF Fiduciaria, with the aim of creating the first Italian operator dedicated exclusively to fiduciary activities, capable of best meeting the needs of the high-end customers of the Private Banking Division.

Business	Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.
Mission	Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations.
Organisational structure	
Fideuram	Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of more than 5,000 Fideuram and Sanpaolo Invest financial advisors.
Intesa Sanpaolo Private Banking	Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of around 900 in-house private bankers.
SIREF Fiduciaria	A company specialised in providing fiduciary services, created through the merger by incorporation of Fideuram Fiduciaria into Sirefid.
Distribution structure	Network of 222 branches in Italy, 5 branches abroad and 5,995 financial advisors and private bankers.

Asset Management

(millions of euro)

Income statement	2018	2017	Changes amount	Changes %
Net interest income	1	1	-	-
Net fee and commission income	701	718	-17	-2.4
Income from insurance business	-	-	-	-
Profits (Losses) on financial assets and liabilities designated at fair value	-10	3	-13	
Other operating income (expenses)	25	63	-38	-60.3
Operating income	**717**	**785**	**-68**	**-8.7**
Personnel expenses	-70	-76	-6	-7.9
Other administrative expenses	-80	-80	-	-
Adjustments to property, equipment and intangible assets	-1	-1	-	-
Operating costs	**-151**	**-157**	**-6**	**-3.8**
Operating margin	**566**	**628**	**-62**	**-9.9**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	2	-	2	-
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**568**	**628**	**-60**	**-9.6**
Taxes on income	-103	-116	-13	-11.2
Charges (net of tax) for integration and exit incentives	-	-1	-1	
Effect of purchase price allocation (net of tax)	-	-	-	-
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-10	-18	-8	-44.4
Net income (loss)	**455**	**493**	**-38**	**-7.7**

(millions of euro)

	31.12.2018	01.01.2018	changes amount	changes %
Assets under management	242,609	253,161	-10,552	-4.2

	31.12.2018	31.12.2017	changes amount	changes %
Risk-weighted assets	946	914	32	3.5
Absorbed capital	100	99	1	1.0

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

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

Operating income in 2018, equal to 717 million euro, decreased by 8.7% on the previous year, as a result of the fall in fee and commission income, the negative contribution from the profits (losses) on financial assets and liabilities designated at fair value and the absence of the contribution from the investment in Allfunds Bank (around 25 million euro), which was sold at the end of 2017. Operating costs reported a decrease (-3.8%) in personnel expenses. The ratio of operating costs to average assets under management remained essentially stable over the twelve months.
Given the cost and revenue performance described, the operating margin came to 566 million euro, down 9.9% on 2017. The Division closed 2018 with income gross of minority interests of 465 million euro and net income of 455 million euro (-7.7%).
In terms of quarterly performance, the fourth quarter showed a decrease in revenues and the main income margins compared to the third quarter.

Overall, assets managed by the Asset Management Division amounted to 242.6 billion euro at the end of December, down 4.2% year-on-year, as a result of a negative market performance, which more than offset the net inflows. The trend in inflows is attributable to the contribution of mutual funds (+2 billion euro) and institutional mandates (+3.7 billion euro), mostly concentrated in insurance contracts, which exceeded the outflows relating to retail portfolio management schemes (-3.4 billion euro).
As at 31 December 2018, Eurizon Capital's Italian market share of assets under management was 14.9% (gross of duplications), up since the beginning of the year. Excluding the closed-end funds segment, in which the company does not operate, the share of assets under management at the end of December rose to 15.3%.

With regard to significant corporate events, in the last part of 2018, the Boards of Directors of Eurizon Capital SGR and Banca IMI approved the proposed partial spin-off of Banca IMI to Eurizon Capital SGR, which entails the assignment to the Asset Management Company of the entire investment held by the demerged company in Epsilon SGR, equal to 49% of the share capital. The finalisation of the operation, expected in 2019, is subject to the issue of the required authorisations by the Supervisory Authorities pursuant to and in accordance with the reference regulations.
After the end of 2018, as part of the corporate simplification under way in the Group and the activities for implementing the 2018-2021 Business Plan, Intesa Sanpaolo acquired from Eurizon Capital SGR its investments held in the consortium company Intesa Sanpaolo Group Services and in the Chinese company Qingdao Yicai Wealth Management.

Business	Asset management.
Mission	To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors.
Organisational structure	
Eurizon Capital SGR	Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.
Epsilon SGR	Specialised in active portfolio management, and in particular in quantitative and multi-strategy management, with total return investment objectives. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Banca IMI.
Eurizon Capital S.A. (Luxembourg)	The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management and money market products.
Eurizon Capital (HK) Ltd. (Hong Kong)	A company wholly owned by Eurizon Capital SGR, established to develop consulting activities on financial instruments and portfolio management in the Asian market.
VUB Asset Management (Slovakia)	A Slovak asset management company, 100%-owned by Eurizon Capital SGR, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).
PBZ Invest d.o.o. (Croatia)	A Croatian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Croatian mutual funds and offers individual portfolio management services to retail and institutional customers.
CIB Investment Fund Management Ltd (Hungary)	A Hungarian asset management company and wholly owned subsidiary of the Slovak company VUB Asset Management. It promotes and manages Hungarian mutual funds and offers individual portfolio management services to retail and institutional customers.
Penghua Fund Management Company Limited	Chinese fund manager 49%-owned by Eurizon Capital SGR.
Eurizon SLJ Capital Ltd (U.K.)	An English company controlled by Eurizon Capital SGR through a 65% interest, which conducts research and provides investment and advisory services.
Qingdao Yicai Wealth Management Co. Ltd.	A Chinese company headquartered in Qingdao, 20%-owned by Eurizon Capital SGR, 55%-owned by Intesa Sanpaolo and 25%-owned by Fideuram-Intesa Sanpaolo Private Banking.

Insurance

(millions of euro)

Income statement	2018	2017	Changes amount	Changes %
Net interest income	-	-	-	-
Net fee and commission income	-	-	-	-
Income from insurance business	1,119	1,077	42	3.9
Profits (Losses) on financial assets and liabilities designated at fair value	-	-	-	-
Other operating income (expenses)	-13	-10	3	30.0
Operating income	**1,106**	**1,067**	**39**	**3.7**
Personnel expenses	-84	-80	4	5.0
Other administrative expenses	-98	-95	3	3.2
Adjustments to property, equipment and intangible assets	-5	-3	2	66.7
Operating costs	**-187**	**-178**	**9**	**5.1**
Operating margin	**919**	**889**	**30**	**3.4**
Net adjustments to loans	-	-	-	-
Other net provisions and net impairment losses on other assets	-5	-2	3	
Other income (expenses)	-	-	-	-
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**914**	**887**	**27**	**3.0**
Taxes on income	-245	-248	-3	-1.2
Charges (net of tax) for integration and exit incentives	-5	-9	-4	-44.4
Effect of purchase price allocation (net of tax)	-16	-17	-1	-5.9
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**648**	**613**	**35**	**5.7**

(millions of euro)

	31.12.2018	01.01.2018	changes amount	changes %
Assets under management (1)	149,358	152,470	-3,112	-2.0

	31.12.2018	31.12.2017	changes amount	changes %
Risk-weighted assets	-	-	-	-
Absorbed capital	4,084	3,947	137	3.5

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

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

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

In 2018, the Division reported income from insurance business of 1,119 million euro, up by 42 million euro (+3.9%) on 2017. This positive performance was driven both by the technical margins for life insurance products and the profitability for the protection business.
The cost/income ratio, at 16.9%, remained at excellent levels, substantially in line with the previous year.
Gross income was 914 million euro, up by 27 million euro (+3%) on 2017, as a result of higher operating income (+39 million euro), despite a moderate increase in operating costs (+5.1%), linked to the increase in the workforce and projects to support goals of expanding the non-life segment.
Lastly, net income, after the attribution of taxes of 245 million euro, charges for integration and exit incentives of 5 million euro and the effect of purchase price allocation for 16 million euro, amounted to 648 million euro (+5.7%).

Direct deposits from insurance business, amounting to 149,358 million euro, were down compared to the beginning of the year (-2%, or -3.1 billion euro), mainly due to the technical reserves.

The Division's collected premiums for life policies and pension products amounted to 19.3 billion euro, down on 2017. Collected premiums for the life insurance business were concentrated in unit-linked products (43%), multi-line products (29%) and Class I products (24%). Collected premiums for pension products reached 803 million euro, an improvement of 10% on 2017, thanks to the positive performance of the open pension funds and the individual pension plans.

Collected premiums for the protection business totalled 507 million euro, up by 17.4% on the previous year, driven by the strong growth of non-motor products, which are the focus of the 2018-2021 Business Plan. In particular, Home and Health products almost doubled.

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

Corporate Centre

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

In 2018, the Corporate Centre reported a gross loss of 2,242 million euro, compared with a gross loss of 2,848 million euro in the previous year, in the latter case net of the public contribution of 3,500 million euro received to offset the impact of the former Venetian Banks deal on capital ratios. In terms of operating income, the decrease in the net interest income was mostly due to the deleveraging of bad loans (including in connection with the Intrum transaction) and the resulting lesser time value effect. The operating costs, net of the amount charged back to the business units for the performance of the services, governed by specific agreements, showed a significant saving compared to 2017. The period ended with a net loss of 1,895 million euro, an improvement on the loss of 2,050 million euro recorded in 2017 (also net of the above contribution). The income statement of the Corporate Centre includes the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking industry and consequently outside the company management. Those charges, which include the contributions to the resolution fund and the deposit guarantee scheme and the write-off of the subordinated security issued by Banca Carige and subscribed within the framework of the intervention of the Voluntary Scheme of the National Interbank Deposit Guarantee Fund, amounted to 340 million euro, after tax, down compared with the 678 million euro of the previous year, which also included the charges relating to the Atlante Fund.
Finally, 16 million euro of net income attributable to minority interests was allocated to the Corporate Centre, compared with a negative 245 million euro of the Aggregate figure in 2017, largely consisting of the overall loss reported by the acquired Aggregate Set.

Capital Light Bank

In 2018, the ordinary and extraordinary transactions carried out on the assets held by the Capital Light Bank continued with the aim of reducing and enhancing the non-core assets. Since the Business Unit was established in 2014, the total deleveraging achieved came to over 43 billion euro, of which around 16 billion euro achieved in 2018. That amount includes the effects of the sale to Intrum of the “Savoy” portfolio of bad loans, with a gross amount of 10.8 billion euro, which was de-consolidated starting in December 2018. The remaining portion of the reduction in assets is mainly due to ordinary operations: recovery activities continued on the portfolio of bad loans managed, with collections that came to around 1.4 billion euro, a value including those achieved from the Savoy portfolio sold. In the last quarter of 2018, efforts increased to launch the joint venture with Intrum Justitia, a business partnership focused on creating a leading operator in the NPL market, with the goal of further improving the performance of recovery activities. In that regard, it is noted that at the beginning of December 2018, the new company called Intrum Italy S.p.A. began full operations, with the contribution of the business units of Intesa Sanpaolo Group Services (former Loan Recovery Department), Provis and Re.O.Co. and the activation of new processes. The Group maintains a minority share in Intrum Italy S.p.A. (49%).
Re.O.Co. carried out activities with a view to managing real estate collateral in a more pro-active manner. This entails both direct involvement in auctions and "auction support", whereby external investors are encouraged to intervene, by choosing the interventions so as to maximise the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In 2018, driven by supporting action and direct participation in auctions for about 270 properties, approximately 13 million euro of properties were bought. Lastly, measures were implemented on loans to public and project finance counterparties and on non-strategic equity investments, aimed at accelerating the natural reduction in those assets. Moreover, in line with the plan of corporate simplification linked to the 2018-2021 Business Plan, in July the European Central Bank authorised the merger by incorporation of IMI Investimenti into Intesa Sanpaolo, which was finalised in the last quarter of the year.

Treasury services

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

In 2018, Intesa Sanpaolo continued to carry out its role in various projects, confirming its role as a critical participant on the ECB settlement platforms (Target2) and activating “Instant Payments” for all customers, thereby becoming one of the first banks in Italy and Europe to operate in the instant payment market. As regards the most important project in the Eurosystem, which will lead to the creation of the single Central Bank platform for cash, securities and collateral settlement (“T2-T2S Consolidation” project), the Bank is actively participating in European working groups to prepare the functional specifications and the operating strategy, which will be launched in the two-year period 2021-2022.

During the year, the main money-market curves showed very short-term yields that remained close to the Deposit Facility rate. In June the ECB announced a further step in the process of normalising its expansionary policy, stabilising the tapering of government bond purchases to 15 billion euro a month for the last quarter of the year. In December, having terminated the Quantitative Easing programme, the ECB announced its intention to maintain an accommodating monetary policy to handle the increased uncertainty generated by global risk factors. With regard to the United States, the Federal Reserve increased its reference rates by 25 basis points at each quarterly meeting, making it clear in the last meeting of the year that it intends to make two additional adjustments in 2019.
With regard to the Intesa Sanpaolo’s euro and foreign currency short-term securities funding programmes, the outstanding amount decreased during the year due to the cautious behaviour of investors in relation to the Italian market, characterised by volatility and uncertainty regarding the fiscal package.

Considering the reference macroeconomic context, transactions in the government bond portfolio in 2018 were focused on prudent management of credit risk. In particular, the sensitivity associated with Italian government bonds was reduced at the end of April in response to unfavourable risk/return levels. Moderate purchases were made in June in order to exploit the sharp widening of spreads, and, concurrently, positions were acquired on Core Europe government bonds and US Treasury bonds to reduce the overall volatility of the portfolio. Non-government positions were maintained at low levels, due to the very low expected yields if compared to the volatility of the markets.
Volumes of repos on Italian government bonds increased slightly on the previous year. The spread between core nation and Italian govies rates gradually decreased over 2018, with the exception of the expansion recorded at the end of each quarter, which, however, was lower than the previous year. Italian repo rates stood at levels just above that of the depo facility.

In terms of medium/long-term funding operations, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 6.1 billion euro in 2018. Among the securities placed, there was a prevalence of the component consisting of structured financial instruments at 94% (primarily equity-linked structures), while the share of plain-vanilla instruments amounted to 6%. A breakdown by average maturity shows that 37% is comprised of financial instruments with 2-, 3- and 4-year maturities, 49% of 5-, 6- and 7-year securities and the remaining 14% of 8- and 10-year securities.
On the international markets, institutional unsecured funding transactions were completed for a total of around 5.6 billion euro through senior bond issues as well as, to a minimum extent, certificates placed with institutional investors. In detail, the following public transactions were undertaken. In January, a senior fixed-rate security was issued for 2.5 billion USD (corresponding to around 2.1 billion euro), aimed at the US market, in three tranches (1 billion USD with a 5-year duration, 1 billion USD with a 10-year duration, and 500 million USD with a 30-year duration). In March a fixed-rate senior bond of 46.6 billion JPY was placed (equivalent to approximately 354 million euro) on the Japanese market, in four tranches: 30.6 billion JPY with a 3-year duration, 4 billion JPY with a 5-year duration, 2 billion JPY with a 10-year duration and 10 billion JPY with a 15-year duration. The bond was the first "Tokyo Pro Bond" issued by the Bank. Lastly, a 10-year security was floated for 1.25 billion euro along with a 5-year security for 1 billion euro, both senior, fixed-rate and intended for European institutional investors.
During the year, within the multi-originator programme guaranteed by ISP OBG, the 11th series matured for an amount of 1.375 billion euro and the 12th series maturing in August 2018 was redeemed in advance for an amount of 2.154 billion euro. In March, the 25th and 26th series of floating-rate securities were issued for a total of 3.9 billion euro with a duration of 7 and 10 years respectively, whereas in September the 27th and 28th series were issued, both for 1.6 billion euro, at a floating rate and with a duration of 11 and 12 years respectively. In November, the 29th and 30th series were issued, each for 1.6 billion euro, floating rate, with durations of 8 and 12 years, in addition to the issue of the 31st series in December, for 1.275 billion euro, at a floating rate and with a duration of 13 years. All the securities, which are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS, were subscribed by the Parent Company and are eligible with the Eurosystem.
With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, the 11th series, which had been partially redeemed in January for 600 million euro and in July for an additional 250 million euro, matured with a residual notional amount of 250 million euro.
Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 23rd series was issued in February for an amount of 2 billion euro. This is a floating-rate security with a duration of 12 years, listed on the Luxembourg Stock Exchange, rated Aa2 by Moody's, subscribed by the Parent Company and eligible with the Eurosystem. In July, securities in the 24th series were placed on the market for 1 billion euro at a fixed rate of 1.125% with a duration of 7 years. The securities, listed on the Luxembourg Stock Exchange, have a Moody's rating of Aa2. A second multi-originator self-securitisation on a portfolio of loans granted to small and medium-sized enterprises (SMEs) was completed in December by the special purpose vehicle company Brera Sec. which issued two classes of floating-rate securities for a total of 5.3 billion euro. The securities were subscribed by the originators (Intesa Sanpaolo, Cassa di Risparmio in Bologna and Banca CR Firenze) in amounts proportional to the portfolios sold. Only the senior class, amounting to 3.75 billion euro, with an A (High) rating from DBRS and A1 from Moody's, is eligible with the Eurosystem.

As regards management of the collateral eligible for refinancing operations at central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of December 2018, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was approximately 13.4 billion euro.

Active Value Management (AVM)

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group's banking book – in the segment over 18 months – is handled by the ALM structures under the supervision of the Financial and Market Risks Head Office Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover, specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group Financial Risks Committee within the limits established by the Board of Directors. The ALM structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural component of liquidity risk is managed, based on the liquidity policies defined by the Group internally, by monitoring the current and future short and long-term liquidity balances, and defining the funding plan along with the related bond and corporate funding.

Chief IT, Digital and Innovation Officer Governance Area

At the beginning of 2018 the Chief IT, Digital and Innovation Governance Area (CITDIO) was established, to drive the Group's digital transformation, by upgrading the architecture of IT systems and processes, introducing new digital platforms, innovating the experiences of our customers and employees and strengthening IT security controls.

Structures have been created in the CITDIO area to monitor specific issues:
- Transformation Center, to oversee architecture and digitalisation issues;
- Digital Business Partners, as functions in charge of dialogue and facilitation between the ICT Department and Business and Governance Functions;
- Innovation Department, focusing on internal innovation;

Moreover, the IT, Operations, Data Office and Cyber Security structures were placed within the scope of the Area to ensure a common vision and oversight.

As per the Business Plan, the main objectives of the Area are: scaling up digitalisation, ensuring impact innovation, setting up digital-ready IT systems and processes, expanding the structure with new skills, maintaining the operational structure at high levels of efficiency, evolving the methods of working between business and IT, managing and exploiting the intrinsic potential of data and related innovative analysis techniques (Data Science) and focusing even more on effective investments.

The Area Structures contributed to the execution of measures required by the evolution of the domestic, EU and international regulatory frameworks. Regulatory projects were completed, with specific attention to new accounting standards (IFRS 9), analytic reporting on loans (ANACREDIT), the adoption of Group VAT and the processing of sensitive data (GDPR).

The Area's commitment in 2018 also entailed the implementation of IT projects to support the development of new businesses and to optimise and streamline processes, complete the development of multi-channel retail services, launch corporate multi-channel services and upgrade data management methods. With regard to projects for optimising costs, the former Venetian Banks were integrated into Group platforms. Alongside this, the simplification of architectures is continuing through the consolidation of the Network Banks into the Banca dei Territori Division.

In 2018, the activities in the Group IT Plan also continued with regard to de-risking. Specifically, the NPL management platform was carved out and the Pulse platform was activated for the pro-active management of the loan portfolio.

The insourcing of activities for the purpose of reducing costs and re-appropriating competencies continued as well. Data Scientists, Service Designers and Cyber Security experts were hired, as these are issues of increasing importance, and support projects were also launched:
- the Robotics centre was established for operating process automation;
- the focus was increased on service design and user experience design, underlying the redesign of the customer journey towards a digital experience;
- the Intesa Sanpaolo Cybersecurity strategy for 2018-2021 was defined, which entails the adoption at Group level of a common approach based on (i) strengthening and innovating security measures to ensure the "digitalisation" of the Group's services; (ii) implementing integrated management of cyber risks, in line with the Group's Risk Appetite Framework (RAF); (iii) systematically employing the most innovative technologies; and (iv) adopting a pro-active role as an influencer in relation to cyber security issues at international level;
- the Big Data Lab was set up, composed of internal Data Scientists, who have already completed a dozen highly valuable use cases to support the Business Units and Governance Areas

In the area of Innovation, a solid foundation was laid to launch the initial focused testing on issues of increasing importance and the adoption of new technologies. At the same time, significant partnerships have been developed with international ecosystems and incubators in order to capture the relevant fintech, specific to our business model, also with a view to an Open API Platform capable of agile integration of new technologies.

GEOGRAPHICAL AREAS

(millions of euro)

	Italy	Europe	Rest of the World	Total
Operating income				
2018	14,266	2,905	704	17,875
2017	13,577	3,147	749	17,473
2017 Aggregate	13,944	3,147	749	17,840
% change (a)	2.3	-7.7	-6.0	0.2
Loans to customers				
31.12.2018	327,336	51,214	15,000	393,550
01.01.2018	335,212	50,809	13,518	399,539
% change (b)	-2.3	0.8	11.0	-1.5
Direct deposits from banking business				
31.12.2018	350,585	55,681	8,816	415,082
01.01.2018	354,297	61,210	8,231	423,738
% change (b)	-1.0	-9.0	7.1	-2.0

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

(a) The change expresses the ratio between 2018 and 2017 Aggregate.

(b) The change expresses the ratio between 31.12.2018 and 1.1.2018.

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 80% of revenues, 83% of loans to customers and 84% of direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation, Ukraine, Moldova and in the Mediterranean area (Egypt).
With regard to operating performance in 2018, loans to customers increased abroad and declined in Italy, whilst direct deposits from banking business grew in the rest of the world but fell in Italy and Europe. Finally, operating income increased in Italy but decreased in Europe and in the rest of the world.

Corporate governance and remuneration policies

Corporate Governance and remuneration policies

Corporate Governance

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

Shareholder base

According to records in the Shareholders' Register, as at 31 December 2018, shareholders with stakes exceeding 3% – threshold that, if exceeded, requires disclosure to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – are shown in the table below. It is worth mentioning that, when applying current legislation, shareholders by way of asset management could have requested the exemption from reporting until exceeding the threshold of 5%.

Shareholder	Ordinary shares	% held on ordinary share capital
Compagnia di San Paolo	1,188,947,304	6.790%
Fondazione Cariplo	767,029,267	4.381%

The aggregate investment of 6.952%, of which 1.941% with voting rights, disclosed by JPMorgan Chase & Co. in form 120 B updated as at 26 November 2018, has been recalculated in 6.951%, of which 1.940% with voting rights, due to the change in Intesa Sanpaolo's share capital of 26 November 2018 as a result of the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. made the original disclosure on 16 July 2018 (through form 120 B) in view of the positions held in relation to the issue of LECOIP 2.0 Certificates, having as underlying instruments Intesa Sanpaolo ordinary shares, that the Intesa Sanpaolo Group's employees received under the 2018-2021 LECOIP 2.0 Long-term Investment Plan based on financial instruments

One-tier governance system

Intesa Sanpaolo has adopted the one-tier governance system and therefore operates through a Board of Directors, within which guidance and strategic supervision powers converge; the control functions are carried out by a committee within the Board of Directors, made up entirely of independent Directors appointed by the Shareholders' Meeting (the Management Control Committee); the management functions, without prejudice to the powers reserved for the Board of Directors, mainly fall to the Managing Director and CEO-Chief Executive Officer.
The practical application of the one-tier system to the Bank's structure is marked by a clear division of roles and responsibilities between the Governing Bodies:

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

The Shareholders' Meeting

The Shareholders' Meeting is the body deemed to represent all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, irrespective of their attendance or dissent.
In the one-tier system adopted by the Bank, the ordinary Shareholders' Meeting resolves, amongst other things, on:

- the approval of the financial statements and distribution of profits;
- the appointment, revocation and determination of remuneration with respect to the positions of Board Member, Chairman and Deputy Chairperson of the Board of Directors and Chairman and member of the Management Control Committee;
- the approval of the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments;
- the appointment and revocation of the statutory audit mandate and the determination of the relative fees, upon the reasoned proposal of the Management Control Committee;
- the other matters entrusted to its authority by law or by the Articles of Association.

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

The Board of Directors is composed of a minimum of 15 up to a maximum of 19 members, including non-shareholders, appointed by the Shareholders' Meeting on the basis of slates submitted by Shareholders. Board Members remain in office for three financial years until the date of the next Shareholders' Meeting called to approve the financial statements and the proposal for allocation of net income in accordance with Article 2364 of the Italian Civil Code and may be re-elected.
The Shareholders' Meeting of Intesa Sanpaolo, held on 27 April 2016, determined the number of members of the Board of Directors as 19 and appointed the Board of Directors for the 2016/2017/2018 financial years, electing as its Chairman Gian Maria Gros-Pietro and as Deputy Chairperson Paolo Andrea Colombo. The election took place on the basis of slates of candidates who meet the requirements envisaged by law and by the Articles of Association.

The Board of Directors is responsible for corporate management: it may therefore undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, relating to both ordinary and extraordinary administration. It is assigned strategic guidance and supervision functions for the Company and the duty to resolve on all the most important corporate deeds.

With regard to the corporate management function, the Board of Directors, without prejudice to the powers reserved to it, delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board of Directors determined the content, limits and methods of exercise of the powers granted to the Managing Director and CEO, while also defining the methods whereby the Board of Directors is to receive information concerning the delegated activity.
The Board of Directors' meeting held on 28 April 2016 appointed Carlo Messina as Managing Director, thereby granting him the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board.
The Managing Director is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors. He is responsible for personnel management and determines operational directives.

The Board of Directors has established four internal committees that support it in carrying out its functions:

- Nomination Committee: it performs investigative and consulting functions to support the Board of Directors in the process of appointment or co-option of the Board Members to ensure that the composition of the body, in terms of size and professionalism, makes it possible to fulfil its duties efficiently.
- Remuneration Committee: it proposes, advises and enquires on remuneration and incentive matters, thereby supporting the Board of Directors.
- Risks Committee: it supports the Board of Directors in the performance of strategic supervision functions regarding risks and the internal control system, and performs the other duties assigned to it pursuant to the law or by the Board of Directors.
- Committee for transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group: it carries out the tasks assigned to it by the rules on transactions with related parties and associated entities; in particular, it issues its opinion on the transactions that fall within the scope of application of the rules and of the internal regulations.

The Management Control Committee

The Management Control Committee, established as part of the Board of Directors, consists of 5 members of the Board of Directors elected by the Meeting of 27 April 2016, who appointed as its Chairman Marco Mangiagalli. All Committee members meet the independence requirements defined by the Articles of Association.
The Management Control Committee performs the duties assigned by current legislation to the control body of a parent company of a banking group heading a financial conglomerate and issuing listed shares and also operates as the internal control and audit committee pursuant to Article 19, paragraph 2, letter c) of Legislative Decree no. 39/2010.

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

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

The operating structure

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

The Parent Company is divided into six Divisions, comprising business line aggregations with similar characteristics in terms of products and services provided and in terms of regulatory framework, nine Governance Areas and two Head Office Departments in a direct reporting line to the Managing Director and CEO, which exercise guidance, coordination, control, support and service functions at Group level.
- Divisions
  - Banca dei Territori Division;
  - Corporate and Investment Banking Division;
  - International Subsidiary Banks Division;
  - Private Banking Division;
  - Asset Management Division;
  - Insurance Division.
- Governance Areas/Head Office Departments reporting directly to the Managing Director and CEO
  - Chief Operating Officer Governance Area;
  - Chief IT, Digital & Innovation Officer Governance Area;
  - Chief Cost Management Officer Governance Area;
  - Chief Lending Officer Governance Area;
  - Chief Financial Officer Governance Area;
  - Chief Risk Officer Governance Area;
  - Chief Compliance Officer Governance Area;
  - Chief Governance Officer Governance Area;
  - Chief Institutional Affairs & External Communication Officer Governance Area;
  - Strategic Support Head Office Department;
  - Safety and Protection Head Office Department.

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

The duties assigned to the Governance Areas are outlined below:

Chief Operating Officer (COO) Governance Area

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

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

The Chief IT, Digital and Innovation Officer (CIDIO) Governance Area is responsible for:
- supporting, in line with the Business Owners' requirements, the definition and development of innovation initiatives, technologies and solutions to be applied within the time frame of the Business Plan;
- ensuring the implementation of the initiatives identified by the Business Owners in line with the objectives of the Business Plan by directing actions within a logic of digital transformation and innovation;

- overseeing the complexity of IT systems, operations and processes with a view to the continuous innovation of technological solutions, in order to guarantee the Group's constant projection towards a dimension that is evolved and consistent with digitalisation advances;
- coordinating the definition and implementation of the data governance system to ensure a high level of quality and meet regulatory and business requirements;
- ensuring the definition and implementation of the guidelines and policies on cybersecurity, IT security and business continuity in line with the company's strategies and objectives.

Chief Cost Management Officer (CCMO) Governance Area

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

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

Chief Lending Officer (CLO) Governance Area

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

- making material lending decisions, or submitting them to the relevant bodies, and supervising non-performing loans;
- coordinating the implementation of credit guidelines and strategies by the relevant Bank and Group business units, and in other corporate areas as appropriate;
- participating, in accordance with the corporate strategies and objectives, in the definition of the Bank’s and Group’s guidelines in terms of lending strategy and credit risk acceptance and management;
- innovatively managing the corporate crisis situations of its customers, maximising the overall benefit for the Group and supporting companies through business and financial restructuring instruments.

Furthermore, the following Capital Light Bank duties have been remitted to the Chief Lending Officer Governance Area since December 2018:

- optimising the non-core assets for the bank (bad loans and leases and other non-strategic assets) in line with the Group's objectives, with a view to progressive reduction and disposal;
- managing the stocks and flows of bad loans managed within the Group;
- playing an interface and monitoring role towards Intrum Italy for the management of bad loan positions assigned to it.

Chief Financial Officer (CFO) Governance Area;

The Chief Financial Officer (CFO) Governance Area is responsible for:

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

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

Chief Risk Officer (CRO) Governance Area

The Chief Risk Officer (CRO) Governance Area is responsible for:

- governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved;
- consistent with corporate strategies and objectives, assisting the Bodies in defining guidelines and policies on risk management;
- coordinating the implementation of guidelines and policies on risk management by the relevant Group business units, also in the various corporate contexts;
- guaranteeing the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- carrying out monitoring and second-level controls to oversee risks; in particular, with regard to loans, in terms of quality, composition and evolution of the various portfolios and for the correct classification and assessment of individual exposures (so-called single name);
- ensuring the validation of risk measurement and management systems – both for the determination of capital requirements and for non-regulatory purposes – in order to assess their compliance with regulatory provisions, operational company and reference market demands, and to manage the internal validation process at Group level.

Chief Compliance Officer (CCO) Governance Area

The Chief Compliance Officer (CCO) Governance Area is responsible for:

- ensuring monitoring of the Group compliance risk, including conduct risk, both with regard to the operational risk component and the reputational risk;
- defining, in line with corporate strategies and objectives, guidelines and policies regarding compliance with the Group standards, integrating the compliance risk assessment and management model within the Risk Appetite Framework;
- coordinating the implementation of guidelines and policies on compliance with regulations by the relevant Group business units, and in the various corporate departments;
- collaborating with the other corporate control functions in order to achieve effective integration of the risk management process;
- managing relations with the corporate Bodies and Supervisory Authorities with regards to compliance issues.

Chief Governance Officer (CGO) Governance Area;

The Chief Governance Officer (CGO) Governance Area is responsible for:

- ensuring assistance and advice to the Corporate Bodies in defining the strategies concerning extraordinary finance transactions for the Group, in line with the corporate objectives;
- overseeing, closely with the Business Divisions, the analysis of the evolutionary trends of the domestic and international markets of relevance to the Group, to identify potential targets and/or partnerships and/or extraordinary corporate transactions in line with the Group's growth and/or rationalisation strategies;
- ensuring compliance with the guidelines and policies regarding the governance of the investment portfolio and the achievement of results in line with the Business Plan, safeguarding the best protection of the Group's interests;
- ensuring assistance and legal advice to the Corporate Bodies of the Parent Company and to Top Management, overseeing the proper implementation of corporate and supervisory regulations on the subject of governance and institutional obligations at Group level;
- managing the activities associated with the functioning of all the Corporate Bodies and providing support for the related processes;
- overseeing the legal risk at Group level, in particular following the evolution of regulations and ensuring the correct interpretation thereof, providing legal advice and managing litigation; defining, in these areas, the guidelines through directives and instructions;
- ensuring the protection and enhancement of the cultural, archival and historical-artistic heritage of the Group, according to programmatic guidelines that enhance its institutional profile.

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

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

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

Chief Audit Officer (CAO)

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

- ensuring constant and independent auditing of the regular performance of the Bank and Group operations and processes for the purpose of preventing or identifying any anomalous or risky conduct or situation, assessing the operations of the internal control system and its adequacy in guaranteeing the effectiveness and efficiency of company processes, safeguarding asset value and loss protection, and the reliability and completeness of accounting and management reports, and the compliance of transactions with corporate governance policies and with internal and external

regulations;
- providing consultancy to the Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management, compliance and governance processes;
- ensuring supervision of the internal control system of the Group's subsidiaries, also by exercising governance of, and guidance to, the respective Internal Audit functions;
- supporting corporate governance and ensuring that Top Management, the Corporate Bodies and the competent Authorities (European Central Bank, Bank of Italy, Consob, etc.) promptly and systematically receive information on the status of the control system and on the outcome of activities performed and on the progress of any corrective measures;
- ensuring the proper conduct of the internal process for managing whistleblowing reports.

Remuneration policies

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

Procedures for adoption and implementation of the remuneration policies

The role of corporate bodies

The Shareholders' Meeting

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

The Board of Directors

The Board of Directors may determine, in addition to the fixed remuneration determined by the Shareholders' Meeting, the remuneration of the Board Members to whom the Board itself assigns further special duties in compliance with the Articles of Association, including the office of Managing Director and General Manager.
The Board of Directors is tasked with determining the remuneration due to the Manager responsible for preparing the Company's financial reports pursuant to Article 154 bis of Legislative Decree 58 of 24 February 1998, as well as of all other Top Risk Takers and the higher-level personnel from the corporate control functions, in accordance with the provisions of the legislation currently in force.
Finally, the Board of Directors is responsible for the drafting of the remuneration and incentive policy to be submitted to the Shareholders' Meeting and the definition of the remuneration and incentive systems for persons for whom the supervisory regulations require that this task be performed by the body with strategic supervision functions, including the identification of parameters used to evaluate performance objectives and the definition of the variable remuneration deriving from the application of said systems.

The Chief Operating Officer and the Corporate Control Functions

As mentioned above, the Shareholders' Meeting is responsible for approving remuneration policies for employees upon proposal of the Board of Directors and with the involvement of the Remuneration Committee.
The Chief Operating Officer is responsible for drawing up the aforementioned remuneration policies, that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:

- the Chief Risk Officer Governance Area, in order to ensure consistency of the remuneration policies and resulting incentive systems with the Group's Risk Appetite Framework (RAF);
- the Planning and Active Value Management Head Office Departments and the Budget and Control Head Office Department in order to ensure consistency of the remuneration policies and resultant incentive systems with:
  - the strategic short- and medium-long term objectives of the Companies and of the Group;
  - the level of capitalisation and liquidity of the Companies and of the Group;
- The Chief Compliance Officer Governance Area, in order to verify compliance of the remuneration policies and resulting incentive systems with rules, regulations, codes of ethics and standards of conduct applicable to the Group.

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

Remuneration of the members of the Board of Directors

Remuneration of Board Members

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

An insurance policy for administrative liability is signed in favour of the members of the Board of Directors according to the terms submitted to the Shareholders' Meeting.

Remuneration of the Managing Director and CEO

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

Remuneration for participation in the Management Control Committee

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

Remuneration for participation in the other Board Committees

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

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

The remuneration policies of the Intesa Sanpaolo Group are based on the following principles:

a) alignment of the conduct of management and employees with the interests of shareholders, the medium and long-term strategies and the company objectives, as part of the set of rules aimed at accurate monitoring of the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
b) merit, to guarantee better matching with actual performance and the managerial quality identified, through:
   - remuneration flexibility via the variable component linked to the results achieved;
   - focus on key staff members demonstrating high management quality, to whom competitive salary brackets, compared with the reference market, are reserved;
   - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;
c) equity, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
   - the correlation between the person's fixed remuneration and the level of responsibility managed, measured through the adoption of a Global Banding system[4], certified by a leading consultancy firm;
   - differentiation of salary brackets and the ratio of the variable component to the total remuneration according to professional categories, with the Banding bracket being equal;
d) external competitiveness of total annual remuneration by relevant professional category, with the Banding bracket being equal, with respect to the levels in the large European banking groups, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market;
e) sustainability, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
   - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved;
   - selective reviews of fixed remuneration;
   - use of objective parameters when reviewing pay;
   - determination of appropriate caps regarding both total incentives and the amount of individual bonuses;
f) compliance with the international, European and national legal and regulatory provisions and the consequent focus on Key Managers, Risk Takers and Corporate Control Functions.

Employee remuneration is broken down into the following:

a) fixed component;
b) variable component.

Fixed remuneration

The fixed component is defined based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the employee.
In full compliance with the provisions of law, the fixed component includes:

- allowances tied to the role held, envisaged for the Managers belonging to the Corporate Control Functions (within Italy) and for the heads of commercial roles within the scope of the Banca dei Territori Division local network;
- allowances paid to expatriate personnel in order to cover for any differences in cost, quality of life and/or remuneration levels of the target reference market;
- allowances and/or fees deriving from offices held in corporate bodies, provided that these are not reversed to the companies to which they belong;
- any benefits designed to increase employee motivation and loyalty of the resources and assigned not on a discretionary basis.

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

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

Variable remuneration

The variable component is linked to employee's performance and aligned to the results actually achieved and the risks prudentially assumed, and consists of:

- short-term variable component, paid through the annual incentive systems and the variable performance bonus;
- long-term variable component, paid through the POP (Performance-based Option Plan) Plan, targeted at the Top Management, Risk Takers and Key Managers[5], and the LECOIP 2.0 Plan, targeted at Middle Managers (not included in the POP Plan) and the remaining Personnel[6];
- any stability, non-competition, one-off retention and similar agreements.

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

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

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

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

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

The aforesaid cap to the variable remuneration was determined:

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

The calculation of the variable remuneration takes into account both the short-term component relating to the Incentive System or PVR and the long-term component assigned through the long-term Incentive Plans (POP Plan and LECOIP 2.0 Plan), as well as any variable components linked to seniority or exceptional components. In particular, the POP and LECOIP 2.0 Plans have an impact on the pro-rata variable remuneration for the entire accrual period.

The maximum limit established by the general criteria (1:1) was increased to 2:1, as provided by CRD IV, permitted by the Bank of Italy, and approved by the 2018 Shareholders' Meeting, for Risk Takers not included amongst Corporate Control Functions and for specific and limited professional sectors and business segments (investment banking, asset management, private banking, treasury). However, in terms of cap compliance between fixed and variable remuneration (1:1), appropriate pay mix differentiations were identified with reference to the various professional or business segments, in line with the results obtained by means of specific benchmark analyses related to the leading European global banks that also ensure compliance with the internal equity principle, given the use of common benchmarks for each cluster.

The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.

In relation to market data, the Intesa Sanpaolo Group aims to align the overall remuneration with median values, notwithstanding the possibility to make the appropriate differentiations for particularly critical positions and/or resources with high management skills.

The correlation between remuneration, risk and performance is ensured for all employees through:

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

[5] Italy Perimeter.

[6] Italy Perimeter.

- the use of an additional mechanism that measures the residual risk level of each business unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees, without prejudice to thorough assessment and analysis of market practice, solely for the first year.
It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.
The termination of the employment agreement involving personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred.
In all other cases, the Bank has the right to award any amounts, depending on the specific situations, upon termination of the employment agreement, also through consensual retrenchment agreements providing termination payments.
In any case, in compliance with the principles contained in the Group's Code of Ethics, the Intesa Sanpaolo Group does not enter into individual agreements with its managers and employees in advance (i.e. prior to termination of the employment agreement) that govern compensation to be granted in the event of early termination of the employment agreement.
In recent years, the Bank has signed specific agreements with the trade unions with regard to the “solidarity fund”, applied to employees of all levels, including executives, which also govern the treatment of sums payable to personnel upon termination of the employment agreement in the event of extraordinary transactions and/or company reorganisations.
According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called golden parachutes, including any compensation paid according to the non-competition agreement.
In the Intesa Sanpaolo Group, the principles for the definition of these payments - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

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

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

- are equal, as a maximum amount, to 24 months of fixed salary, and is determined in a different manner depending on each cluster, in order to take into due consideration the overall evaluation of the work of the person and having particular regard to the levels of capitalization, liquidity and profitability of the Group and the presence or absence of individual sanctions imposed by the Supervisory Authority;
- are paid according to the methods set for short-term variable remuneration, for each cluster, except for the payment related to the indemnity for failed notice.

Social and environmental responsibility

Social and environmental responsibility

The 2018 results confirmed the commitments contained in the 2018-2021 Business Plan with regard to the creation of value for all stakeholders and are in line with Intesa Sanpaolo's role as the leading bank in the Corporate Social Responsibility area and its aim of becoming a world-class reference model on social and cultural responsibility.

In particular, Intesa Sanpaolo has proven to be a driving force in the growth of Italy's real economy, disbursing approximately 60 billion euro in new medium/long-term loans, with approximately 50 billion euro disbursed in Italy, around 42 billion of which was granted to households and SMEs In addition, the Group facilitated the return from non-performing to performing status of around 20,000 Italian companies, with a positive impact on employment through the protection of approximately 100,000 jobs. To support growth, 7 initiatives were launched involving around 520 start-ups.

Specific attention was paid to financial inclusion, vulnerable groups of customers, households and businesses affected by the financial crisis or earthquakes and environmental disasters, as well as to the third sector.
In this regard, in line with the 2018-2021 Business Plan the Fund for Impact was launched, which will make it possible to disburse loans of around 1,250 million euro to sections of society that find it difficult to access credit despite their potential. More specifically, in 2018 this commitment took the form of a loan - Per Merito - available to all students that reside in Italy and study in Italy or abroad, approximately 1.7 million young men and women from every university and faculty, and from any economic and social background, without any need for personal or family guarantees.
The Group also provided substantial support for households affected by earthquakes and natural disasters through cancellations or suspensions of mortgages on damaged properties, for an amount of over 15 million euro, and the issuing of roughly 200 million euro of subsidised loans during the year. In particular, Intesa Sanpaolo has closely supported households and businesses affected by the Genoa bridge collapse, making a plafond of 4.5 million euro available for the cancellation of mortgages and 50 million euro for reconstruction work. In addition, a plafond of 1 billion euro was allocated following the extraordinary weather events in Italy in late October, 270 million euro of which was assigned to the north-eastern regions for subsidised loans; meanwhile, families and businesses in affected areas were given the opportunity to suspend repayments on existing loans for 12 months.
In 2018, around 250 million euro was granted to support social enterprises and the third sector.

In line with its focus on high-quality customer services and use of smart technology, thanks to its multichannel platform and digitisation and paperless policies Intesa Sanpaolo was Italy's leading digital bank and among the top three European banks with around 8.3 million multichannel customers, around 70% of its customer base, and 15.7 million digitised transactions.
Intesa Sanpaolo is also committed to offering its customers sustainable investment products, which integrate financial criteria with environmental, social and governance (ESG) considerations.
More specifically, Eurizon, which has adhered to the PRI (Principles for Responsible Investment) since 2015, has 24 funds focused on this type of investment. In 2018, new SRI fund products were launched including Eurizon Fund Absolute Green Bonds, the first fund managed by an Italian asset manager specialising in the international bond markets that makes it possible to finance projects connected with the environment.

In line with its goal of being a socially-engaged Bank, various activities to support the community were launched together with other social and cultural initiatives and projects.
A major project for combating poverty and helping people in need began. By providing support to charitable organisations and associations, this project made it possible to distribute 3.3 million meals and provide over 94,000 beds, around 48,000 medicines and 36,000 items of clothing in 2018.
Specific initiatives were dedicated to children including the Intesa Sanpaolo Educational Programme for long-term inpatients, which offers crèche services for children admitted to the oncology wards of some top-level children's hospitals.
Thanks to a special unit focused on the promotion and proactive management of artistic, cultural and historical heritage, various activities for the promotion of art and culture were launched. In 2018, around 500,000 visitors admired the permanent collections and the 14 exhibitions held at "Gallerie d'Italia" in Milan, Vicenza and Naples, while 140 artworks were lent to Italian and international museums. Moreover, more than 100 art historians work full time at the "Gallerie d'Italia", among Italy's leading museums in terms of numbers of visitors.

In the environmental sphere, the Intesa Sanpaolo Green Bond, issued in 2017 and totalling 500 million euro, was fully allocated for the financing of 77 projects, which made it possible to prevent the generation of over 213,000 tonnes of CO_2 emissions annually. In addition, the Bank's commitment to the circular economy, developed in partnership with the Ellen MacArthur Foundation, was reinforced through the establishment of a credit plafond of 5 billion euro and the launch of the first Italian workshop dedicated to the circular economy and the businesses that intend to adopt this approach, together with Fondazione Cariplo.

In October 2018, Intesa Sanpaolo also decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), thus pledging to report on the risks and opportunities linked to climate change in a transparent manner.

These results were made possible by the contribution of the people who work for Intesa Sanpaolo; helping these people develop and strengthen their sense of belonging to the company are key factors for achieving the Group's strategic objectives. Specific attention was focused on the protection and growth of employment, pursuing the goals of reallocating excess production capacity (around 5,000 people) to new high value-added initiatives and hiring at least 1,650 people over the 2018-2021 period. A new long-term incentive programme (Lecoip 2.0 Plan) was also introduced with a share ownership instrument that makes it possible to share in the value created over time as "Business Plan shareholders".
With the agreement of 3 August 2018 between the Company and the trade unions representing workers covered by the second-level collective labour agreement, the range of work-life balance services was extended and the traditional pillars of company welfare were joined by a series of innovative instruments to help meet the personal and professional needs of employees and their families.

Intesa Sanpaolo's social and environmental commitment was rewarded with confirmation of the company's inclusion in numerous sustainability indexes, including the Dow Jones Sustainability Index (World and Europe) and the CDP Climate Change A List 2018. Lastly, Intesa Sanpaolo is the only Italian bank to feature in the Corporate Knights ranking of the world's 100 most sustainable companies.

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

Social and environmental aspects are covered in depth in the Consolidated Non-Financial Statement (CNFS) drafted in accordance with Italian Legislative Decree 254/2016, a separate report from the Report on operations and available on the Group's website. The CNFS process in 2018 was regulated by specific Guidelines and a specific Process Guide.

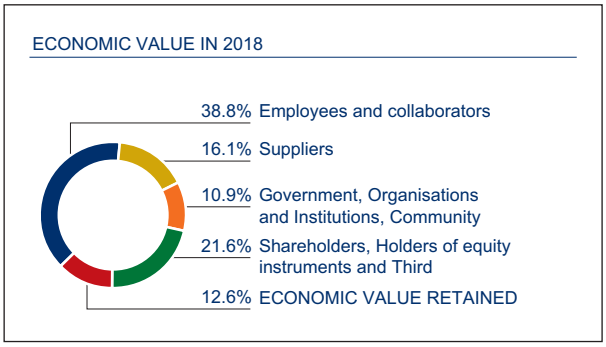
Economic value generated and distributed

The economic value generated is calculated in accordance with ABI (Italian Banking Association) instructions and consistent with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required under Bank of Italy Circular 262, which, for 2018, were updated to take into account the application of IFRS 9.
The economic value generated, which in 2018 was 17 billion euro, came from net income from banking and insurance activities – which therefore takes into account the impairment losses on loans and other financial assets – plus the realised gains and losses on investments in associates and companies subject to joint control, investments and other operating income. The amount of the economic value generated expresses the value of the wealth produced, most of which is distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. More specifically:

- employees and other staff benefited from almost 39% of the economic value generated, for a total of 6.6 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received approximately 16% of the economic value generated, for a total of 2.7 billion euro in payment for goods and services;
- the Government, Organisations and Institutions recorded a total flow of funds of 1.8 billion euro, around 11% of the economic value generated, over 900 million euro of which referring to indirect taxes and duties, almost 500 million euro to taxes on income from continuing operations, and over 400 million euro to levies and other charges concerning the banking industry, consisting of contributions to resolution and guarantee funds. There were also numerous social and cultural initiatives and other actions taken to support the charity funds and issue disbursements by way of social and cultural contributions;
- approximately 22% of the economic value generated was allocated to Shareholders, holders of equity instruments and minority interests, largely in terms of the proposed dividend, for a total of 3.7 billion euro.

The remaining amount, around 2.1 billion euro, was withheld by the corporate system and mainly comprises deferred tax assets and liabilities, amortisation and depreciation, provisions for risks and charges, and retained earnings. Self-financing is to be considered an investment that other stakeholder categories make each year to maintain efficiency and allow the development of the Bank as a whole.

Economic value	**millions of euro**	
Economic value generated	16,986	100.0%
Economic value distributed	-14,852	87.4%
Employees and collaborators	-6,601	38.8%
Suppliers	-2,732	16.1%
Community	-1,849	10.9%
and Third	-3,670	21.6%
Economic value retained	**2,134**	**12.6%**

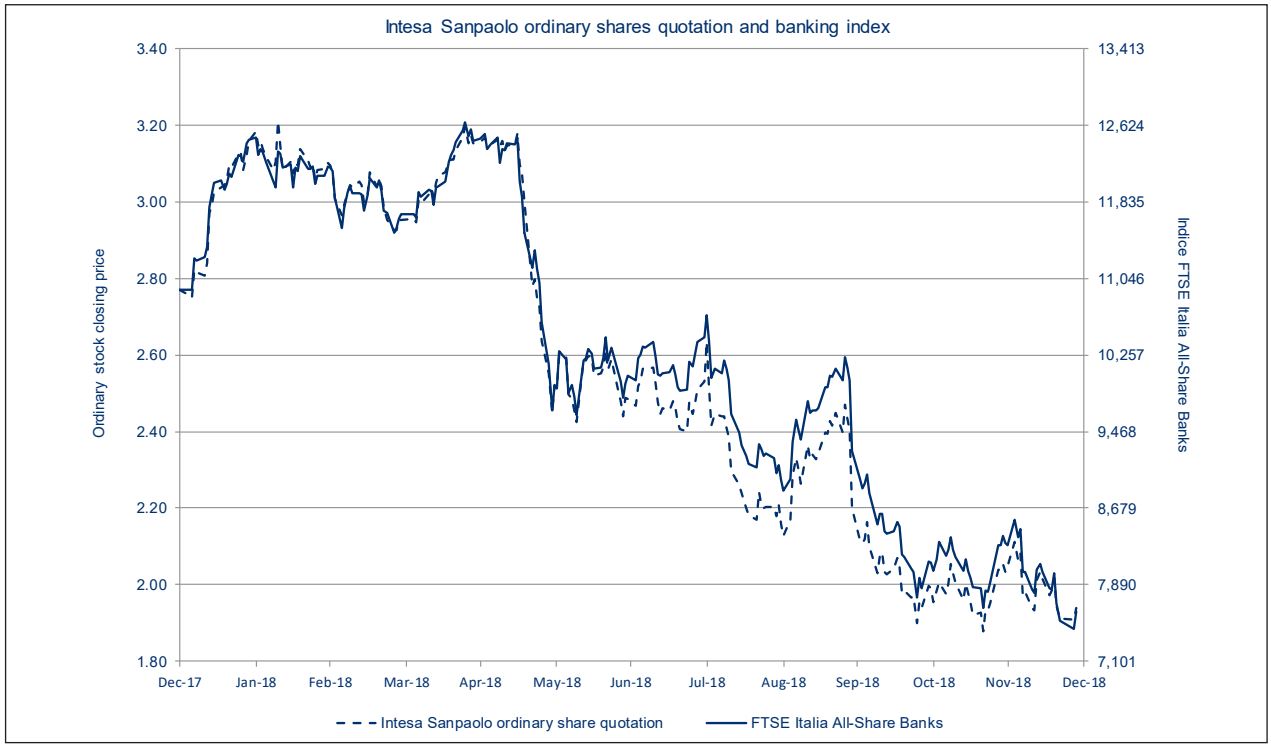


Intesa Sanpaolo stock

Intesa Sanpaolo stock

Stock price performance

The year 2018 witnessed a progressive rise in the risk aversion of investors, fuelled by economic risks, as economic growth appears to have passed its peak, as well as by political risks. In that context, the European banking index dropped by 33.3%, compared to the end of 2017. Compared to the Eurostoxx 50 index, the European banking index performance was down by 19%.
In that context, the Italian banking industry maintained a positive trend compared to the end of the previous year. This continued to mid-May, when the uncertainties regarding the political scenario and the expansion of the BTP-Bund resulted in the Italian banking index ending the year down by 30.3%, underperforming the FTSE MIB index by 14.2% and outperforming the European banking index by 3.0%.
The performance of Intesa Sanpaolo ordinary shares in 2018 mirrored that of the banking sector indices, showing an upward trend until the start of February, when the stock price peaked, followed by a floating trend until mid-May, then a marked decline in the second half of May, followed by a floating trend until the end of September, and a downward trend in the last quarter, reaching the minimum in the second half of November, with the stock closing the year down 30% compared to the end of 2017.
Intesa Sanpaolo's capitalisation dropped to 34 billion euro at the end of 2018, from 46.4 billion euro at the end of 2017.



Earnings per share

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

	31.12.2018	31.12.2017	
	Ordinary shares	Ordinary shares	Savings shares
Weighted average number of shares	16,772,376,006	15,837,253,005	932,490,561
Income attributable to the various categories of shares (millions of euro)	4,050	6,900	416
Basic EPS (euro)	0.24	0.44	0.45
Diluted EPS (euro)	0.24	0.44	0.45

Price/book value

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – indicated in relation to both average figures and year-end figures for 2018 – was impacted significantly by the dynamics of the market.

(millions of euro)

	31.12.2018	2018	2017	2016	2015	2014
Market capitalisation	33,965	44,947	44,820	37,152	51,903	38,096
Group's shareholders' equity	54,024	53,646	52,558	48,344	46,230	44,599
Price / book value	**0.63**	**0.84**	**0.85**	**0.77**	**1.12**	**0.85**

Pay-out ratio

The index expresses the portion of net income paid out as dividends.
For 2018, it was decided to submit a proposal to the Shareholders' Meeting to distribute a dividend of 0.197 euro, for a total dividend of 3,449 million euro, as described in detail in the chapter Proposals to the Shareholders' Meeting of the Intesa Sanpaolo financial statements.

(millions of euro)

	2018	2017	2016	2015	2014
Net income	4,050	7,316	3,111	2,739	1,251
Dividends (*)	3,449	3,419	2,999	2,361	1,185
Pay-out ratio	**85%**	**47%**	**96%**	**86%**	**95%**

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

Dividend yield

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

(in euro)

	2018	2017	2016	2015	2014
Ordinary share					
Dividend per share	0.197	0.203	0.178	0.140	0.070
Average stock price	2.567	2.678	2.220	3.109	2.288
Dividend yield	7.67%	7.58%	8.02%	4.50%	3.06%
Savings share					
Dividend per share	-	0.214	0.189	0.151	0.081
Average stock price	-	2.517	2.084	2.784	1.973
Dividend yield	-	8.50%	9.07%	5.42%	4.11%

Rating

Following the announcement of the 2018–2021 Business Plan, Moody's and S&P Global both confirmed their ratings of Intesa Sanpaolo. Specifically:

- on 16 February 2018, Moody's confirmed its "Baa1/P-2" rating and stable outlook on senior unsecured debt, and its "A3/P-2" rating and negative outlook on deposits;
- on 20 March 2018, S&P Global confirmed its "BBB/stable/A-2" rating of Intesa Sanpaolo.

Following similar actions on Italy's rating in 2018, Moody's initially (30 May 2018) placed ISP's deposits rating under review for possible downgrading and subsequently (23 October 2018) downgraded it to "Baa1" with a stable outlook. The "Baa1/stable" rating on senior debt and the "P-2" short-term rating were not affected by the rating actions.

On 30 October 2018, S&P confirmed Intesa Sanpaolo's ratings at "BBB/A-2", but changed the outlook from stable to negative, in line with the ratings for Italy.

On 5 September 2018, Fitch confirmed Intesa Sanpaolo's long- and short-term ratings at "BBB/F2", but changed the outlook from stable to negative, in line with the ratings for Italy.

On 21 June 2018, DBRS confirmed its "BBB (high)"/"R-1 (low)" rating and stable trend for Intesa Sanpaolo, in line with the ratings for Italy.

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

(1) Stable trend

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

Other information

Other information

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

- the list of Group companies and subsidiaries is provided in the Notes to the consolidated financial statements (Part A and Part B - Assets - Section 10), in accordance with the provisions of the Bank of Italy;
- the Notes to the consolidated financial statements also contain (Part E – Information on risks and relative hedging policies – Section 1) information concerning obligations under Article 15 of Consob Market Regulation no. 20249/2017 (in force from 3 January 2018, formerly Article 36 of Consob Market Regulation no. 16191/2007), with respect to subsidiaries established and regulated under the laws of non-EU countries;
- information on compensation and transactions with related parties carried out by the Bank or by the Group is provided in Part H of the Notes to the financial statements;
- information on the Corporate Governance system and the ownership structure of Intesa Sanpaolo, pursuant to Art. 123 bis of the Consolidated Law on Finance and information on the remuneration paid to Management and control bodies members, General Managers and Key Managers and on the Parent Company's shares, pursuant to Article 123 ter of the Consolidated Law on Finance, is provided in brief in a specific chapter of this Report and in the Report on Remuneration, published annually in the "Governance" section of the Bank's website at: www.group.intesasanpaolo.com;
- the public disclosure concerning Basel 3 Pillar 3 contained in a special separate file, is made available after its approval on the Bank's above-mentioned website;
- the country-by-country reporting as required by Article 89 of the Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) is published on the Bank's above-mentioned website;
- the Consolidated non-financial statement, governed by Legislative Decree 254 of 30 December 2016 implementing Directive 2014/95/EU, is contained in a separate document, available for consultation in the "Sustainability" section of the Bank's above-mentioned website.

Forecast for 2019

The growth phase of the global economy will extend to 2019, but with a further slowdown. Furthermore, this time the projections are characterised by high uncertainty, due to the slowdown in demand in all the main economies, the trade tensions between the United States and China, and other factors that are making the economic data at the beginning of the year more volatile. In addition, a no-deal exit of the United Kingdom from the European Union could also have short-term negative repercussions on the Eurozone and on Italy, in terms of trade.

The drive to reduce monetary stimulus will fade in the United States. Very short-term rates will remain unchanged and negative on the euro, as the European Central Bank has already indicated that official rates will not be moved at least until the end of the summer.

In general, the average annual growth of the Eurozone is expected to slow further, but the deterioration should stop during the year. GDP growth will also slow down in Italy, with consensus estimates now hovering around half a percentage point.

Uncertainty about Italian budgetary policies could fuel further turbulence in the financial markets, particularly at domestic level, and a possible deterioration of the sovereign rating. The slowdown in growth makes it more difficult to achieve a reduction in the debt-to-GDP ratio in 2019. There may be a further widening of risk premiums on Italian debt if the 2020 fiscal package does not meet the condition of ensuring a decrease in the debt-to-GDP ratio. However, if there is a reduction in the debt-to-GDP ratio and the fiscal consolidation continues, risk premiums could start to fall again and the negative rating outlooks may not translate into actual downgrades.

The emerging economies are expected to see a slight reduction in growth in 2019 compared to 2018, as a result of the slowdown in the advanced economies, particularly the United States and the Eurozone. The forecasts in the IMF's January 2019 World Economic Outlook update indicate an average real GDP growth of 4.5% in 2019 (compared to 4.6% in 2018), with a slowdown in particular in Asia and Emerging Europe only partly offset by an acceleration in the Latin American and Sub-Saharan African commodity producing countries.

In the countries with ISP subsidiaries, GDP growth is expected to slow in both the CEE and SEE countries, mainly due to lower exports to Eurozone partners. We expect growth to be close to the potential, estimated by the European Commission at around 3.3% in 2019.

In the CIS area, growth is expected to be only slightly lower in Russia in 2019, with domestic demand for consumer goods initially penalised by the announced increase in VAT and investment demand penalised by sanctions and uncertain prospects in the commodities market. GDP growth is also expected to slow down in Ukraine in 2019, as a result of fiscal consolidation measures agreed with the IMF and the continued high cost of money. In the MENA region, during the current year Egypt's economic growth is expected to maintain the strong momentum seen last year.

Downside risks to the growth of emerging countries stem from the persistent geopolitical and trade tensions at the international level, the slowdown in the economy of the advanced countries, and a scenario that has been less favourable for the energy commodities market.

In the Italian banking system, in 2019 the performance of lending to businesses will remain lacklustre, conditioned by the weakness of the economy and the continued climate of uncertainty, factors that tend to reduce demand. In addition, in support of bank lending, the favourable rates applied by banks and the lower appeal of corporate bond issues continue, in the face of the increase in returns demanded by the market due to the high premium for sovereign risk. For households, the lending scenario remains positive, but with a slight slowdown in 2019. Residential mortgages will continue to be favoured by very low rates for most of 2019 and by the prospects of a resilient real estate market. On the other hand, the persistence of continued overall weak house prices will put a brake on the growth of the stock of mortgages.

As regards funding, the net redemption of bonds in the retail segment and the growth in deposits will continue. Low market yields, the climate of uncertainty and the significant liquidity available will continue to fuel the balances on current accounts. However, in an overall situation that is still favourable for customer deposits, some critical issues related to the medium-term funding will become more evident, including the impact of the higher sovereign risk premium on the rates of new bond issues, which makes refinancing on the market more difficult and costly. In any event, in 2019 the average cost of funding will continue to benefit from the recomposition of the aggregate towards less costly forms and should rise very slowly. Current account rates are expected to remain at record lows for much of 2019, with a small recovery only in the final months. Despite the start of a gradual repricing already in 2018, conditions for loan rates will remain relaxed and increases will be moderate in 2019. At the same time, competition will continue on loans to the best customers.

In 2019, the Group's net income is expected to grow compared with 2018 as a result of growth in revenues, continuous reduction in operating costs and decrease in the cost of risk. The dividend policy for 2019 envisages the distribution of cash dividends corresponding to a payout ratio of 80% of net income.

The Board of Directors

Torino, 26 February 2019

Intesa Sanpaolo Group Consolidated financial statements

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets		31.12.2018	31.12.2017	Changes amount	Changes %
10.	Cash and cash equivalents	10,350	9,353	997	10.7
20.	Financial assets measured at fair value through profit or loss	42,115	39,582	2,533	6.4
	a) financial assets held for trading	*38,806*	*39,028*	*-222*	*-0.6*
	b) financial assets designated at fair value	*208*	*554*	*-346*	*-62.5*
	c) other financial assets mandatorily measured at fair value	*3,101*	-	*3,101*	
30.	Financial assets measured at fair value through other comprehensive income	60,469	64,968	-4,499	-6.9
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	152,582	-3,036	-2.0
40.	Financial assets measured at amortised cost	476,503	483,959	-7,456	-1.5
	a) due from banks	*69,307*	*72,057*	*-2,750*	*-3.8*
	b) loans to customers	*407,196*	*411,902*	*-4,706*	*-1.1*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	423	529	
50.	Hedging derivatives	2,993	4,213	-1,220	-29.0
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-204	328	
70.	Investments in associates and companies subject to joint control	943	678	265	39.1
80.	Technical insurance reserves reassured with third parties	20	16	4	25.0
90.	Property and equipment	7,372	6,678	694	10.4
100.	Intangible assets	9,077	7,741	1,336	17.3
	of which:				
	- goodwill	*4,163*	*4,056*	*107*	*2.6*
110.	Tax assets	17,253	16,887	366	2.2
	a) current	*3,320*	*3,688*	*-368*	*-10.0*
	b) deferred	*13,933*	*13,199*	*734*	*5.6*
120.	Non-current assets held for sale and discontinued operations	1,297	627	670	
130.	Other assets	8,707	9,358	-651	-7.0
Total assets		**787,721**	**796,861**	**-9,140**	**-1.1**

Consolidated balance sheet

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018	31.12.2017	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	513,775	516,360	-2,585	-0.5
	a) due to banks	*107,815*	*99,989*	*7,826*	*7.8*
	b) due to customers	*323,900*	*323,386*	*514*	*0.2*
	c) securities issued	*82,060*	*92,985*	*-10,925*	*-11.7*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	1,312	-502	-38.3
20.	Financial liabilities held for trading	41,895	41,218	677	1.6
30.	Financial liabilities designated at fair value	4	3	1	33.3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	68,233	-433	-0.6
40.	Hedging derivatives	7,221	7,489	-268	-3.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	478	-80	-16.7
60.	Tax liabilities	2,433	2,509	-76	-3.0
	a) current	*163*	*364*	*-201*	*-55.2*
	b) deferred	*2,270*	*2,145*	*125*	*5.8*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	264	-6	-2.3
80.	Other liabilities	11,645	12,247	-602	-4.9
90.	Employee termination indemnities	1,190	1,410	-220	-15.6
100.	Allowances for risks and charges	5,064	5,808	-744	-12.8
	a) commitments and guarantees given	*510*	*327*	*183*	*56.0*
	b) post-employment benefits	*261*	*1,104*	*-843*	*-76.4*
	c) other allowances for risks and charges	*4,293*	*4,377*	*-84*	*-1.9*
110.	Technical reserves	80,797	82,926	-2,129	-2.6
120.	Valuation reserves	-913	-1,206	-293	-24.3
125.	Valuation reserves pertaining to insurance companies	9	417	-408	-97.8
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,006	10,921	2,085	19.1
160.	Share premium reserve	24,768	26,006	-1,238	-4.8
170.	Share capital	9,085	8,732	353	4.0
180.	Treasury shares (-)	-84	-84	-	-
190.	Minority interests (+/-)	407	399	8	2.0
200.	Net income (loss) (+/-)	4,050	7,316	-3,266	-44.6
Total liabilities and shareholders' equity		**787,721**	**796,861**	**-9,140**	**-1.1**

Consolidated income statement

(millions of euro)

		2018	2017	Changes amount	Changes %
10.	Interest and similar income	10,486	10,506	-20	-0.2
	of which: interest income calculated using the effective interest rate method	*10,814*	*9,870*	*944*	*9.6*
20.	Interest and similar expense	-3,144	-3,802	-658	-17.3
30.	**Interest margin**	**7,342**	**6,704**	**638**	**9.5**
40.	Fee and commission income	9,911	9,544	367	3.8
50.	Fee and commission expense	-2,308	-2,116	192	9.1
60.	**Net fee and commission income**	**7,603**	**7,428**	**175**	**2.4**
70.	Dividend and similar income	94	117	-23	-19.7
80.	Profits (Losses) on trading	442	651	-209	-32.1
90.	Fair value adjustments in hedge accounting	-111	-15	96	
100.	Profits (Losses) on disposal or repurchase of:	549	502	47	9.4
	a) financial assets measured at amortised cost	*-19*	*-7*	*12*	
	b) financial assets measured at fair value through other comprehensive income	*508*	*544*	*-36*	*-6.6*
	c) financial liabilities	*60*	*-35*	*95*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	298	-1	299	
	a) financial assets and liabilities designated at fair value	*28*	*-1*	*29*	
	b) other financial assets mandatorily measured at fair value	*270*	-	*270*	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	3,485	-245	-7.0
120.	**Net interest and other banking income**	**19,457**	**18,871**	**586**	**3.1**
130.	Net losses/recoveries for credit risks associated with:	-2,509	-3,154	-645	-20.5
	a) financial assets measured at amortised cost	*-2,507*	*-2,653*	*-146*	*-5.5*
	b) financial assets measured at fair value through other comprehensive income	*-2*	*-501*	*-499*	*-99.6*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-26	-8	18	
140.	Profits (Losses) on changes in contracts without derecognition	-11	-	11	
150.	**Net income from banking activities**	**16,911**	**15,709**	**1,202**	**7.7**
160.	Net insurance premiums	8,180	6,817	1,363	20.0
170.	Other net insurance income (expense)	-9,968	-9,012	956	10.6
180.	**Net income from banking and insurance activities**	**15,123**	**13,514**	**1,609**	**11.9**
190.	Administrative expenses:	-10,002	-11,052	-1,050	-9.5
	a) personnel expenses	*-5,932*	*-7,177*	*-1,245*	*-17.3*
	b) other administrative expenses	*-4,070*	*-3,875*	*195*	*5.0*
200.	Net provisions for risks and charges	-35	-893	-858	-96.1
	a) commitments and guarantees given	*88*	-	*88*	
	b) other net provisions	*-123*	*-893*	*-770*	*-86.2*
210.	Net adjustments to / recoveries on property and equipment	-383	-347	36	10.4
220.	Net adjustments to / recoveries on intangible assets	-597	-532	65	12.2
230.	Other operating expenses (income)	732	5,902	-5,170	-87.6
240.	**Operating expenses**	**-10,285**	**-6,922**	**3,363**	**48.6**
250.	Profits (Losses) on investments in associates and companies subject to joint control	177	1,150	-973	-84.6
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-30	-21	-70.0
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	452	106	346	
290.	**Income (Loss) before tax from continuing operations**	**5,458**	**7,818**	**-2,360**	**-30.2**
300.	Taxes on income from continuing operations	-1,386	-464	922	
310.	**Income (Loss) after tax from continuing operations**	**4,072**	**7,354**	**-3,282**	**-44.6**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**4,072**	**7,354**	**-3,282**	**-44.6**
340.	Minority interests	-22	-38	-16	-42.1
350.	**Parent Company's net income (loss)**	**4,050**	**7,316**	**-3,266**	**-44.6**
	Basic EPS - Euro	**0.24**	**0.44**		
	Diluted EPS - Euro	**0.24**	**0.44**		

Statement of consolidated comprehensive income

(millions of euro)

		2018	2017	Changes amount	Changes %
10.	**NET INCOME (LOSS)**	**4,072**	**7,354**	**-3,282**	**-44.6**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**403**	**1,208**	**-805**	**-66.6**
20.	Equity instruments designated at fair value through other comprehensive income	114	-	114	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-	-	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	-8	1,250	-1,258	
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	297	-42	339	
80.	Non current assets classified as held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-838**	**-142**	**696**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-6	-26	-20	-76.9
120.	Cash flow hedges	96	229	-133	-58.1
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	-609	-87	522	
145.	Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies	-408	-88	320	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	89	-170	259	
170.	**Total other comprehensive income (net of tax)**	**-435**	**1,066**	**-1,501**	
180.	**TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)**	**3,637**	**8,420**	**-4,783**	**-56.8**
190.	**Total consolidated comprehensive income pertaining to minority interests**	**32**	**39**	**-7**	**-17.9**
200.	**Total consolidated comprehensive income pertaining to the Parent Company**	**3,605**	**8,381**	**-4,776**	**-57.0**

Regarding the finalisation during the year of the capitalisation offer to employees enrolled in the Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino and the resulting elimination of the Bank's obligation for the corresponding portion to employees participating in the offer, the related IAS 19 Valuation reserve was reclassified and transferred to reserves under shareholders' equity, for a total net amount of 283 million euro, included in the caption 70 "Defined benefit plans" of the Statement of consolidated comprehensive income reported above, in line with the indications of Bank of Italy Circular 262 contained in Part D – Comprehensive income.

Changes in consolidated shareholders' equity as at 31 December 2018

(millions of euro)

	31.12.2018												
	Share capital		Share premium reserve	Reserves		Valuation reserves	Valuation reserves attributable to insurance companies	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity	Group shareholders' equity	Minority interests
	ordinary shares	savings shares		retained earnings	other								
AMOUNTS AS AT 31.12.2017	**8,541**	**485**	**26,031**	**10,462**	**578**	**-1,281**	**417**	**4,103**	**-86**	**7,354**	**56,604**	**56,205**	**399**
Changes in opening balances (FTA IFRS9)	**-**	**-**	**-**	**-3,278**	**-**	**328**	**-**	**-**	**-**	**-**	**-2,950**	**-2,937**	**-13**
AMOUNTS AS AT 1.1.2018	**8,541**	**485**	**26,031**	**7,184**	**578**	**-953**	**417**	**4,103**	**-86**	**7,354**	**53,654**	**53,268**	**386**
ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)													
Reserves				**5,972**						**-5,972**	**-**	**-**	**-**
Dividends and other allocations										**-1,382**	**-1,382**	**-1,365**	**-17**
CHANGES IN THE PERIOD													
Changes in reserves											-	-	-
Operations on shareholders' equity													
Issue of new shares	838		827	-88					8		1,585	1,585	-
Purchase of treasury shares		-485							-6		-491	-491	-
Dividends			-2,065								-2,065	-2,065	-
Changes in equity instruments											-	-	-
Derivatives on treasury shares											-	-	-
Stock options											-	-	-
Changes in equity investments											-	-	-
Other	94		-4	-597							-507	-513	6
Total comprehensive income for the period						-27	-408			4,072	3,637	3,605	32
SHAREHOLDERS' EQUITY AS AT 31.12.2018	**9,473**	**-**	**24,789**	**12,471**	**578**	**-980**	**9**	**4,103**	**-84**	**4,072**	**54,431**	**54,024**	**407**
- Group	**9,085**	**-**	**24,768**	**12,428**	**578**	**-913**	**9**	**4,103**	**-84**	**4,050**	**54,024**		
- minority interests	**388**	**-**	**21**	**43**	**-**	**-67**	**-**	**-**	**-**	**22**	**407**		

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

Changes in consolidated shareholders' equity as at 31 December 2017

(millions of euro)

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

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

Consolidated statement of cash flows

(millions of euro)

	2018	2017
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**7,148**	**7,725**
Net income (loss) (+/-)	4,072	7,354
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	431	-1,190
Gains/losses on financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-718	-1,435
Gains/losses on hedging activities (-/+)	111	15
Gains/losses on hedging activities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (-/+)	-	-
Net losses/recoveries for credit risk (+/-)	3,478	3,610
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	980	879
Net provisions for risks and charges and other costs/revenues (+/-)	129	1,034
Net insurance premiums to be collected (-)	13	-4
Other insurance revenues/charges to be collected (-/+)	1,253	-1,272
Taxes, duties and tax credits to be paid/collected(+/-)	889	-262
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
Other adjustments (+/-)	-3,490	-1,004
2. Cash flow from / used in financial assets	**917**	**-68,759**
Financial assets held for trading	731	4,933
Financial assets designated at fair value	12	251
Other financial assets mandatorily measured at fair value	-132	-
Financial assets measured at fair value through other comprehensive income	-456	2,809
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-1,294	-7,462
Financial assets measured at amortised cost	1,869	-68,884
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-542	460
Other assets	729	-866
3. Cash flow from / used in financial liabilities	**-2,442**	**63,120**
Financial liabilities measured at amortised cost	-2,924	58,411
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-502	1
Financial liabilities held for trading	995	-3,697
Financial liabilities designated at fair value	22	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	4,664	9,817
Other liabilities	-4,697	-1,412
Net cash flow from (used in) operating activities	**5,623**	**2,086**
B. INVESTING ACTIVITIES		
1. Cash flow from	**278**	**1,040**
Sales of investments in associates and companies subject to joint control	-	940
Dividends collected on investments in associates and companies subject to joint control	12	39
Sales of property and equipment	-	-
Sales of intangible assets	-	-
Sales of subsidiaries and business branches	266	61
2. Cash flow used in	**-2,327**	**-1,275**
Purchases of investments in associates and companies subject to joint control	-169	-
Purchases of property and equipment	-112	-391
Purchases of intangible assets	-1,798	-884
Purchases of subsidiaries and business branches	-248	-
Net cash flow from (used in) investing activities	**-2,049**	**-235**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	1,094	-12
Share capital increases	-198	1,833
Dividend distribution and other	-3,447	-3,008
Disposal/acquisition of minority interests in subsidiaries	-31	-
Net cash flow from (used in) financing activities	**-2,582**	**-1,187**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**992**	**664**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	9,353	8,686
Net increase (decrease) in cash and cash equivalents	992	664
Cash and cash equivalents: foreign exchange effect	5	3
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**10,350**	**9,353**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to -2.4 billion euro (cash flow used) and comprise -4.9 billion euro in cash flows, +1.5 billion euro in fair value changes and +1 billion euro in other changes.

Notes to the consolidated financial statements

Part A – Accounting policies

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's consolidated financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.

The consolidated financial statements as at 31 December 2018 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015(*), with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, and 22 December 2017[7].

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the consolidated financial statements.

The financial statements have been prepared using the IAS/IFRS in force as at 31 December 2018 (including the SIC and IFRIC interpretation documents) as listed in the attachments to these financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2018.

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

[7] The new provisions introduced by IFRS 9 and IFRS 15 were incorporated in the 5th update of Circular 262, published on 22 December 2017. For the sake of completeness, please note that, on 30 November 2018, the Bank of Italy published the 6th update of Circular 262. The update, which incorporates the changes introduced by IFRS 16 - Leases, shall apply starting from the financial statements as at and for the year ended 31 December 2019.

IFRS endorsed as at 31.12.2018 in force since 2018

Regulation endorsement	Title	Effective date
1905/2016	IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
2067/2016	IFRS 9 Financial instruments	01/01/2018 First financial year starting on or after 01/01/2018
1987/2017	Amendments to IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
1988/2017	Amendments to IFRS 4 Insurance contracts	01/01/2018 First financial year starting on or after 01/01/2018
182/2018	Amendments to IAS 28 Investments in associates and Joint ventures	01/01/2018 First financial year starting on or after 01/01/2018
	Amendments to IFRS 1 First-time adoption of International Financial Reporting	01/01/2018 First financial year starting on or after 01/01/2018
	Amendments to IFRS 12 Disclosure of interest in other entities	01/01/2018 First financial year starting on or after 01/01/2018
289/2018	Amendments to IFRS 2 Share-based payment	01/01/2018 First financial year starting on or after 01/01/2018
400/2018	Amendments to IAS 40 Investment property	01/01/2018 First financial year starting on or after 01/01/2018
519/2018	IFRIC 22 Foreign currency transactions and advance	01/01/2018 First financial year starting on or after 01/01/2018

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2018 consist of several significant accounting standards listed in the table above – including in particular IFRS 9 Financial instruments – which have material impacts for the Intesa Sanpaolo Group.

As already highlighted in the Interim Statement as at 31 March 2018, the accounting standards adopted in preparation of this Consolidated Annual Report, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have changed compared to those adopted for the Intesa Sanpaolo Group 2017 Annual Report. These amendments derive essentially from the mandatory application, from 1 January 2018, of the following international financial reporting standards:

- IFRS 9 Financial Instruments, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, which replaced IAS 39 concerning the rules for the classification and measurement of financial instruments, as well as the related impairment process;
- IFRS 15 Revenues from contracts with customers, endorsed by the European Commission through Regulation 1905/2016, which led to the cancellation and replacement of IAS 18 Revenues and IAS 11 Construction contracts;
- amendments to IFRS 4 Insurance contracts, introduced by Regulation 1988/2017 (endorsed in November 2017) in direct correlation with the entry into force of IFRS 9, and which, in terms of what is of interest to the Group, provide the option of adopting the so-called Deferral Approach (or Temporary Exemption).

The new IFRS 9 on financial instruments

The in-depth analysis of the impacts of first-time adoption of IFRS 9, including the transition from the statements published in the 2017 Financial Statements to those presented for comparison in the 2018 Financial Statements, is illustrated starting on page 19 of this package, in the chapter "Transition to IFRS 9", which is an integral part of this section of these Notes to the consolidated financial statements, to which reference should be made for further details.

Details are provided below of the main choices of a "general" nature made by the Intesa Sanpaolo Group in relation to its application:

- the Intesa Sanpaolo Group, as a financial conglomerate primarily engaged in banking activities, has exercised the option of adopting the Deferral Approach (or Temporary Exemption), according to which the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), currently scheduled for 2021. The deferral of the adoption of IFRS 9 by the companies of the Insurance Division means that, starting from 1 January 2018, different accounting standards need to be applied for the financial assets and liabilities within the Group's consolidated financial statements. In view of the discretion given by the Bank of Italy regarding how this choice and its effects should be presented in the financial statements, the Group has decided to add specific captions to the official consolidated financial statements layouts provided by the 5th update to Circular 262 (effective from 2018) and provide the related disclosures in the Notes to the financial statements, in compliance with the requirements of IFRS 7, and the Amendment to IFRS 4, which are aimed at presenting the requirements for benefiting from the temporary exemption and ensuring compatibility between insurers that apply the temporary exemption and entities that apply IFRS 9.

  More specifically, the following captions have been added to the consolidated financial statement layouts established in the 5th update to Circular 262:

  - Balance Sheet - Assets: "Caption 35. Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39", which includes financial assets held for trading, financial assets measured at fair value, financial assets available for sale and any derivatives with a positive fair value, as defined in accordance with IAS 39;
  - Balance Sheet - Assets: "Caption 45. Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39", which includes investments held to maturity and loans to banks and customers, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 15. Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39", which includes amounts due to banks, amounts due to customers and securities issued, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 35. Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39", which includes financial liabilities held for trading, financial liabilities measured at fair value and any derivatives with a negative fair value, as defined in accordance with IAS 39;
  - Balance Sheet - Liabilities: "Caption 125. Valuation reserves pertaining to insurance companies", which includes valuation reserves on financial assets available for sale, the shadow accounting effects and the related tax impacts;
  - Income Statement: "Caption 115. Profit (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39", which includes all the income statement items relating to the subsidiary insurance companies except for net premiums and other net insurance income (expense), which are reported under their own caption, fee and commission income, which are reported together with the similar banking entries, and the "net losses/recoveries pertaining to insurance companies pursuant to IAS 39", which are recognised in the specifically created caption 135;
  - Income Statement: "Caption 135. Net losses/recoveries pertaining to insurance companies pursuant to IAS 39", which reports any adjustments/recoveries;

- with regard to the methods of presentation of the effects of first-time adoption of the standard, the Group has decided to exercise the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 First-Time Adoption of International Financial Reporting Standards, according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. In order to allocate the comparative figures as at 31 December 2017 to the new consolidated financial statement layouts established in the 5th update to Bank of Italy Circular 262, in force from 1 January 2018, the necessary reconciliations have been made, without changing the values, to enable their inclusion in the new captions. Specifically, it should be noted that:
  - the previous captions relating to loans to customers, loans to banks and investments held to maturity are all classified under caption "40. Financial assets measured at amortised cost";
  - those relating to financial assets held for trading and financial assets designated at fair value are classified in caption "20. Financial assets measured at fair value through profit or loss";
  - those relating to financial assets available for sale are classified in caption "30. Financial assets measured at fair value through other comprehensive income";
  - the previous captions relating to amounts due to banks, amounts due to customers and securities issued have all been allocated to the caption "10. Financial liabilities measured at amortised cost".

With regard to the exercise of the option, granted to insurance companies belonging to banking-led financial conglomerates, of postponing the first-time adoption of IFRS 9 until 2021 (as is the case for the Intesa Sanpaolo Group), banks that prepare the consolidated financial statements must independently supplement the information required by Bank of Italy Circular 262 with the information required by IAS 39 and by the amendments to IFRS 4 Insurance Contracts.

Accordingly, to ensure compliance with the provisions of the Amendments to IFRS 4 regarding the application of the deferral approach, the Notes to the Consolidated Financial Statements of the Intesa Sanpaolo Group concerning the financial instruments pertaining to the Insurance Division have been supplemented with the:

- Disclosure required under IFRS 7 and IAS 39 regarding financial instruments pertaining to the insurance segment: the tables already required by the 4th update of Circular 262 (in force as at 31 December 2017) that meet the disclosure requirements have been presented;
- Disclosure required by IFRS 4: the following additional information has been provided in table or qualitative format:
  - details of the Group's insurance entities applying IAS 39;
  - insurance predominance: the carrying amount of the insurance liabilities in relation to the total value of the liabilities and other qualitative disclosures required by paragraphs 39C and 39D of the Amendment to IFRS 4;
  - evidence of the absence of transfers of financial assets other than those measured at FVTPL between Group companies using different accounting standards;
  - the fair value (and changes in fair value during the period) separately for financial assets with contractual terms suitable for passing the SPPI test and for all other assets (financial assets that do not pass the SPPI test, assets that meet the definition of "held for trading" according to IFRS 9 and assets classified as FVTPL);
  - the IAS 39 carrying amount (before impairment) of financial assets that pass the SPPI test divided by their credit rating level;
  - the fair value and carrying amount of financial assets that pass the SPPI test but do not have low credit risk.

The details regarding the disclosure required by IFRS 4 are provided in Part B – Assets of these Notes to the consolidated financial statements.

The new IFRS 15 on Revenue

With regard to the introduction of IFRS 15, the analyses conducted found that, in general, the accounting treatment of the main cases of revenues from contracts with customers was already in line with the provisions of the new standard and, consequently, no significant impacts were identified at accounting level.
These financial statements include the more detailed disclosure required by this Standard and the interpretations provided by the Bank of Italy in the 5th update of Circular 262.

* * * * *

In addition to the above standards, which, as mentioned, are extremely significant for the Intesa Sanpaolo Group, the accounting standards applicable on a mandatory basis for the first time starting in 2018 consist of IFRIC 22 Foreign currency transactions and several amendments made to the existing standards, endorsed by the European Commission in 2018, which are not particularly significant for the Group.
A summary of the above-mentioned Endorsement Regulations is provided below:

- Regulation 182/2018: with the publication in February 2018 of Regulation 182/2018, certain amendments were endorsed as part of the annual cycle of improvements to the IFRS (2014-2016 cycle). As part of the ordinary rationalisation and improvement of the current accounting standards, the IASB has provided some clarifications regarding IAS 28 Investments in Associates and Joint Ventures, IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 12 Disclosure of Interests in Other Entities.
- Regulation 289/2018: with the publication on 26 February 2018 certain amendments to IFRS 2 Share-based payments were adopted, aimed at clarifying how entities should apply the standard in certain specific cases. In particular, the areas subject to additions and clarifications concerned:
  - accounting for cash-settled share-based payments, which include vesting and non-vesting conditions;
  - share-based payment transactions with a net settlement feature for withholding tax obligations;
  - accounting for changes to plans that alter the nature of the transaction (from cash-settled to equity-settled).
- Regulation 400/2018: with Regulation 400/2018 of 14 March 2018 certain amendments to IAS 40 Investment Property were adopted. The amendments clarify when an entity is allowed to reclassify a property to (or from) the "investment property" category. In particular, for this to happen, there must be a change in use and the asset must meet (or, conversely, cease to meet) the definition of investment property. In addition, there must be evidence of a change in use; a change in management's intentions for the use of a property does not, in itself, provide evidence of a change in use.
- Regulation 519/2018: with the publication of this regulation on 28 March 2018, IFRIC 22 Foreign Currency Transactions and Advance Consideration was adopted, which applies to a foreign currency transaction when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. In this regard, the interpretation provides clarifications on how to determine the exchange rate to use on initial recognition of the asset, expense or income on derecognition of a non-monetary asset or non-monetary liability.
  In accordance with IFRIC 22, in such cases the date to be considered for determining the exchange rate to use on initial recognition of the asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2019 - for financial statements reflecting the calendar year - or after this date.

IFRS endorsed as at 31.12.2018 applicable subsequent to 31.12.2018

Regulation endorsement	Title	Effective date
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
498/2018	Amendments to IFRS 9 Financial instruments	01/01/2019 First financial year starting on or after 01/01/2019
1595/2018	IFRIC 23 Uncertainty over income tax treatments	01/01/2019 First financial year starting on or after 01/01/2019

New standard IFRS 16 - Leases

The regulations

The new accounting standard IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation no. 1986/2017, replaced IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases – Incentives and SIC 27 Evaluating the substance of transactions in the legal form of a lease, with effect from 1 January 2019, and established the requirements for accounting for lease contracts.

In accordance with the new standard, entities are required to decide whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a period of time. As a result, rental, hire or loan for use, previously not considered as leases, may now also come under the scope of the rules for leases.

In view of the above, significant changes have been made to the accounting for lease transactions in the financial statements of the lessee/user, with the introduction of a single accounting model for lease contracts for the lessee, based on the right of use model. Specifically, the main change consists of the elimination of the distinction between operating and finance leases, established by IAS 17: all lease contracts must therefore be accounted for in the same way with the recognition of an asset and a liability. Unlike the current standards, the accounting model envisages the recognition of the right of use of the leased asset under the Balance Sheet Assets and the liabilities for lease payments not yet paid to the lessor under the Balance Sheet Liabilities. The method of recognition of the profit or loss components has also changed: in IAS 17 lease payments are shown under the caption Administrative Expenses, whereas under IFRS 16 the charges relating to the amortisation of the "right of use" and the interest expense on the payable are recognised.

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

However, there are no substantial changes, other than some additional disclosure requirements, for the accounting for leases by the lessors, where the current distinction is maintained between operating leases and finance leases.

In addition, in accordance with the requirements of IFRS 16 and the IFRIC clarifications ("Cloud Computing Arrangements" document of September 2018), software has been excluded from the scope of IFRS 16 and will therefore be accounted for in accordance with IAS 38 and its requirements.

From 1 January 2019, the effects on the financial statements resulting from the adoption of IFRS 16 can be identified for the lessee – with the same final income and cash flows – as an increase in the assets recorded in the financial statements (leased assets), an increase in the liabilities (the payable for the leased assets), a reduction in administrative expenses (lease payments) and an accompanying increase in financial costs (the remuneration of the payable recognised) and depreciation (relating to the right of use). With regard to the income statement, when the entire term of the contracts is considered, the economic impact does not change over the period of the lease, both when the former IAS 17 or the new IFRS 16 are applied, but its distribution over time is different.

In 2018, the Intesa Sanpaolo Group carried out a specific project for the implementation of IFRS 16 – Leases, aimed at examining and determining the qualitative and quantitative impacts, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of its individual subsidiaries. From a procedural perspective, a specific application has been implemented at Group level (except for some companies located abroad, which have adopted a solution specific to their circumstances) for the determination of values according to IFRS 16.

The analysis of new contracts falling within the scope of this standard concerned those relating to the following cases: (i) real estate, (ii) vehicles, and (iii) hardware. The real estate lease contracts represent the most significant area of impact from

implementation, because these contracts represent 98% of the estimated rights of use. In contrast, although they are significant in terms of number, the impact of vehicles is negligible in terms of the amount of the right of use. Lastly, the impacts of the hardware component are marginal.

The choices made by the Intesa Sanpaolo Group

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

The Group has chosen to carry out the first-time adoption (FTA) through the modified retrospective approach, which provides the option, established by IFRS 16, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information of the financial statements of first-time adoption of IFRS 16. As a result, the figures for 2019 will not be comparable with regard to the valuation of the rights of use and the corresponding lease payable.

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

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

The Group has also decided not to apply the new standard to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of 5,000 euro or less.

With regard to the discount rate, the Group has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

The Group has also decided not to separate the service components from the lease components and to consequently recognise the entire contract as a lease, because the service components are not significant.
With regard to the sale and leaseback agreements outstanding as at the date of first-time adoption, the Intesa Sanpaolo Group has applied the transition model for the other lease contracts to the leases resulting from these transactions, and classified as operating leases according to IAS 17 requirements, as required by the standard.

Estimate of the impact

An estimate (excluding tax impacts) of the adjustment of the opening balance sheet following the adoption of IFRS 16 using the modified retrospective approach results in an increase in assets following the recognition of the right of use at Group level of 1.6 billion euro and in the financial liabilities (payable to the lessor) of the same amount. There are therefore no impacts on shareholders' equity because, as a result of the decision to adopt the modified approach (option B), on first-time adoption the two values, assets and liabilities, are the same.

The increase in RWAs resulting from the recognition of the total estimated rights of use results in an impact on the CET 1 of -8 bps.

Other regulatory changes

In addition to the above regarding IFRS 16, which introduces significant changes for the Group, the regulations endorsed and mandatorily applicable from 1 January 2019 also include the amendments to IFRS 9 introduced by Regulation 498/2018 and the new IFRIC Interpretation 23, adopted by Regulation 1595/2018.

Regulation 498/2018, approved on 22 March 2018, endorses several amendments to IFRS 9 Prepayment features with negative compensation concerning the classification of financial instruments with particular prepayment clauses. In this regard, the current version of IFRS 9 envisages that a contractual clause that allows the prepayment of a debt instrument (exercisable by the debtor or creditor) may pass the SPPI test if the prepayment amount is substantially equal to the amount unpaid in terms of principal and interest. A "reasonable additional compensation" may also be envisaged for early termination of the contract. This amendment eliminates the term "additional" and – in general terms – stipulates that the prepayment clauses may establish that reasonable compensation for prepayment can be paid or received by either party to the contract.
This circumstance is not relevant for the Group, because there are currently no cases of financial assets classified at fair value through profit or loss that, in application of this amendment, would have passed the SPPI test with consequent measurement at amortised cost or at FVOCI.

With the endorsement of Regulation 1595/2018, on 23 October 2018, the IFRIC Interpretation 23 Uncertainty over income tax treatments was adopted, which clarifies how to apply the recognition and measurement criteria of IAS 12 Income Taxes when there is uncertainty over the income tax treatment.

In particular, the interpretation clarifies whether the entity should take into account uncertain tax treatments separately or together with each other (based on which approach better predicts the resolution of the uncertainty), what assumptions are made by the entity about the outcome of the examination of the uncertain tax treatments by the tax authorities and how to determine the taxable profit (tax loss) and other amounts for tax purposes. If the entity concludes that the tax authority is unlikely to accept the uncertain tax treatment, it must report the effect of that uncertainty in determining the taxable profit (tax loss) and other amounts for tax purposes using either the most likely amount or the expected value method. To this end, the Group has decided to adopt the most likely amount method, where the estimate is made on a more likely than not basis.

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

IFRS not endorsed as at 31.12.2018

Standard/ Interpretation	Title	Date of issue
IFRS 17	Insurance Contracts	18/05/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IAS 28	Long-term Interest in Associates and Joint Ventures	12/10/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017
IAS 19	Plan Amendment, Curtailment or Settlement	7/2/2018
(*)	Amendments to References to the Conceptual framework in IFRS Standards	29/03/2018
IFRS 3	Definition of a Business	22/10/2018
IAS 1	Definition of Material	31/10/2018
IAS 8	Definition of Material	31/10/2018

(*) The document amends references to Conceptual Framework in IFRS2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32

In this context, given its significance, details are provided regarding IFRS 17 - Insurance Contracts, published by the IASB in May 2017 and still not yet endorsed by the European Commission.
This standard, once it has been endorsed by the European Commission, will replace the current IFRS 4, which, from the time of its initial publication, was considered an interim standard and – as such – its objectives did not include establishing a single approach for the presentation of insurance contracts. Addressing this aspect – together with better disclosure regarding the operating performance of the insurance undertaking – forms the basis for the publication of the new standard. Accordingly, the significance of the impacts will vary according to the “distance” between the current practices – in each jurisdiction – compared to the model adopted by the new standard. In any event, the main impacts will be on insurance companies operating in the life business.
IFRS 17 is expected to be applicable from 1 January 2021. In this regard, it is noted that, due to the complexity of the standard, the IASB has recently proposed to postpone the date of first-time adoption by one year to 1 January 2022. It has also proposed to extend the deadline for the temporary deferral of the application of IFRS 9 for insurance companies (i.e. the deferral approach) by one year – again to 2022 – in order to bring it into line with the application of IFRS 17. The proposed deferral will be subject to a public consultation scheduled for 2019 and should also provide more time to assess possible changes to the standard.

Descriptions are provided below of the main elements of IFRS 17:
- initial recognition of the insurance liability: when the contract is signed with the policyholder, the insurance entity recognises a liability whose amount represents the sum of the present value of the expected contractual cash flows (discounted also taking account of an appropriate risk margin, for non-financial risks) and the contractual service margin (representing the present value of the future profits);
- subsequent measurement of the insurance liability: IFRS 17 requires the measurement at each reporting period of the above elements (cash flows and contractual service margin), to verify the consistency of the estimates with the current market conditions. The effects of any mismatches must be immediately recorded in the financial statements: in profit or loss for changes relating to events that have already occurred in the past or as a reduction of the contractual service margin when the changes relate to future events;

- grouping of contracts: the application of IFRS 17 involves the identification of “portfolios” of insurance contracts (units of account, or groups of contracts that are subject to similar risks and managed together) broken down into groups composed of contracts signed by policyholders in the same years (cohorts, or annual generations of insurance contracts) and similar characteristics of expected profitability. In this regard, the standard establishes clear separations (also in terms of disclosure) between the contracts defined as “onerous”[8] and the remaining contracts;
- measurement of the insurance revenue: IFRS 17 requires the presentation in profit or loss of the earnings "by margins" achieved during the life of the policies, i.e. when the entity actually earns the profits estimated with respect to the exposure of the insurance premiums received by the insurance company;
- measurement of the performance: with a view to improving (and harmonising) the disclosure of the performance of the insurance companies, a distinct and separate presentation is required of the two main components that typically contribute to making up the earnings of insurance undertakings: the first, which represents the profit from the “coverage” provided (the “technical margin”) and the second, which brings together all the financial components (results of investments, effects of financial variables used in the valuations of the contracts, etc.).
- contract modifications: following contract modifications (agreed between the parties or due to regulatory changes) whose presence at inception would have resulted in the exclusion of the contract from the insurance area, IFRS 17 requires the derecognition and accompanying recognition of a new entry, measured according to the accounting standards that refer to it;
- approach for contracts with direct participation features: a specific approach is established for contracts that give the policyholders direct participation in the results of (some) assets held by the insurance company, according to which the entities have the option of recognising those changes in liabilities (due to variations in the yields of the hedging assets, and therefore essentially related to the variable component of revenue) in other comprehensive income.

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

The Insurance Division has initiated a project for the introduction of IFRS 17 whose objective is to ensure both the management of the insurance business and an operating and accounting model that fully adopts this standard.

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

SECTION 2 – GENERAL PREPARATION PRINCIPLES

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

The financial statement forms and the Notes to the consolidated financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2017. As described in more detail in section 1 of this paragraph, the Group has exercised the option provided in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1, according to which, with regard to the effects of the first-time adoption of IFRS 9, the mandatory restatement of the comparative information on a like-for-like basis is not required. Accordingly, in order to allocate the comparative information as at 31 December 2017 to the new consolidated financial statement layouts established in Bank of Italy Circular 262, the necessary reconciliations have been made, without changing the values, to enable their inclusion in the new captions.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2017 financial statements, together with specific reconciliations between the 2017 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

Contents of financial statement forms

Balance sheet and income statement

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions).
As further detailed in section 1 above, following the Group's decision to exercise the option of adopting the Deferral Approach, also provided for banking-led financial conglomerates, specific balance sheet and income statement captions have been added to the consolidated financial statement layouts established in Circular 262 to present the valuation of assets and liabilities pertaining to insurance companies and the related profit or loss effects measured in accordance with IAS 39.
For the purposes of completeness with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

Statement of comprehensive income

The Statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.
Consolidated comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. The statement also distinguishes between the portion of income pertaining to the Parent Company and that pertaining to minority interests. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

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

Statement of cash flows

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

Contents of the Notes to the consolidated financial statements

The Notes to the consolidated financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.

As already mentioned in relation to the financial statements, as a result of the application of the Deferral Approach by the Group's insurance companies, the disclosures in the explanatory notes envisaged by Circular 262 have been supplemented with the tables required by the previous 4th update of Circular 262 to present the information required by IAS 39.

It should also be noted that the initial amounts in the tables presenting annual changes include the effects of first-time adoption of IFRS 9.

SECTION 3 – SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

Scope of consolidation

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

Companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.
Control only exists if all of the following conditions are met:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

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

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

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

Compared to 31 December 2017, changes in the scope of consolidation consisted of:

- the inclusion of Eximbank s.a. (Moldova), of which the acquisition of control by Intesa Sanpaolo was subject to the sale to Veneto Banca in compulsory administrative liquidation of the non-performing loans of the investee, as certified by the Panel of Experts following the due diligence envisaged by the contract of 26 June 2017. The deed of sale for these loans was formalised on 28 February 2018 and the transfer of the shares and the registration of Intesa Sanpaolo as a new shareholder was completed on 13 March 2018;
- the inclusion of Morval Vonwiller Holding S.A, a Swiss group engaged in wealth management and fund management, after the acquisition of the group, concluded in the second quarter of 2018;
- the inclusion of Autostrade Lombarde S.p.A., solely with regard to the balance sheet figures, for which control in accordance with IFRS 10 was acquired at the end of the year;
- the exclusion of Imi Fondi Chiusi Sgr, which is now consolidated at equity, given that the investment is no longer material following the disposal of fund management operations;
- the exclusion of Intesa SEC and Intesa SEC NPL, which is now consolidated at equity;
- the exclusion of Sec Servizi Società Consortile S.p.A., which was sold.

The intragroup company transactions carried out during 2018 included the mergers of Banca Nuova, Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Forlì, IMI Investimenti and Intesa Sanpaolo Securitisation Vehicle into Intesa Sanpaolo, of Veneto Banka into Intesa Sanpaolo Albania, of Veneto Banka Croazia into Privedna Banka Zagreb, of VUB Factoring into VUB, of Cib Real Estate into Cib leasing, and of Fideuram Fiduciaria and Sirefid into SIREF Fiduciaria, the contribution of a business unit from Intesa Sanpaolo to Servizi Bancari, the total demerger of Consumer Finance Holding into VUB and VUB Leasing and the partial demergers of Intesa Sanpaolo Innovation Center into Intesa Sanpaolo Group Services and of Intesa Sanpaolo Group Services, Provis and Reoco into Tersia. With regard to Tersia, you are reminded that, at the beginning of December, Intesa Sanpaolo sold 51% of the company, maintaining a 49% stake classified as an interest subject to significant influence.

The following table lists the investments in subsidiaries that are included in the line-by-line scope of consolidation of the Consolidated financial statements as at 31 December 2018.

1. Consolidated companies

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
1	Argentea Gestioni S.c.p.a.(c)	Brescia	Brescia	1	Autostrade Lombarde	51.00	
	Capital 120,000 euro						
2	Autostrade Lombarde (c)	Brescia	Brescia	1	Intesa Sanpaolo	55.78	
	Capital 467,726,626 euro						
3	Banca 5 S.p.A. (formerly Banca ITB S.p.A.)	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 30,000,000 euro						
4	Banca Apulia S.p.A.	San Severo	San Severo	1	Intesa Sanpaolo	97.12	97.27
	Capital 39,943,987 euro						
5	Banca Comerciala Eximbank S.A.	Chișinău	Chișinău	1	Intesa Sanpaolo	100.00	
	Capital MDL 1,250,000,000						
6	Banca CR Firenze	Firenze	Firenze	1	Intesa Sanpaolo	100.00	
	Capital 418,230,435 euro						
7	Banca IMI S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 962,464,000 euro						
8	Banca Imi Securities Corp	New York	New York	1	Imi Capital Markets USA Corp.	100.00	
	Capital USD 44,500,000						
9	Banca Intesa AD Beograd	Novi Beograd	Novi Beograd	1	Intesa Sanpaolo Holding International	100.00	
	Capital RSD 21,315,900,000						
10	Banca Intesa Joint-Stock Company	Moscow	Moscow	1	Intesa Sanpaolo Holding International	53.02	
	Capital RUB 10,820,180,800				Intesa Sanpaolo	46.98	
						100.00	
11	Banca Prossima S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 82,000,000 euro						
12	Bank of Alexandria S.A.E. (d)	Cairo	Cairo	1	Intesa Sanpaolo	80.00	70.25
	Capital EGP 800,000,000						
13	Banka Intesa Sanpaolo d.d (formerly Banka Koper d.d.) (e)	Koper	Koper	1	Intesa Sanpaolo	48.07	
	Capital 22,173,218 euro				Privredna Banka Zagreb d.d.	51.00	
						99.07	
14	Banque Morval S.A.	Geneva	Geneva	1	Morval Vonwiller Holding SA	100.00	
	Capital 20,000,000 euro						
15	Cassa di Risparmio di Pistoia e della Lucchesia S.p.A.	Pistoia	Pistoia	1	Cassa di Risparmio di Firenze	74.88	
	Capital 171,846,280 euro				Intesa Sanpaolo	25.05	
						99.93	
16	Cassa di Risparmio in Bologna S.p.A.	Bologna	Bologna	1	Intesa Sanpaolo	100.00	
	Capital 703,692,000 euro						
17	Cib Bank Ltd	Budapest	Budapest	1	Intesa Sanpaolo	100.00	
	Capital HUF 50,000,000,003						
18	CIB Factor Financial Services Ltd in voluntary liquidation	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 50,000,000						
19	CIB Insurance Broker Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 10,000,000						
20	CIB Investment Fund Management Ltd	Budapest	Budapest	1	Vub Asset Management Spravcovska Spolocnost A.S.	100.00	
	Capital HUF 600,000,000						
21	CIB Leasing Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 53,000,000						
22	CIB Rent Operative Leasing Ltd	Budapest	Budapest	1	Cib Bank Ltd	100.00	
	Capital HUF 5,000,000						
23	Compagnia Italiana Finanziaria - CIF S.r.l.	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	61.45	
	Capital 10,000 euro						
24	Consumer Finance Holding Ceska Republika a.s.	Prague	Prague	1	Vseobecna Uverova Banka A.S.	100.00	
	Capital CZK 213,900,000						
25	Duomo Funding Plc (f)	Dublin	Dublin	2	Intesa Sanpaolo	-	
26	Epsilon SGR S.p.A.	Milano	Milano	1	Eurizon Capital SGR	51.00	
	Capital 5,200,000 euro				Banca IMI	49.00	
						100.00	
27	Etoile Actualis S.a.r.l.	Paris	Paris	1	Risanamento Europa	100.00	
	Capital 29,709,643 euro						

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
28	Etoile François Premier S.a.r.l. Capital 5,000 euro	Paris	Paris	1	Risanamento Europa	100.00	
29	Eurizon Capital S.A. Capital 7,557,200 euro	Luxembourg	Luxembourg	1	Eurizon Capital SGR	100.00	
30	Eurizon Capital SGR S.p.A. Capital 99,000,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
31	Eurizon Slj Capital Ltd Capital GBP 1,001,000	London	London	1	Eurizon Capital SGR	65.00	
32	Fideuram - Intesa Sanpaolo Private Banking S.p.A. Capital 300,000,000 euro	Roma	Torino	1	Intesa Sanpaolo	100.00	
33	Fideuram Asset Management (Ireland) DAC (formerly Fideuram Asset Management (Ireland) Ltd) Capital 1,000,000 euro	Dublin	Dublin	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
34	Fideuram Bank Luxembourg S.A. Capital 40,000,000 euro	Luxembourg	Luxembourg	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
35	Fideuram Investimenti S.G.R. S.p.A. Capital 25,850,000 euro	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	99.50	
36	Fideuram Vita S.p.A.	Roma	Roma	1	Intesa Sanpaolo	80.01	
	Capital 357,446,836 euro				Fideuram - Intesa Sanpaolo Private Banking	19.99	
						100.00	
37	Financière Fideuram S.A. Capital 346,761,600 euro	Paris	Paris	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
38	IMI Capital Markets USA Corp. Capital USD 5,000	New York	New York	1	IMI Investments	100.00	
39	IMI Finance Luxembourg S.A. Capital 100,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
40	IMI Investments S.A. Capital 21,660,000 euro	Luxembourg	Luxembourg	1	Banca IMI	100.00	
41	Immobiliare Cascina Rubina S.r.l.(c) Capital 1,371,066 euro	Milano	Milano	1	Risanamento	100.00	
42	IN.FRA - Investire nelle Infrastrutture S.r.l. (formerly IN.FRA - Investire nelle Infrastrutture S.p.A.) Capital 10,000 euro	Milano	Milano	1	Intesa Sanpaolo	100.00	
43	Iniziative Logistiche S.r.l. Capital 10,000 euro	Milano	Milano	1	IN.FRA - Investire nelle Infrastrutture	60.02	
44	Intesa Leasing (Closed Joint-Stock Company) Capital RUB 3,000,000	Moscow	Moscow	1	Banca Intesa Joint-Stock Company	100.00	
45	Intesa Leasing d.o.o. Beograd Capital RSD 960,374,301	Beograd	Beograd	1	Banca Intesa Beograd	100.00	
46	Intesa Sanpaolo Assicura S.p.A. Capital 27,912,258 euro	Torino	Torino	1	Intesa Sanpaolo Vita	100.00	
47	Intesa Sanpaolo Bank Albania Sh.A. Capital ALL 5,562,517,674	Tirana	Tirana	1	Intesa Sanpaolo	100.00	
48	Intesa Sanpaolo Bank Ireland Plc Capital 400,500,000 euro	Dublin	Dublin	1	Intesa Sanpaolo	100.00	
49	Intesa Sanpaolo Bank Luxembourg S.A. Capital 1,389,370,555 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
50	Intesa Sanpaolo Banka d.d. Bosna I Hercegovina Capital BAM 44,782,000	Sarajevo	Sarajevo	1	Privredna Banka Zagreb	99.99	100.00
51	Intesa Sanpaolo Brasil S.A. - Banco Multiplo	Sao Paulo	Sao Paulo	1	Intesa Sanpaolo	99.90	
	Capital BRL 314,922,234				Intesa Sanpaolo Holding International	0.10	
						100.00	
52	Intesa Sanpaolo Funding LLC (formerly Intesa Funding LLC) Capital USD 25,000	New York	Wilmington	1	Intesa Sanpaolo	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
53	Intesa Sanpaolo Group Services S.c.p.A.	Torino	Torino	1	Intesa Sanpaolo	99.93	
	Capital 273,320,813 euro				Fideuram - Intesa Sanpaolo Private Banking	0.01	
					Banca CR Firenze	0.01	
					Banca Imi	0.01	
					Eurizon Capital SGR	0.01	
					Intesa Sanpaolo Vita	0.01	
					other smaller investments	0.02	
						100.00	
54	Intesa Sanpaolo Harbourmaster III S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 5,500,000 euro						
55	Intesa Sanpaolo Holding International S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
	Capital 2,157,957,270 euro						
56	Intesa Sanpaolo Immobilière S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 350,000 euro						
57	Intesa Sanpaolo Innovation Center S.c.p.a (formerly Servizi bancari S.c.p.a.)	Vicenza	Torino	1	Intesa Sanpaolo	99.97	
	Capital 9,254,940 euro				Banca Imi	0.01	
					Intesa Sanpaolo Group Services	-	
					Intesa Sanpaolo Vita	0.01	
						100.00	
58	Intesa Sanpaolo Life DAC (formerly Intesa Sanpaolo Life Ltd)	Dublin	Dublin	1	Intesa Sanpaolo Vita	100.00	
	Capital 625,000 euro						
59	Intesa Sanpaolo Private Bank (Suisse) S.A.	Lugano	Lugano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital CHF 45,000,000						
60	Intesa Sanpaolo Private Banking S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 105,497,424 euro						
61	Intesa Sanpaolo Provis S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 5,775,000 euro						
62	Intesa Sanpaolo RE.O.CO. S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 13,000,000 euro						
63	Intesa Sanpaolo Real Estate S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 2,940,476 euro						
64	Intesa Sanpaolo Romania S.A. Commercial Bank	Bucharest	Bucharest	1	Intesa Sanpaolo	93.46	
	Capital RON 1,156,639,410				Banca CR Firenze	6.27	
					Intesa Sanpaolo Holding International	0.27	
						100.00	
65	Intesa Sanpaolo Sec S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo	100.00	
	Capital 31,000 euro						
66	Intesa Sanpaolo Servitia S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Holding International	100.00	
	Capital 1,500,000 euro						
67	Intesa Sanpaolo Smart Care S.r.l.	Torino	Torino	1	Intesa Sanpaolo	51.01	
	Capital 1,633,000 euro				Intesa Sanpaolo Vita	48.99	
						100.00	
68	Intesa Sanpaolo Vita S.p.A.	Milano	Torino	1	Intesa Sanpaolo	99.99	
	Capital 320,422,508 euro						
69	Intesa Sec. 3 S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 70,000 euro						
70	ISP CB Ipotecario S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 120,000 euro						
71	ISP CB Pubbico S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 120,000 euro						
72	ISP OBG S.r.l.	Milano	Milano	1	Intesa Sanpaolo	60.00	
	Capital 42,038 euro						
73	Lux Gest Asset Management S.A.	Luxembourg	Luxembourg	1	Intesa Sanpaolo Bank Luxembourg	100.00	
	Capital 200,000 euro						
74	Mediocredito Italiano S.p.A.	Milano	Milano	1	Intesa Sanpaolo	100.00	
	Capital 992,043,495 euro						

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
75	Milano Santa Giulia S.p.A. (c) Capital 120,000 euro	Milano	Milano	1	Risanamento	100.00	
76	Morval Bank & Trust Cayman Ltd Capital 7,850,000 euro	George Town	George Town	1	Morval Vonwiller Asset Management Co Ltd	100.00	
77	Morval Gestion Sam Monaco Capital 500,000 euro	Monaco	Monaco	1	Morval Vonwiller Holding S.A.	100.00	
78	Morval Società di Intermediazione Mobiliare S.P.A. Capital 2,768,000 euro	Torino	Torino	1	Banque Morval S.A.	100.00	
79	Morval Vonwiller Advisor Capital 495,000 euro	Montevideo	Montevideo	1	Southern Group Limited	100.00	
80	Morval Vonwiller Asset Management Co Ltd Capital 2,400,000 euro	Tortola	Tortola	1	Morval Vonwiller Holding S.A.	100.00	
81	Morval Vonwiller Holding S.A.(g) Capital 1,375,000 euro	Sarnen	Sarnen	1	Fideuram Intesa Sanpaolo Private Banking	94.58	
82	MSG Comparto Quarto S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
83	MSG Comparto Secondo S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
84	MSG Comparto Terzo S.r.l. (c) Capital 20,000 euro	Milano	Milano	1	Milano Santa Giulia	100.00	
85	MSG Residenze S.r.l. (c) Capital 50,000 euro	Milano	Milano	1	Risanamento	100.00	
86	Neva Finventures S.p.A. Capital 20,000,000 euro	Torino	Torino	1	Intesa Sanpaolo Innovation Center	100.00	
87	PBZ Card d.o.o. Capital HRK 43,422,200	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
88	PBZ Invest d.o.o. Capital HRK 5,000,000	Zagreb	Zagreb	1	Vub Asset Management Spravcovska Spolocnost	100.00	
89	PBZ Leasing d.o.o. Capital HRK 15,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
90	PBZ Nekretnine d.o.o. Capital HRK 3,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
91	PBZ Stambena Stedionica d.d. Capital HRK 115,000,000	Zagreb	Zagreb	1	Privredna Banka Zagreb	100.00	
92	Pravex Bank Public Joint-Stock Company Commercial Bank Capital UAH 979,089,724	Kiev	Kiev	1	Intesa Sanpaolo	100.00	
93	Private Equity International S.A. (h) Capital 107,000,000 euro	Luxembourg	Luxembourg	1	Intesa Sanpaolo	94.39	100.00
94	Privredna Banka Zagreb d.d. Capital HRK 1,907,476,900	Zagreb	Zagreb	1	Intesa Sanpaolo Holding International	97.47	
95	Qingdao Yicai Wealth Management Co. Ltd. Capital CNY 371,000,000	Qingdao	Qingdao	1	Eurizon Capital SGR Fideuram - Intesa Sanpaolo Private Banking Intesa Sanpaolo	20.00 25.00 55.00 100.00	
96	Recovery Property Utilisation and Services ZRT. Capital HUF 20,000,000	Budapest	Budapest	1	Cib Bank	100.00	
97	Ri. Rental S.r.l. (c) Capital 10,000 euro	Milano	Milano	1	Risanamento	100.00	
98	Risanamento Europa S.r.l. (c) Capital 100,125,050 euro	Milano	Milano	1	Risanamento	100.00	
99	Risanamento S.p.A. (c) Capital 382,301,510 euro	Milano	Milano	1	Intesa Sanpaolo	48.88	
100	Romulus Funding Corporation (f)	New York	New York	2	Intesa Sanpaolo	-	
101	Sanpaolo Invest SIM S.p.A. Capital 15,264,760 euro	Roma	Torino	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	

	Companies	Place of business	Registered office	Type of relation-ship (a)	INVESTMENT		Votes available (b)
					Direct ownership	% held	
102	Società di Progetto Autostrada diretta Brescia Milano S.p.A. (c)	Brescia	Brescia	1	Intesa Sanpaolo	0.05	
	Capital 113,336,332 euro				Autostrade Lombarde	78.98	
						79.03	
103	Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A.	Milano	Milano	1	Fideuram - Intesa Sanpaolo Private Banking	100.00	
	Capital 2,600,000 euro						
104	Southern Group Limited	George Town	George Town		Morval Vonwiller Holding S.A.	100.00	
	Capital 50,000 euro						
105	Sviluppo Comparto 3 S.r.l.(c)	Milano	Milano	1	Milano Santa Giulia	100.00	
	Capital 50,000 euro						
106	Trade Receivables Investment Vehicle Sarl (f)	Luxembourg	Luxembourg	2	Banca IMI/Duomo Funding		
107	Vseobecna Uverova Banka a.s.	Bratislava	Bratislava	1	Intesa Sanpaolo Holding International	97.03	
	Capital 430,819,064 euro						
108	VUB Asset Management Sprav. Spol a.s.	Bratislava	Bratislava	1	Eurizon Capital	100.00	
	Capital 4,093,560 euro						
109	VUB Leasing a.s.	Bratislava	Bratislava	1	Vseobecna Uverova Banka	100.00	
	Capital 16,600,000 euro						

(a) Type of relationship:
1 - majority of voting rights at Ordinary Shareholders' Meeting;
2 - other forms of control.

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

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

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

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

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

(g) Please note that there are put and call option agreements on 5.422% of share capital held by minority shareholders.

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

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

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

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

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

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

- direct ownership, or indirect ownership through its subsidiaries, of more than half the voting rights of an entity, unless in exceptional circumstances it can be clearly demonstrated that such ownership does not constitute control;
- ownership of half, or less, of the votes which can be cast at the shareholders' meeting, and the practical ability unilaterally to govern the relevant activities through:
  - the control of more than half the voting rights as enshrined in an agreement with other investors;
  - the power to determine the financial and operational policies of the entity, as conferred by the Articles of Association or by contract;
  - the power to nominate or remove the majority of the members of the Board of Directors or of the equivalent corporate governance body;
  - the power to cast the majority of the votes at meetings of the Board of Directors or of the equivalent corporate governance body.

In order to exercise power, it is necessary for the rights that the Group has over the investee to be material; to be material, the Group must have the ability to use its rights when decisions relating to relevant activities are taken.
The existence and the effect of potential voting rights, where material, are taken into consideration in evaluating whether power exists to shape the managerial and financial policies of another entity.
Sometimes the Group has "de facto" control over certain entities when it possesses rights to determine unilaterally the relevant activities of the investee, even though it does not have the majority of the voting rights.
On the contrary, cases may emerge where the Group, though holding more than half of the voting rights, does not control the investee since, consequently to agreements with other investors, the exposure to variable returns from the involvement with the investees is not considered significant.
Subsidiaries can also include "structured entities" in which the voting rights are not the dominant factor in deciding who control the entity; this includes special purpose vehicles (SPEs/SPVs) and investment funds. Structured entities are considered to be controlled where:

- the Group has powers enshrined in contractual rights allowing it to govern the relevant activities; and
- the Group is exposed to the variable returns deriving from such activities.

3. Investments in subsidiaries with minority interests

3.1 Minority interests, minority voting rights and dividends distributed to minorities

	Companies	Minority interests %	Minority voting rights % (1)	Dividends distributed to minority shareholders
1	Argentea Gestioni S.c.p.a	49.00	49.00	-
2	Autostrade Lombarde	44.22	44.22	-
3	Banca Apulia S.p.A.	2.88	2.73	-
4	Bank Of Alexandria S.A.E (2)	20.00	29.75	12
5	Banka Intesa Sanpaolo d.d (già Banka Koper d.d.)	0.93	0.93	-
6	Cassa Di Risparmio di Pistoia e della Lucchesia S.p.A.	0.07	0.07	-
7	Compagnia Italiana Finanziaria - CIF S.r.l.	38.56	38.56	-
8	Eurizon Slj Capital L.t.d.	35.00	35.00	-
9	Fideuram Investimenti - Società di Gestione del Risparmio S.p.A.	0.50	0.50	-
10	Iniziative Logistiche S.r.l.	39.98	39.98	-
11	Intesa Sanpaolo Banka D.D. Bosna I Hercegovina	0.01	-	-
12	Intesa Sanpaolo Vita S.p.A.	0.02	0.02	-
13	Intesa Sec 3 S.r.l.	40.00	40.00	-
14	ISP CB Ipotecario S.r.l.	40.00	40.00	-
15	ISP CB Pubblico S.r.l.	40.00	40.00	-
16	ISP OBG S.r.l.	40.00	40.00	-
17	Morval Vonwiller Holding S.A.	4.21	4.21	-
18	Private Equity International S.A.	5.61	-	-
19	Privredna Banka Zagreb d.d.	2.19	2.19	1
20	Risanamento S.p.A.	51.12	51.12	-
21	Società di Progetto Autostrada Diretta Brescia Milano S.p.a.	20.97	20.97	-
22	Vseobecna Uverova Banka a.s.	2.97	2.97	4

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

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

3.2 Investments in companies with significant minority interests: financial highlights

(millions of euro)

	Companies	Total assets	Cash and cash equivalents	Financial assets	Property, equipment and intangible assets	Financial liabilities	Shareholders' equity	Interest margin	Net interest and other banking income	Operating expenses	Income (loss) before tax from continuing operations	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
1	Risanamento S.p.A.	1,037	-	9	702	450	164	-21	-24	-12	-15	-34	-	-34	-	-34
2	Bank Of Alexandria S.A.E	4,702	82	4,422	136	3,899	529	265	306	-127	-96	122	-	122	10	132
3	Vseobecna Uverova Banka A.S.	16,367	158	15,823	184	14,615	1,604	346	518	-265	-150	152	-	152	-39	113
4	Autostrade Lombarde	2,224	1	796	979	1,494	165	-	-	-	-	-	-	-	-	-

4. Significant restrictions

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.

On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.

Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations. In addition, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

5. Other information

In preparing the Intesa Sanpaolo consolidated financial statements, the financial statements of all controlled subsidiaries have the same financial year-end.

Consolidation methods

Full consolidation

This method involves the "line by line" aggregation of the individual amounts reported in the balance sheets and income statements of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests, in a specific caption, in equity and in the result for the period, the residual value is eliminated against the book value of the subsidiaries concerned.

Any positive differences arising on consolidation, after the allocation to the assets and liabilities of the consolidated subsidiary, are recorded under Intangible assets as goodwill or other intangible assets. Negative differences are recognised in the income statement.

Assets, liabilities, income and expenses between consolidated companies are totally eliminated.

Business combinations must be accounted for using the "acquisition method" in accordance with IFRS 3, as modified by Regulation 495/2009, whereby identifiable assets acquired or liabilities assumed (including contingent liabilities) are recognised at their fair value at the acquisition date. Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value or in proportion to the minority investment in the net identifiable assets of the acquired company. Any excess of the consideration transferred (being the fair value of the assets sold, the liabilities incurred and the equity instruments issued) over the fair value recognition of minority interests with respect to the fair value of the assets acquired and the liabilities assumed is recognised as goodwill. If the consideration is lower, the difference is taken to the income statement.

The "acquisition method" is applied starting from the acquisition date, that is from the moment in which control of the acquired company is obtained. Therefore, the economic results of a subsidiary acquired in the reference period are included in the Consolidated financial statements starting from the acquisition date. Likewise, economic results of a subsidiary sold are included in the Consolidated financial statements until the date in which control ceased.

The difference between sale price and book value at the date of disposal (including foreign exchange differences recorded in shareholders' equity on consolidation, over time) is accounted for in the income statement.

The financial statements of the Parent Company and of other companies used to prepare the Consolidated financial statements refer to the same date.

Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

Measurement using the equity method

Associates and companies subject to joint control are consolidated with the equity method.
The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the shareholders' equity of the company.
Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company.
The valuation of the portion of shareholders' equity does not consider any potential voting rights.
The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.
If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is under book value the relative difference is recorded in the income statement.
For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.

Conversion of financial statements in currencies other than the euro

The financial statements of the companies which do not operate in the eurozone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the income statement the average exchange rate.
Foreign exchange differences from the conversion of the financial statements of such companies, deriving from the application of different foreign exchange rates to assets and liabilities and the income statement, are recorded in Valuation reserves under shareholders' equity. Foreign exchange differences on the shareholders' equity of the subsidiaries are also recorded in Valuation reserves.
All foreign exchange differences are reversed to the income statement of the year in which the foreign operation is sold.

SECTION 4 – SIGNIFICANT EVENTS SUBSEQUENT TO FINANCIAL STATEMENT DATE

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

SECTION 5 - OTHER ASPECTS

Option for the national fiscal consolidation provisions

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

Set up of a VAT Group

Intesa Sanpaolo and almost all of the Italian companies in the Group opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.
This option takes effect from 1 January 2019 and will have a duration of three years, automatically renewed each year, unless revoked.
As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group.

"Cooperative compliance" regime

Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the "cooperative compliance" regime set out in Legislative Decree 128/2015.
The admission is effective from the tax period 2017.
The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.
Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness.

Auditing

KPMG S.p.A. audited the Consolidated financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

Other aspects

For the purpose of fulfilling the provisions of Art. 1, paragraph 125 of Law 124/2017 – Annual law on markets and competition, pending clarifications on interpretation and in line with Assonime Circular no. 5 of 22 February 2019, which dealt with the interpretation of several of the uncertainties in that regulation, making it possible to deem those "benefits", considerations and remuneration that are justified by provision of the company and, in any event, in synallagmatic relationships that are typical of the recipient's business exempt from the disclosure obligation, as well as those aimed at businesses in general, such as tax and contributory benefits, it was decided to indicate that in 2018 the Italian companies of the Group were provided with grants - which are included and illustrated in the National Register of State Aid which can be viewed by the public on the related website - for a total of 8.7 million euro.

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

The classification and measurement criteria for the financial assets and liabilities presented below relate to the Banking Group, whereas the criteria adopted by the subsidiary insurance companies are discussed in a specific chapter at the bottom of this section. In fact, as a result of the Intesa Sanpaolo Group's decision, as a financial conglomerate primarily engaged in banking activities, to exercise the option of adopting the Deferral Approach, the financial assets and liabilities of the subsidiary insurance companies will continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international financial reporting standard on insurance contracts, currently scheduled for 2021.

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:

- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model.
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria

After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range

of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria
This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.
Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.
Equity instruments are not subject to the impairment process.
See the paragraph below "Impairment of financial assets" for more details.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

3. Financial assets measured at amortised cost

Classification criteria
This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:
- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.
In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Measurement criteria

After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method referred to above) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.

The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.

The measurement criteria, as described in more detail in the paragraph "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.

With regard to the accounting representation of the above measurement effects, the value adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or "tranches" of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "non-performing", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph "Impairment of financial assets", takes account of forward-looking information and possible alternative recovery scenarios.

Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.

The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.

The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment with time value effects are recognised in net interest income.

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.

In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.

The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
    - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
    - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is "modification

accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

4. Hedging transactions

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

Classification criteria: type of hedge

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.
The following types of hedging transactions are used:
- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.
The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria

Hedging derivatives are measured at fair value. In particular:
- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. "Fair value change of financial assets in hedged portfolios" or under caption 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction. A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:
- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. “Fair value change of financial liabilities in hedged portfolios” are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

5. Investments in associates and companies subject to joint control

Classification, recognition and measurement criteria

The caption includes investments in companies subject to joint control and associates.

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.

Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including “potential” voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.

Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

6. Property and equipment

Classification criteria

Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.
Property and equipment held for use in the production or supply of goods and services are classified as “Property and equipment used in operations”, in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as “Investment property” based on IAS 40.
This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories, and to the real estate portfolio of the Group’s real estate companies, including building sites, properties under construction, properties completed for sale and real estate development initiatives, held for sale.
Lastly, property and equipment also include the goods used in finance lease contracts, even though the ownership remains in the books of the lessor.

Recognition criteria
Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

Measurement criteria
Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.
The investment properties are measured with the fair value method.
For the property and equipment subject to assessment according to the revaluation model:
- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in other comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; instead, in the case where a decrease in a revaluation of the same asset recognised previously in the income statement is reversed, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in other comprehensive income as revaluation excess to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Group's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:
- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.
If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

Derecognition criteria
Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

7. Intangible assets

Classification criteria
Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

Recognition and measurement criteria
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.
If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:
- technology related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years; in particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;
- customer related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- intangible assets linked to service concession arrangements for which, in accordance with IFRIC 12, in return for the infrastructure construction or upgrade services, the operator acquires the right to charge the users for the use of the infrastructure; see the paragraph "Service concession arrangements" for more details. Intangible assets of this type are recorded net of government grants received, as required by IAS 20, and amortised on a straight-line basis over the duration of the concession;
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the consideration transferred and the fair value recognition, if any, of minority interests, and the fair value of shareholders' equity acquired is representative of the future income-generation potential of the equity investment.
If this difference should be negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.
Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recoverable amount, if lower. The recoverable amount is equal to the higher between the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are posted in the income statement.

Derecognition criteria
Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

8. Other assets
Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

9. Non-current assets held for sale and discontinued operations and related liabilities
Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

10. Current and deferred tax

Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accruals basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Group companies claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which the Group companies have requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.
Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Group companies are managed separately from an administrative standpoint.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.
Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.

If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.
Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).
Latent taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named "Reserve pursuant to Article 21 of Legislative Decree 213/98", which qualify for deferred taxation, is charged directly against this reserve. No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.
Latent taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

11. Allowances for risks and charges

Allowances for risks and charges for commitments and guarantees given

This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.
This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

Post-employment benefits

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Other allowances

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.

Consequently, a provision is recognised when, and only when:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

12. Financial liabilities measured at amortised cost

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in finance lease transactions.

Recognition criteria
Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.
Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

Derecognition criteria
Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.
Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

13. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value contained in combined contracts, where the host contract is a financial liability, but that are not closely correlated to those contracts. It also includes liabilities determined by short selling generated by securities trading activities and certificates.

Measurement criteria
All financial liabilities held for trading are measured at fair value through profit or loss.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

14. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

Recognition criteria
These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

Measurement criteria
These liabilities are measured at fair value according to the following rules established by IFRS 9:
- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

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

15. Foreign currency transactions

Initial recognition
Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

Subsequent measurement
At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

16. Other information

Own shares
Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Accruals, prepayments and deferrals
Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

Employee termination indemnities
Employee termination indemnities qualify as a "post-employment benefit" classified as:
- a "defined contribution plan" to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a "defined benefit plan", therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions accrued until 31 December 2006.
  These amounts are recognised at their actuarial value determined using the "Projected Unit Credit Method", without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.
The plan's costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments
Share-based payments are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.
In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.
The combination of the two values supplies the fair value of the assigned instrument.
Any decrease in the number of financial instruments granted is accounted for as a cancellation of a portion of such instruments.

Employee benefits
Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:
- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and "extraordinary" benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Recognition of revenues and costs
Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:
- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:
- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:
- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  a) hedging interest-generating assets and liabilities;
  b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;

- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instrument quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

Use of estimates and assumptions in preparing financial reports

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves.

For some of the types listed above, the main factors subject to estimates by the Group and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:
  - the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;

- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

The classification drivers for financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).
The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.
The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:

- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.
The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, the Intesa Sanpaolo Group uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not

managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).
For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

Business model
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:
- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.
In this regard, and in relation to the business models under which the financial assets are held, a specific set of Business Model Rules – approved by the competent levels of governance – define and set out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the Intesa Sanpaolo Group's business structures.

For the Hold to Collect portfolios, the Group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.
More specifically, within an HTC business model sales are allowed:
- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;

  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the total nominal value of the instruments held in the portfolio over the period considered.

If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).
With regard to the determination of the "Risks" and the "Reporting" for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter concerning market risk controls apply in principle, and governance measures are established for monitoring the limits of the portfolios classified with HTCS and Other/Trading business models.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or variable rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the loan. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions of services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. commissions for facility and arrangement) and, lastly, intragroup costs and income.
With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.
For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of

return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

Impairment of assets

Impairment of financial assets

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.
If there is evidence of impairment, these financial assets – in line with any other assets pertaining to the counterparty – are considered impaired and are included in stage 3.For these exposures, consisting of financial assets classified – in accordance with the provisions of Bank of Italy Circular 262/2005 – in the categories of bad loans, unlikely-to-pay loans and exposures past due by more than ninety days, value adjustments must be recognised equal to their lifetime expected credit losses.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of “significantly increased” credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has “significantly increased” – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the “significant increase” in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have “significantly increased” and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has “significantly increased” since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between “stages” where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

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

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional conservative margin specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and

LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank's Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The alternative paths are selected using external information. Among these:
- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the historical series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.
Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets

Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.
Non-performing loans classified as bad loans are subject to the following measurement methods:

- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of forward looking-information, and in particular information relating to the impact of future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans with mortgage collateral, for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:

- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to include the impacts of future macroeconomic scenarios (as described in the previous paragraphs) and of continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the on-balance sheet exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of future macroeconomic scenarios.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, 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.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid redundancies, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower’s financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).
For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.
For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.
Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of forward-looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described. In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.
Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.
In compliance with the "NPL Guidance" the business strategies regarding NPL reduction are illustrated in the "NPL plan", a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.

Where the "NPL plan" specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the "NPL plan" identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.
In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:
- uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- disposal of the loan;
- waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six months) portfolios of bad loans are defined to be subject to total or partial write-offs with the following macro-characteristics:
- percentage coverage > 95%;
- vintage (understood as the period of time in "bad loan" status) > 5 years or > 8 years, respectively, for non-mortgage and mortgage loans.

Impairment of investments in associates and companies subject to joint control
At each balance sheet date, the investments in associates and companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.
The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.
Qualitative indicators include:
- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:
- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.
The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.
For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.
Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.
Value in use is determined by discounting future cash flows.

Impairment of non-financial assets

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.
In order to test its owner-occupied properties for signs of impairment, the Group conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.
For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.
Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each balance sheet date to assess whether there is objective evidence that the asset may have been impaired.
Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.
Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. The amount of any impairment is determined on the basis of the difference between the CGU's book value and its recoverable amount represented by the higher of the fair value, less costs to sell, and the value in use.
The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business.
In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
On this basis, the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.
Thus, the carrying amount of the CGUs consisting of companies that belong to a single operating division or consist of a single legal entity (Asset Management, Private Banking, Insurance, International Subsidiary Banks and Autostrade Lombarde) is determined by summing the individual book values of each company in the consolidated financial statements, namely the contribution to consolidated shareholders' equity and corresponding to their net book value, taking into account any goodwill and intangibles recorded upon acquisition (net of subsequent amortisations and any write-downs) and the consolidation entries. With regard to the determination of the carrying value of the other two divisions (Banca dei Territori and Corporate and Investment Banking), given that the Parent Company and other banks contribute to the management of these divisions, and this subdivision is not represented in the accounting information, the overall carrying value of the CGUs cannot be determined on the basis of book values. As a consequence, the use of operational factors is required to make the subdivision following a detailed allocation of the intangibles and goodwill to the two CGUs in accordance with the available accounting information. The operational driver is identified as the "regulatory capital" determined by the Financial and Market Risks Department structures for each operating division: it represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules. The resulting book values already take into account the effects of any impairment of the individual assets, including those relating to intangible assets with a finite life.
For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.
The value in use of a CGU is determined by estimating the present value of future cash flows that may be expected to be generated by the CGU. These cash flows are determined by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan or other external information available. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity, using an appropriate growth rate "g" for the purposes of the so-called Terminal value. The "g" rate is determined by assuming that the growth factor is the lower of the average growth rate for the forecasting period of the analysis and the average rate of increase in the Gross Domestic Product in the countries where the cash flows are generated.
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates used incorporate the risk-free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. In addition, given the diverse risks of the respective operating

areas, different Beta coefficients are used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".
The cash flows produced by the international subsidiaries are estimated in the currency in which they are generated and translated into euro using the spot exchange rate as at the date of the determination of the value in use.

Business combinations

Business combinations are governed by IFRS 3.
The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.
To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.
IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.
The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.
The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.
In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see the chapter A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.
Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.
Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.
Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.
Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.
Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.
If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.
Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.
The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.
In accordance with IFRS 10, acquisitions of further stakes in companies which are already controlled are accounted for as a capital transaction or as a transaction with shareholders acting in their capacity as shareholders. For this reason, the difference between the cost of the acquisition and the book value of the minority stakes acquired is posted to group shareholders' equity; in the same way, the sale of minority stakes without ceding control, does not generate gains or losses in the income statement but is posted to group shareholders' equity.
The following transactions are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business; transactions aimed at acquiring transitory control; transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the business combinations (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the

economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.
Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.
Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

Service concession arrangements

As at 31 December 2018, Intesa Sanpaolo acquired control of Autostrade Lombarde, the concession operator, through its operating subsidiary Società di Progetto Brebemi, of the Milan-Brescia motorway section (A35). For the accounting treatment of the motorway concession, reference was made to the provisions of IFRIC 12 - Service Concession Arrangements. Specifically, IFRIC 12 applies to service concession arrangements in which the grantor is a public sector entity and the operator is a private sector entity, when the following conditions are met:

a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
b) the grantor controls - through ownership or otherwise - any residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC 12 establishes that the operator is not required to recognise the related infrastructure as property and equipment because it does not have "control" over it, but it must only recognise the right to use the infrastructure to provide the service in accordance with the terms and conditions agreed with the grantor. This right may be classified as a financial asset or an intangible asset, in relation, respectively, to the unconditional right to receive compensation irrespective of the actual use of the infrastructure or the right to charge users for the use of the public service.
In accordance with IFRIC 12, in return for the construction and/or upgrade services rendered by the operator, the grantor shall pay the operator a consideration, to be recognised at fair value, which may consist of rights to:

- a financial asset (the financial asset model); or
- an intangible asset (the intangible asset model).

The financial asset model applies when the operator has an unconditional right to receive contractually guaranteed cash flows for the construction services, regardless of the effective use of the infrastructure. By contrast, within the intangible asset model, in return for the infrastructure construction or upgrade services, the operator acquires the right to charge the users for the use of the infrastructure. If the operator is paid for its infrastructure construction and upgrade services in part through a financial asset and in part through an intangible asset, a mixed accounting model applies. In this scenario, the components of the arrangement must be separated into those referring to the financial asset and those relating to the intangible asset. In this case, IFRIC 12 requires that the operator first calculate the part referring to the financial asset and then, on a residual basis (in respect of the value of the construction and/or upgrade services provided) the amount of the intangible asset. Taking into account the characteristics of the motorway concession held by Società di Progetto Brebemi, the mixed accounting model provided for by IFRIC 12 has been applied.

Criteria for the preparation of segment reporting

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

activities and take into account the economic and strategic importance and the potential of the reference markets. Three main geographical areas have been identified, based on the residence of the legal entities making up the Group: Italy, Europe and Rest of the World.

Insurance assets and liabilities

The Intesa Sanpaolo Group has decided to exercise the option of adopting the Deferral Approach, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39, while awaiting the entry into force of the new international accounting standard on insurance contracts (IFRS 17), scheduled for 2021. For completeness, an outline is provided below of:

- the classification and measurement criteria for the financial assets and liabilities used by the Group's insurance companies, with more details provided in Part A "Accounting policies" of the Notes to the consolidated financial statements of the 2017 Annual Report. However, a description has not been provided of the recognition and derecognition criteria, because they are essentially in line with the applicable provisions of IFRS 9 and IAS 39;
- the approaches adopted for specific products of the insurance segment.

For details of the treatment of financial statement captions of the insurance companies other than those of a financial nature, see the information provided above, as the companies of the banking group and the companies of the insurance segment use the same accounting policies.

1. Financial assets held for trading

Classification criteria

This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.

In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

Measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCI and derivatives which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

2. Financial assets available for sale

Classification criteria

This category includes the financial assets that do not fall within any of the other categories such as Loans, Financial assets held for trading, Investments held to maturity or Financial assets measured at fair value through profit or loss. In particular, this caption is made up of i) bonds which are not held for trading and which are not included in Loans and Receivables, in Investments held to maturity or designated at fair value through profit and loss, ii) equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds as well as iii) the portions of syndicated loans that, from inception, are destined for sale.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity. Moreover, debt securities may be reclassified into the category Investments held to maturity as well as under Loans, when there is the intention to hold them in the foreseeable future and when the recognition criteria are met. The transfer value is the fair value at the time of the reclassification.

Measurement criteria

After initial recognition, Financial assets available for sale are measured at fair value, through the recording in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.

Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.
Equities included in this category and quotas of UCI which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.
Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.
Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity in the case of equities. The size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

3. Investments held to maturity

Classification criteria

Quoted debt securities with fixed or determinable payments and fixed maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category.
In the cases provided for by the accounting standards, reclassifications are only permitted towards the category of Financial assets available for sale. If during a year, prior to expiry, more than an insignificant amount classified under this category is sold or reclassified, the remaining investments held to maturity are reclassified as Financial assets available for sale and the portfolio in question may not be used for the next two years, unless the sales and reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Measurement criteria

After the initial recognition, Investments held to maturity are measured at amortised cost, using the effective interest method.
Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.
Investments held to maturity are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

4. Loans

Classification criteria

Loans include loans to customers and due from banks, both disbursed directly and acquired by third parties, which entail fixed or in any case determinable payments, which are not quoted on an active market and which are not classified at inception in Financial assets available for sale.
The caption Loans also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities underwritten at issue or via private placements, with determined or determinable payments, not quoted in active markets.
Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

Measurement criteria

After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.
The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.
Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely-to-pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.
Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.
The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.

The impairment loss is recorded in the income statement.
The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment include time value effects.
Loans for which no objective evidence of loss has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.
Collective adjustments are recorded in the income statement.

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

Classification criteria
IAS/IFRS endorsed by the European Commission enable the classification as financial instruments measured at fair value through profit and loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.
Reclassifications to the other categories of financial assets are not permitted.
The Group classifies investments with respect to insurance policies in this category.

Measurement criteria
After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

6. Payables and securities issued

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the entity in the capacity of lessee in finance lease transactions.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.
An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

7. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities and certificates.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

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

Classification criteria
Financial liabilities designated at fair value through profit and loss are recorded under this caption, on the basis of the fair value option given to companies by IAS 39, in compliance with the cases contemplated in the reference regulations.
The Group exercised the fair value option for liabilities, designating insurance products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary profit-sharing features. Investments relating to such forms of deposits, as already reported, were also designated at fair value, thereby eliminating or considerably reducing "accounting biases" that would otherwise have arisen from measuring assets and liabilities on the basis of different accounting criteria.

Measurement criteria
These liabilities are measured at fair value through profit and loss.

9. Insurance products
Products for which insurance risk is deemed significant include: temporary first-class death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, the IAS/IFRS substantially confirm the national accounting standards concerning insurance. In brief, IFRS 4 sets forth that:
- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles. In accordance with IFRS 4, the Group assesses the adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT);
- the insurance products entered under separate management are valued by applying “shadow accounting”, whereby the differences between the carrying value and the market value of securities classified as securities available for sale are allocated to technical reserves as regards the insured parties' portion and to shareholders’ equity as regards the insurance companies' portion. If, on the other hand, the securities are measured at fair value through profit or loss, the difference between the book value and the market value is recorded in the income statement giving rise to a change in technical reserves equal to the amount of the insured parties’ portion;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

10. Financial products included under separate management
Financial products included under separate management, despite their not being subject to significant insurance risk, and which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalisation policies. These are accounted for according to the principles set forth in IFRS 4:
- the products are shown in the financial statements according to principles that essentially reflect those locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the income statement;
- as stated in the previous paragraph, shadow accounting is applied to the insurance products entered under separate management which, therefore, have discretionary participation features;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

11. Financial products not included under separate management
Financial products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary participation features, are stated in the financial statements as financial liabilities and are measured at fair value, on the basis of the envisaged option (Fair Value Option), or at amortised cost. These financial products are essentially index-linked policies and part of the unit-linked ones, as well as policies with specific assets not included under separate management. These products are accounted for according to the principles set forth in IAS 39, as summarised below:
- the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are measured at amortised cost;
- the income statement does not reflect the premiums relating to these products, but just the revenue components, represented by fees and commissions, and the cost components, comprising provisions and other charges; it also reflects the costs or revenues represented by the changes in the fair value of the liabilities incurred against these contracts. More specifically, the international accounting and reporting standards, contained in IAS 39 and IFRS 15, provide that, for the liabilities designated at fair value, income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the income statement at the time the product is issued and (ii) investment and management services, to be amortised over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, incremental cost and income items are included in the calculation of the amount to be amortised;
- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued and recorded.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.
According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, carrying value and interest income

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No disclosure is required since no transfers were carried out between portfolios of financial assets in 2018.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.4 – INFORMATION ON FAIR VALUE

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
The bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
a. in the principal active market for the asset or liability;
b. in the absence of a major market, in the most advantageous active market for the asset or liability.
The entity is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Intesa Sanpaolo Group generally operates.

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

In specific cases regulated by 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 independent price verification principles

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.

The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

According to the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments, for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group's Prudent Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), prudent valuation requires the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed to capture different sources of valuation uncertainty and 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, without impacts on accounting fair values.

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 at fair value.

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 reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

Fair value hierarchy

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

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

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the 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)[9] 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).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products 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.

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

[9] 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.

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;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered at level 2;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

Valuation of financial instruments

The valuation of financial instruments entails the following phases:
- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

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

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. 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 Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Model Validation

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.
The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:
- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.

The Independent Price Verification (IPV) process, illustrated below, supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments

As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as "fair value adjustments", which constitute an integral part of the fair value.
These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty, and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided

by the mitigation or elimination of said risks.
For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds), on the valuation models used.

/· Valuation of non-contributed debt securities

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered 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 measured at fair value through profit and loss, the credit spread of Intesa Sanpaolo 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.

//· Valuation of loans

Loans are measured at fair value calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered relatively to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.

///· Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".
b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Fair value adjustments").

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

IV. Valuation model for structured credit products

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, is 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 are prepared for the valuations referred to the main input parameters:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal are decreased by 25% (50% for REITS underlying securities);
- stress of the correlations: inter and intra correlations are 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, are increased by 25%;
- stress of expected residual lives: the latter are 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 are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the 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 are identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation.

V. Valuation of equities

Level 2 equities 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).

Level 3 equities for which the "relative" models described above are not applicable in significant terms, and, therefore, "absolute" valuation models are used, 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.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

VI. The valuation of hedge funds

The determination of the fair value of a fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via an MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via an MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily

transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.
For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. Valuation of other level 2 and 3 instruments

Loans measured at amortised cost, whose fair value is reported, for information purposes, in the Notes to the consolidated financial statements, 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 with the granting of loans are taken into consideration in the rate used to discount future cash flows.

Independent price verification of financial instruments

Independent Price Verification (IPV) is "a process by which market prices or marking to model inputs are regularly verified for accuracy and independence" (Article 4(1.70) EU Regulation 575/2013), carried out "in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book" (Article 105(8) EU Regulation 575/2013).

The Intesa Sanpaolo Group has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

Within the IPV, the level I, II and III control functions have the following main responsibilities:
- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:
- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The prudent value of financial instruments

The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:
- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.

- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The "Rules on Prudent Valuation of Financial Instruments" outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-28	3	%	5,104	-365
Structured securities and loans	Two-factor model	Correlation	-36	39	%	2,796	-2,031
ABSs	Discounting Cash Flows	Credit Spread	-43	28	%	10,156	-6,866
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-132	53
CLOs Cash	Discounting Cash Flows	Credit Spread	-38	6	%	7,979	-1,191
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	-1,464	586
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	158	-158
OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparties	bCVA	Loss Given Default Rate (LGD)	0	100	%	6,127	-5,665
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	205	-153
OTC Derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	65.86	93.63	%	169	-132
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	11.04	55.09	%	385	-236
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	32.21	80.93	%	284	-442
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-79.13	97.34	%	853	-585

A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

As required by IFRS 13, for the financial assets and liabilities measured at level 3, the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-267	1 bp
FVTPL and FVTOCI securities and loans	Correlation	-103	1%
FVTPL and FVTOCI securities	CPR	-16	1%
FVTPL and FVTOCI securities	Recovery rate	-64	-1%
OTC Derivatives - Interest rate	Correlation by spread options between swap rates	-107	0.10
OTC Derivatives - Equity	Correlation between underlying equity baskets	-108	0.10
OTC Derivatives - Equity	Historical volatility	-241	10%
OTC Derivatives - Equity CPPI	Historical correlation	-149	0.10

A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo carried out level changes based on the following guidelines.

For debt securities, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reference date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reference date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reference date, some of the significant parameters used in determining fair value are not directly observable on the market.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk-free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For equity instruments other than those held for trading, change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.

The Intesa Sanpaolo Group refers to the net positions in derivatives of each counterparty in order to calculate the bCVA (for more information on the valuation of derivatives refer to paragraph A.4.1 above). However, for other cases, the Group does not apply the options set out in IFRS 13, par. 48, that permits an entity to “measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.”

FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation method as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

Measurement of real estate assets

The revaluation method applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.
For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

Valuation approach

IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of 3 main groups:

- "trophy assets", i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
- "owner-occupied properties";
- "investment properties".

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.
The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards[10] which guarantee:

- determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
- compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.

- The Discounted Cash Flow Method: the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
- Comparative or Market Method: the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-core assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
- Direct capitalisation income approach: the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
- Investment Value (Worth): the Investment Value (Worth) is defined by the IVS as "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives". This definition is consistent with the provisions of the latest edition of the "RICS Valuation - Global Standards 2017" of the Royal Institution of Chartered Surveyors of the United Kingdom, where the Investment Value is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives".
  The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.
  The Investment Value of these properties is determined on the basis of a 12+6-year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

Frequency of valuation

Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

[10] Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document "RICS Valuation – Global Standard 2017" (also known as the "Red Book").

Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.
The following distinction is made for owner-occupied properties:
- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+ or -10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.
For investment properties, the value is determined on the basis of new appraisals each year.

Scenario analysis
As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period. In particular, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.
Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.
This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within two different thresholds and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.
The permitted variation threshold is +/-10%
If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

Fair value of valuable art assets

The bank's valuable art assets are also valued using the revaluation method, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.

Valuation approach
The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts.
At least four different values can be formulated for an individual art asset:
- current commercial or market value;
- liquidation value;
- restoration value;
- insurance value.

For the valuation of Intesa Sanpaolo's collections, the "current commercial or market value" has been adopted as the main criterion. However, additional value criteria may be used if there are anomalies in the main criterion.
For the determination of the fair value, the same criteria used for the initial selection of assets to be included in the "valuable art assets" category are considered:
- state of preservation of the artwork;
- historical importance of the artist;
- critical/historical-artistic importance of the artwork;
- illustrious origin of the artwork;
- quality and certain attribution of the artwork;
- declaration of interest from the Ministry for Cultural Heritage and Activities.

After having identified the criteria, the fair value is obtained, by comparison, from the online databases that list over 100 million artworks and monitor the results of leading Italian and international auction houses such as Christie's, Sotheby's, Dorotheum, Pandolfini, Wannenes, and Il Ponte. The results of the auctions are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring the sales of galleries and art fairs.
The comparison consists of the analysis of the auction trades for similar artworks (in terms of technique, size and subject matter) by the same artist or by similar schools or genres in terms of style and philosophy, which indicate the commercial value of the artwork.

The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined, which follows three methodological approaches:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the quarter: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

Frequency of valuation

For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

Scenario analysis

In order to identify and determine the changes in the market value of the artworks being valued, trading trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.
Scenario analyses are pivotal for monitoring the market trends for artworks similar to those owned by Intesa Sanpaolo, since there have been significant increases in the market in recent years.
With respect to the parameters used for valuation purposes, the growth and evolution of the market has aspects of interest that have a direct impact on the scenario analyses that are conducted regularly to monitor the trends.
In view of the above, a scenario analysis of the art market is conducted annually, based on an examination of the sector publications and the most authoritative annual reports produced by leading consulting firms (Deloitte Luxembourg & ArtTactic, Art & Finance Report) or other accredited banking groups (The Art Market 2018. An Art Basel & UBS Report).
This monitoring activity is carried out on a two-fold basis:

- monitoring of the market prices of the top artworks/collections in terms of value held in Intesa Sanpaolo's collections, which represent approximately 75% of the total value of the "valuable art assets" category, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the main world databases (Art Price, Art Net), whose analytics provide useful tools for monitoring prices;
- monitoring the performance of the art market in general, to identify trends and changes with respect to Intesa Sanpaolo's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the main world databases (Art Price, ArtNet); since the works of many authors in the Intesa Sanpaolo collection rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% (for individual artworks/collections of artists in the Intesa Sanpaolo collections and comparable on the basis of objective criteria such as size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

Quantitative information

A.4.5. Fair value hierarchy

A.4.5.1 Assets and liabilities designated at fair value on a recurring basis: fair value by level - *Excluding insurance companies*

(millions of euro)

Assets / liabilities at fair value	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	11,037	28,462	2,616	11,712	26,954	916
a) Financial assets held for trading	*10,748*	*27,655*	*403*	*11,712*	*26,569*	*747*
of which: Equities	*500*	-	-	*626*	-	-
of which: quotas of UCI	*913*	*2*	*47*	*984*	*3*	*94*
b) Financial assets designated at fair value	-	*208*	-	-	*385*	*169*
c) Other financial assets mandatorily designated at fair value	*289*	*599*	*2,213*	-	-	-
of which: Equities	*2*	*96*	*178*	-	-	-
of which: quotas of UCI	*267*	-	*1,334*	-	-	-
2. Financial assets designated at fair value through other comprehensive income	53,527	6,399	543	57,296	5,776	1,896
of which: Equities	*593*	*2,119*	*447*	*500*	*2,448*	*704*
3. Hedging derivatives	-	2,983	10	-	4,199	14
4. Property and equipment	-	-	5,720	-	-	5,890
5. Intangible assets	-	-	-	-	-	-
Total	**64,564**	**37,844**	**8,889**	**69,008**	**36,929**	**8,716**
1. Financial liabilities held for trading	14,928	26,824	143	15,517	25,569	132
2. Financial liabilities designated at fair value	-	4	-	-	3	-
3. Hedging derivatives	-	7,216	5	-	7,484	5
Total	**14,928**	**34,044**	**148**	**15,517**	**33,056**	**137**

Excluding insurance companies, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 8%. The majority of level 3 financial assets is represented by units of UCIs, of which 355 million euro is represented by units of the Atlante Fund and the Italian Recovery Fund put in place, as part of the regulations to support the banking system, and 294 million euro relating to junior securities subscribed as part of the disposal during the year of 10.8 billion euro of the realised gain.
As far as liabilities are concerned, level 3 instruments account for less than 1% of total liabilities.
Over 58% of financial assets designated at fair value (excluding the insurance segment) are determined based on market prices, and therefore without any discretion by the valuator.

The captions measured at level 3 fair value under Property and equipment include real estate assets and valuable art assets, which represent 64% of the balance sheet assets at level 3 fair value.
In addition to the transfers relating to financial assets and liabilities designated at level 3 as detailed below, please note that the following transfers were made during 2018:

- from level 1 to level 2:
  - financial assets held for trading for 111 million euro (book value as at 31 December 2018);
  - financial assets measured at fair value through other comprehensive income for 89 million euro (book value as at 31 December 2018);
  - financial liabilities held for trading for 112 million euro (book value as at 31 December 2018);
- from level 2 to level 1:
  - financial assets held for trading for 173 million euro (book value as at 31 December 2018);
  - financial assets measured at fair value through other comprehensive income for 22 million euro (book value as at 31 December 2018);
  - financial liabilities held for trading for 215 million euro (book value as at 31 December 2018);

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's

Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

A.4.5.1 Bis Assets and liabilities measured at fair value on a recurring basis: fair value by level - Insurance companies

(millions of euro)

Assets / liabilities at fair value	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	231	11	47	428	13	49
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*61*	-	*47*	*205*	-	*49*
2. Financial assets designated at fair value through profit or loss	73,920	121	273	74,288	157	270
of which: Equities	*1,678*	-	-	*1,605*	-	-
of which: quotas of UCI	*67,729*	-	*19*	*68,629*	-	*18*
3. Financial assets available for sale	71,254	2,286	1,382	75,572	786	1,015
of which: Equities	*979*	-	-	*1,608*	-	-
of which: quotas of UCI	*10,256*	*1*	*1,382*	*8,578*	*61*	*817*
4. Hedging derivatives	-	21	-	-	4	-
5. Property and equipment	-	-	-	-	-	9
6. Intangible assets	-	-	-	-	-	-
Total Caption 35	**145,405**	**2,439**	**1,702**	**150,288**	**960**	**1,343**
1. Financial liabilities held for trading	3	41	-	-	67	-
2. Financial liabilities designated at fair value through profit or loss	-	67,755	-	-	68,166	-
3. Hedging derivatives	-	1	-	-	-	-
Total Caption 15	**3**	**67,797**	**-**	**-**	**68,233**	**-**

Having regard to insurance companies, as shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, account for a limited portion of the financial assets portfolio equal to 1%.
Over 97% of financial assets designated at fair value in the insurance segment are determined based on market prices, and therefore without any discretion by the valuator.

In addition to the transfers relating to financial assets and liabilities in the insurance segment designated at level 3 as detailed below, please note that the following transfers were made during 2018:

- from level 1 to level 2:
  - financial assets held for trading for 1 million euro (book value as at 31 December 2018);
  - financial assets available for sale for 1,625 million euro (book value as at 31 December 2018);
- from level 2 to level 1:
  - financial assets held for trading for 1 million euro (book value as at 31 December 2018);
  - financial assets designated at fair value through profit and loss for 22 million euro (book value as at 31 December 2018);
  - financial assets available for sale for 135 million euro (book value as at 31 December 2018);

The transfers between fair value levels are determined by the trends in the observability of prices or market data used to measure the instruments and by the materiality of the unobservable inputs.
The transition from level 1 to level 2 is a consequence of the disappearance of the presence of an active market for that instrument assessed by analysing the reliability and the reciprocal consistency of the available prices according to the provisions of the Group's Fair Value Policy. Conversely, securities for which a mark-to-model measurement is performed using inputs that can be observed on the market – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3) - Excluding insurance companies

(millions of euro)

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**2,561**	**748**	**64**	**1,749**	**688**	**14**	**5,890**	**-**
2. Increases	**1,556**	**705**	**-**	**851**	**273**	**-**	**159**	**-**
2.1 Purchases	1,170	639	-	531	81	-	80	-
2.2 Gains recognised in:	158	38	-	120	33	-	61	-
2.2.1 Income statement	158	38	-	120	19	-	7	-
- of which capital gains	*110*	*26*	-	*84*	-	-	*6*	-
2.2.2 Shareholders' equity	-	X	X	X	14	-	54	-
2.3 Transfers from other levels	12	7	-	5	39	-	4	-
2.4 Other increases	216	21	-	195	120	-	14	-
3. Decreases	**-1,501**	**-1,050**	**-64**	**-387**	**-418**	**-4**	**-297**	**-**
3.1 Sales	-948	-846	-	-102	-135	-	-39	-
3.2 Reimbursements	-105	-27	-	-78	-37	-	-	-
3.3 Losses recognized in:	-266	-64	-	-202	-9	-4	-124	-
3.3.1 Income statement	-266	-64	-	-202	-	-4	-124	-
- of which capital losses	*-240*	*-63*	-	*-177*	-	*-4*	*-15*	-
3.3.2 Shareholders' equity	-	X	X	X	-9	-	-32	-
3.4 Transfers to other levels	-136	-67	-64	-5	-150	-	-	-
3.5 Other decreases	-46	-46	-	-	-87	-	-134	-
4. Final amount	**2,616**	**403**	**-**	**2,213**	**543**	**10**	**5,752**	**-**

A.4.5.2. Bis Annual changes in assets measured at fair value on a recurring basis (level 3) - Insurance companies

(millions of euro)

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial assets available for sale	Hedging derivatives	Property and equipment	Intangible assets
1. Initial amount	**49**	**270**	**1,015**	**-**	**9**	**-**
2. Increases	**-**	**-**	**1,464**	**-**	**-**	**-**
2.1 Purchases	-	-	504	-	-	-
2.2 Gains recognised in:	-	-	58	-	-	-
2.2.1 Income statement	-	-	6	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Shareholders' equity	X	X	52	-	-	-
2.3 Transfers from other levels	-	-	32	-	-	-
2.4 Other increases	-	-	870	-	-	-
3. Decreases	**-2**	**3**	**-1,097**	**-**	**-9**	**-**
3.1 Sales	-	-	-119	-	-9	-
3.2 Reimbursements	-	-	-	-	-	-
3.3 Losses recognized in:	-2	-	-25	-	-	-
3.3.1 Income statement	-2	-	-3	-	-	-
- of which capital losses	-2	-	-	-	-	-
3.3.2 Shareholders' equity	X	X	-22	-	-	-
3.4 Transfers to other levels	-	-	-186	-	-	-
3.5 Other decreases	-	3	-767	-	-	-
4. Final amount	**47**	**273**	**1,382**	**-**	**-**	**-**

A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3) - Excluding insurance companies

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**132**	**-**	**5**
2. Increases	**69**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	2	-	-
2.2.1 Income statement	2	-	-
- of which capital losses	*2*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	5	-	-
2.4 Other increases	62	-	-
3. Decreases	**-58**	**-**	**-**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-29	-	-
3.3.1 Income statement	-29	-	-
- of which capital gains	*-19*	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-29	-	-
3.5 Other decreases	-	-	-
4. Final amount	**143**	**-**	**5**

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

Transfers from and to other levels described in the above tables were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

For more exhaustive information on the sensitivity of financial instruments to changes in the main input parameters, reference should be made to the analyses of the trading book in Part E of these Notes to the consolidated financial statements.

A.4.5.3 Bis Annual changes in liabilities measured at fair value on a recurring basis (level 3) - Insurance companies

No financial liabilities are recorded at level 3 for Insurance companies.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level- Excluding insurance companies

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	476,503	4,516	328,024	146,854	483,959	1,830	345,864	138,854
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	1,297	-	-	1,297	627	-	-	556
Total	**477,800**	**4,516**	**328,024**	**148,151**	**484,586**	**1,830**	**345,864**	**139,410**
1. Financial liabilities measured at amortised cost	513,775	40,683	441,807	30,422	516,360	52,550	423,070	43,358
2. Liabilities associated with non-current assets	258	-	241	17	264	-	247	17
Total	**514,033**	**40,683**	**442,048**	**30,439**	**516,624**	**52,550**	**423,317**	**43,375**

A.4.5.4 Bis Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level - Insurance companies

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Investments held to maturity	-	-	-	-	-	-	-	-
2. Due from banks	922	-	123	800	405	-	325	81
3. Loans to customers	30	-	25	6	18	-	18	-
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total Caption 45	**952**	**-**	**148**	**806**	**423**	**-**	**343**	**81**
1. Due to banks	5	-	4	-	1	-	1	-
2. Due to customers	68	-	-	67	57	-	-	58
3. Securities issued	738	-	738	-	1,254	-	1,254	-
4. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total Caption 15	**811**	**-**	**742**	**67**	**1,312**	**-**	**1,255**	**58**

Financial assets and liabilities

For financial assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Group measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed rate instruments, the cash flows are those envisaged by the contracts. For floating rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or less than 12 months and residual maturity equal to or less than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - non-performing assets, which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.
The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy.
Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.
Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).
This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.
When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.
The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (financial assets measured at fair value through profit or loss, financial liabilities held for trading or designated at fair value). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.
The following table shows the changes in the DOP amount deferred in the balance sheet.

(millions of euro)

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

Part B – Information on the consolidated balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

1.1 Cash and cash equivalents: breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
a) Cash	3,636	3,498
b) On demand deposits with Central Banks	6,714	5,855
Total	**10,350**	**9,353**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	8,755	2,496	116	9,624	2,534	383
1.1 Structured securities	*165*	*48*	*17*	*189*	*156*	*5*
1.2 Other debt securities	*8,590*	*2,448*	*99*	*9,435*	*2,378*	*378*
2. Equities	500	-	-	626	-	-
3. Quotas of UCI	913	2	47	984	3	94
4. Loans	16	51	8	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	*16*	*51*	*8*	-	-	-
Total (A)	**10,184**	**2,549**	**171**	**11,234**	**2,537**	**477**
B. Derivatives						
1. Financial derivatives	564	24,403	219	478	22,885	257
1.1 trading	*564*	*24,401*	*219*	*478*	*22,855*	*257*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	*2*	-	-	*30*	-
2. Credit derivatives	-	703	13	-	1,147	13
2.1 trading	-	*703*	-	-	*1,147*	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	*13*	-	-	*13*
Total (B)	**564**	**25,106**	**232**	**478**	**24,032**	**270**
TOTAL (A+B)	**10,748**	**27,655**	**403**	**11,712**	**26,569**	**747**

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 1,059 million euro, of which 746 million euro is senior, 301 million euro is mezzanine and 12 million euro is junior.

2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	**11,367**	**12,541**
a) Central Banks	10	86
b) Public administration	7,444	7,877
c) Banks	1,829	2,104
d) Other financial companies	1,633	1,979
of which: insurance companies	*24*	*17*
e) Non financial companies	451	495
2. Equities	**500**	**626**
a) Banks	26	39
b) Other financial companies	64	34
of which: insurance companies	*3*	*2*
c) Non financial companies	410	553
d) Other issuers	-	-
3. Quotas of UCI	**962**	**1,081**
4. Loans	**75**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	9	-
of which: insurance companies	-	-
e) Non financial companies	66	-
f) Households	-	-
Total A	**12,904**	**14,248**
B. Derivatives		
a) Central counterparties	623	478
b) Other	25,279	24,302
Total B	**25,902**	**24,780**
TOTAL (A+B)	**38,806**	**39,028**

The financial assets held for trading include purchased credit-impaired financial assets, mainly relating to positions included in securitisations following the integration of the former Venetian banks. The purchase price (to be understood as the initial recognition amount) of these assets was 569 million euro compared to an original gross value of 728 million euro.

2.3 Financial assets designated at fair value: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**208**	**-**	**-**	**373**	**169**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	208	-	-	373	169
2. Loans	**-**	**-**	**-**	**-**	**12**	**-**
2.1 Structured	-	-	-	-	12	-
2.2 Other	-	-	-	-	-	-
Total	**-**	**208**	**-**	**-**	**385**	**169**

2.4 Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**208**	**542**
a) Central Banks	-	-
b) Public administration	1	224
c) Banks	197	201
d) Other financial companies	-	117
of which: insurance companies	-	-
e) Non financial companies	10	-
2. Loans	**-**	**12**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	12
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non financial companies	-	-
f) Households	-	-
Total	**208**	**554**

2.5 Other financial assets mandatorily measured at fair value: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**291**	**428**	**-**	**-**	**-**
1.1 Structured securities	-	-	24	-	-	-
1.2 Other debt securities	-	291	404	-	-	-
2. Equities	**2**	**96**	**178**	**-**	**-**	**-**
3. Quotas of UCI	**267**	**-**	**1,334**	**-**	**-**	**-**
4. Loans	**20**	**212**	**273**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	20	212	273	-	-	-
Total	**289**	**599**	**2,213**	**-**	**-**	**-**

2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Equities	**276**	**-**
of which: banks	*1*	-
of which: other financial companies	*55*	-
of which: non financial companies	*220*	-
2. Debt securities	**719**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	684	-
of which: insurance companies	*303*	-
e) Non financial companies	35	-
3. Quotas of UCI	**1,601**	**-**
4. Loans	**505**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	2	-
d) Other financial companies	45	-
of which: insurance companies	*20*	-
e) Non financial companies	431	-
f) Households	27	-
Total	**3,101**	**-**

The aggregate of quotas of UCI includes 355 million euro in interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.
The aggregate of Loans includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**52,934**	**4,260**	**86**	**56,796**	**3,280**	**1,189**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	52,934	4,260	86	56,796	3,280	1,189
2. Equities	**593**	**2,119**	**449**	**500**	**2,448**	**704**
3. Loans	**-**	**20**	**8**	**-**	**48**	**3**
Total	**53,527**	**6,399**	**543**	**57,296**	**5,776**	**1,896**

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

The caption above includes the securities connected with securitisations for a total amount of approximately 734 million euro, of which approximately 660 million euro is senior, 74 million euro is mezzanine and there is no junior.

Sub-caption 2 includes the stake in the capital of the Bank of Italy for an amount of 1,878 million euro. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases made starting from 2015 and continuing in 2016, 2017 and 2018. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. Following the approach taken in the previous year, the use of level 2 inputs (direct transaction price) as the reference for determining fair value for the 2018 financial statements also resulted in the confirmation of the level in the fair value hierarchy.
The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 27 million euro.

3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**57,280**	**61,265**
a) Central Banks	59	70
b) Public administration	51,114	54,817
c) Banks	3,160	2,526
d) Other financial companies	2,046	2,611
of which: Insurance companies	*29*	-
e) Non financial companies	901	1,241
2. Equities	**3,161**	**3,652**
a) Banks	2,450	2,534
b) Other issuers:	711	1,118
- other financial companies	247	293
of which: insurance companies	*5*	*6*
- non financial companies	428	825
- other	36	-
3. Loans	**28**	**51**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	3
d) Other financial companies	3	-
of which: insurance companies	-	-
e) Non financial companies	25	48
f) Households	-	-
Total	**60,469**	**64,968**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write off
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	57,073	*16,254*	253	36	-41	-6	-35	-
Loans	28	-	-	-	-	-	-	-
Total 31.12.2018	**57,101**	***16,254***	**253**	**36**	**-41**	**-6**	**-35**	**-**
Total 31.12.2017	**64,967**	**-**	**-**	**34**	**-**	**-**	**-33**	**-**
of which: purchased or originated credit-impaired financial assets	*X*	*X*	-	-	*X*	-	-	-

SECTION 3 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Assets referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262, "Caption 35 Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39" was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of caption Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39 – Caption 35	31.12.2018	31.12.2017
20. Financial assets held for trading	289	490
30. Financial assets at fair value	74,314	74,715
40. Financial assets available for sale	74,922	77,373
80. Hedging derivatives	21	4
TOTAL Caption 35	**149,546**	**152,582**

3.1 Bis Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	120	9	-	216	11	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*120*	*9*	-	*216*	*11*	-
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	61	-	47	205	-	49
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**181**	**9**	**47**	**421**	**11**	**49**
B. Derivatives						
1. Financial derivatives:	50	1	-	7	2	-
1.1 trading	*49*	-	-	*5*	-	-
1.2 fair value option	*1*	*1*	-	*2*	*2*	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives:	-	1	-	-	-	-
2.1 trading	-	*1*	-	-	-	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**50**	**2**	**-**	**7**	**2**	**-**
TOTAL (A+B)	**231**	**11**	**47**	**428**	**13**	**49**

3.2 Bis Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Cash assets		
1. Debt securities	**129**	**227**
a) Governments and Central Banks	103	199
b) Other public entities	-	-
c) Banks	11	12
d) Other issuers	15	16
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. Quotas of UCI	**108**	**254**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
Total A	**237**	**481**
B. Derivatives		
a) Banks	52	9
- Fair value	*52*	*9*
b) Customers	-	-
- Fair value	-	-
Total B	**52**	**9**
Total (A + B)	**289**	**490**

3.3 Bis Financial assets designated at fair value: breakdown

(millions of euro)

Captions/Amounts	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**4,189**	**121**	**3**	**3,685**	**157**	**3**
1.1 Structured securities	-	42	-	-	-	-
1.2 Other debt securities	4,189	79	3	3,685	157	3
2. Equities	**1,678**	**-**	**-**	**1,605**	**-**	**-**
3. Quotas of UCI	**67,729**	**-**	**19**	**68,629**	**-**	**18**
4. Loans	**324**	**-**	**251**	**369**	**-**	**249**
4.1 Structured	-	-	-	-	-	-
4.2 Other	324	-	251	369	-	249
Total	**73,920**	**121**	**273**	**74,288**	**157**	**270**
Cost	**74,549**	**187**	**321**	**71,930**	**145**	**270**

3.4 Bis Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**4,313**	**3,845**
a) Governments and Central Banks	3,647	3,344
b) Other public entities	17	18
c) Banks	254	214
d) Other issuers	395	269
2. Equities	**1,678**	**1,605**
a) Banks	128	152
b) Other issuers:	1,550	1,453
- insurance companies	*85*	*32*
- financial companies	*32*	*21*
- non-financial companies	*828*	-
- other	*605*	*1,400*
3. Quotas of UCI	**67,748**	**68,647**
4. Loans	**575**	**618**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	575	618
d) Other counterparties	-	-
Total	**74,314**	**74,715**

3.5 Bis Financial assets available for sale: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**60,019**	**2,285**	**-**	**65,386**	**725**	**198**
1.1 Structured securities	17	-	-	-	-	-
1.2 Other debt securities	60,002	2,285	-	65,386	725	198
2. Equities	**979**	**-**	**-**	**1,608**	**-**	**-**
2.1 Measured at fair value	979	-	-	1,608	-	-
2.2 Measured at cost	-	-	-	-	-	-
3. Quotas of UCI	**10,256**	**1**	**1,382**	**8,578**	**61**	**817**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**71,254**	**2,286**	**1,382**	**75,572**	**786**	**1,015**

3.6 Bis Financial assets available for sale: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**62,304**	**66,309**
a) Governments and Central Banks	49,364	52,072
b) Other public entities	113	202
c) Banks	3,812	4,069
d) Other issuers	9,015	9,966
2. Equities	**979**	**1,608**
a) Banks	48	99
b) Other issuers:	931	1,509
- insurance companies	*23*	*83*
- financial companies	-	-
- non-financial companies	*905*	*1,426*
- other	*3*	-
3. Quotas of UCI	**11,639**	**9,456**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other counterparties	-	-
Total	**74,922**	**77,373**

3.7 Bis Financial assets available for sale subject to microhedging

There were no financial assets available for sale subject to microhedging referring to insurance companies.

3.8 Bis Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value	31.12.2018		Notional value		31.12.2017		Notional value
	Level 1	Level 2	Level 3	31.12.2018	Level 1	Level 2	Level 3	31.12.2017
A) Financial derivatives	**-**	**21**	**-**	**436**	**-**	**4**	**-**	**79**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	21	-	436	-	4	-	79
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**21**	**-**	**436**	**-**	**4**	**-**	**79**

3.9 Bis Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Operations/Type of hedge	FAIR VALUE						CASH FLOWS		FOREIGN. INVESTM.
	Specific					Generic			
	Interest rate risk	foreign exchange risk	Credit risk	various risk	Multiple risk		Specific	Generic	
1. Financial assets available for sale	-	-	-	-	-	X	21	X	X
2. Loans	-	-	-	X	-	X	-	X	X
3. Investments held to maturity	X	-	-	X	-	X	-	X	X
4. Portfolio	X	X	X	X	X	-	X	-	X
5. Other transactions	-	-	-	-	-	X	-	X	-
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**21**	**-**	**-**
1. Financial liabilities	-	-	-	X	-	X	-	X	X
2. Portfolio	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-

DISCLOSURE PURSUANT TO IFRS 4

As previously indicated, the Intesa Sanpaolo Group exercised the option of adopting the Deferral Approach or Temporary Exemption, according to which the financial assets and liabilities of the subsidiary insurance companies continue to be recognised in accordance with the provisions of IAS 39.
In particular, the Group's insurance companies applying IAS 39 are as follows:

- Intesa Sanpaolo Vita S.p.A,
- Intesa Sanpaolo Assicura S.p.A,
- Intesa Sanpaolo Life Ltd
- Fideuram Vita S.p.A.

This section sets out the information required by IFRS 4 Insurance Contracts following exercise of the option, granted to insurance companies belonging to banking-led financial conglomerates, pursuant to Regulation 1988/2017, of postponing the first-time adoption of IFRS 9 until 2021.

The Group verified the fulfilment of the requirements to apply the Temporary Exemption. The insurance companies meet the requirement of insurance predominance, which requires that the percentage of the carrying amount of liabilities linked to insurance business on the carrying amount of total liabilities of the entity exceeds 90% (predominance ratio). Moreover, there were no transfers of financial assets other than those measured at FVTPL between Group companies using different accounting standards;

As required by the reference regulations, the quantitative disclosure regarding the entities that will postpone the application of IFRS 9 is provided below.

Details of the securities of the insurance companies that pass the SPPI Test

(millions of euro)

Caption	Fair value at the reporting date	Fair value changes during the year	Other changes during the year (3)	Fair value at the previous reporting date
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	**148,971**	**-7,827**	**4,841**	**151,957**
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	61,893	-2,298	-1,664	65,855
Debt securities	61,893	-2,298	-1,664	65,855
Structured securities	*59*	*-4*	*12*	*51*
Other debt securities	*61,834*	*-2,294*	*-1,676*	*65,804*
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	13,870	-502	1,599	12,773
Debt securities	763	-49	-125	937
Structured securities	-	-	-	-
Other debt securities	*763*	*-49*	*-125*	*937*
Equities	978	-92	-538	1,608
Quotas of UCI	12,058	-392	2,232	10,218
Loans	-	-	-	-
Derivatives	71	31	30	10
Other financial assets	-	-	-	-
Other financial assets connected with contracts where the investment risk is borne by the policyholders	73,208	-5,027	4,906	73,329
Debt securities	4,092	-74	558	3,608
Structured securities	-	-	-	-
Other debt securities	4,092	-74	558	3,608
Equities	1,677	-272	343	1,606
Quotas of UCI	67,437	-4,737	4,094	68,080
Loans	-	-	-	-
Derivatives	2	56	-89	35
Other financial assets	-	-	-	-
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 (*)	**65**	**-**	**33**	**32**
of which:				
Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	65	-	33	32
Debt securities	65	-	33	32
Structured securities	-	-	-	-
Other debt securities	*65*	-	*33*	*32*
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial asset other than those with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (2)	-	-	-	-
Debt securities	-	-	-	-
Structured securities	-	-	-	-
Other debt securities	-	-	-	-
Equities	-	-	-	-
Quotas of UCI	-	-	-	-
Loans	-	-	-	-
Derivatives	-	-	-	-
Other financial assets	-	-	-	-

(*) Debt securities shows the fair value as required by the amendment to IFRS 4. These securities have been recognised in the balance sheet at amortised cost

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) includes all other financial assets, i.e. any financial asset:
i) with contractual terms that do not give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding;
ii) that meet the definition of held for trading in IFRS 9; or
iii) that are managed and whose return is measured at fair value

(3) Column includes movements that are not attributable to changes in fair value (purchases, sales, repayments, etc.)

The table referred to above includes the investments whose risk is fully borne by policyholders, classified under financial assets measured at fair value.

Loans to customers of 575 million euro are added to the amounts indicated above.

Credit risk exposure for financial instruments of the insurance companies that pass the SPPI test

(millions of euro)

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1)	Credit risk rating	Current year book value (2)	Previous year book value (2)
Debt securities		60,457	64,250
Structured securities	Investment Grade	59	51
Other debt securities		60,398	64,199
Loans		-	-
Other financial assets		-	-

(millions of euro)

Financial asset with contractual terms that give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (1), and which do not have a low credit risk	Credit risk rating	Current year book value (2)	Current year market value	Previous year book value (2)
Debt securities		1,505	1,505	1,639
Structured securities		-	-	-
Other debt securities	Non-Investment Grade	1,505	1,505	1,639
Loans		-	-	-
Other financial assets		-	-	-

(1) excluding financial assets that meet the definition of held for trading in IFRS 9, or are managed and whose return is measured at fair value

(2) in the case of financial assets measured at amortised cost, before any impairment loss.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

(millions of euro)

Items	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
A. Due from Central Banks	**38,146**	**-**	**-**	**-**	**36,078**	**2,068**	**40,449**	**-**	**-**	**-**	**38,037**	**2,412**
1. Time deposits	1,059	-	-	X	X	X	2,490	-	-	X	X	X
2. Compulsory reserve	35,609	-	-	X	X	X	36,983	-	-	X	X	X
3. Repurchase agreements	1,069	-	-	X	X	X	809	-	-	X	X	X
4. Other	409	-	-	X	X	X	167	-	-	X	X	X
B. Due from banks	**31,161**	**-**	**-**	**176**	**23,799**	**7,251**	**31,608**	**-**	**-**	**16**	**22,870**	**8,770**
1. Loans	30,618	-	-	-	23,476	7,251	30,983	-	-	-	22,485	8,562
1.1 Current accounts and on demand deposits	10,903	-	-	X	X	X	13,146	-	-	X	X	X
1.2. Time deposits	2,367	-	-	X	X	X	1,645	-	-	X	X	X
1.3 Other loans:	17,348	-	-	X	X	X	16,192	-	-	X	X	X
- Reverse repurchase agreements	*9,482*	-	-	*X*	*X*	*X*	*7,591*	-	-	*X*	*X*	*X*
- Finance leases	*7*	-	-	*X*	*X*	*X*	*7*	-	-	*X*	*X*	*X*
- Other	*7,859*	-	-	*X*	*X*	*X*	*8,594*	-	-	*X*	*X*	*X*
2. Debt securities	543	-	-	176	323	-	625	-	-	16	385	208
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	543	-	-	176	323	-	625	-	-	16	385	208
TOTAL	**69,307**	**-**	**-**	**176**	**59,877**	**9,319**	**72,057**	**-**	**-**	**16**	**60,907**	**11,182**

The sub-caption “Other loans” includes operating loans, i.e. loans for operations granted through the provision of financial activities and services, with no credit facilities, for an amount of 84 million euro (in line with the balance as at 31 December 2017). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
1. Loans	**371,961**	**16,487**	***486***	**-**	**261,180**	**132,359**	**372,154**	**25,423**	***428***	**-**	**277,553**	**124,239**
1.1.Current accounts	21,927	1,990	*5*	X	X	X	22,261	3,164	-	X	X	X
1.2. Reverse repurchase agreements	33,641	-	-	X	X	X	31,483	-	-	X	X	X
1.3. Mortgages	173,691	8,938	*428*	X	X	X	171,344	14,873	*428*	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	15,394	334	*2*	X	X	X	19,052	508	-	X	X	X
1.5. Finance leases	11,302	2,248	-	X	X	X	12,368	2,781	-	X	X	X
1.6. Factoring	11,128	65	-	X	X	X	11,146	91	-	X	X	X
1.7. Other loans	104,878	2,912	*51*	X	X	X	104,500	4,006	-	X	X	X
2. Debt securities	**18,704**	**44**	**-**	**4,340**	**6,967**	**5,176**	**14,284**	**41**	**-**	**1,814**	**7,404**	**3,433**
2.1. Structured securities	5	-	-	-	5	-	10	-	-	-	10	-
2.2. Other debt securities	18,699	44	-	4,340	6,962	5,176	14,274	41	-	1,814	7,394	3,433
Total	**390,665**	**16,531**	***486***	**4,340**	**268,147**	**137,535**	**386,438**	**25,464**	***428***	**1,814**	**284,957**	**127,672**

The sub-caption “Other loans” includes operating loans, i.e. loans for operations granted through the provision of financial activities and services, with no credit facilities, for an amount of 2,100 million euro (in line with the balance as at 31 December 2017). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.3 Finance leases

(millions of euro)

Time bands	31.12.2018					
	Non-performing loans	Minimum lease payments			Gross investment	
		Capital	*of which guaranteed residual value*	Interest		*of which unguaranteed residual value*
Up to 3 months	523	464	*31*	99	535	-
Between 3 and 12 months	389	1,136	-	278	1,336	-
Between 1 and 5 years	1,893	4,715	*2*	1,059	5,598	-
Over 5 years	1,493	5,166	*4*	672	5,610	-
Unspecified maturity	1	-	-	-	-	-
Total, gross	**4,299**	**11,481**	***37***	**2,108**	**13,079**	**-**
Loans for assets to be leased	25	-	-	-	-	-
Adjustments	2,051	179	-	-	175	-
- collective	*2,051*	*179*	-	-	*175*	-
Total, net	**2,248**	**11,302**	***37***	**2,108**	**12,904**	**-**

4.4 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*
1. Debt securities	**18,704**	**44**	**-**	**14,284**	**41**	**-**
a) Public administration	11,799	25	-	9,151	27	-
b) Other financial companies	5,684	5	-	3,722	-	-
of which: insurance companies	-	-	-	*51*	-	-
c) Non financial companies	1,221	14	-	1,411	14	-
2. Loans:	**371,961**	**16,487**	***486***	**372,154**	**25,423**	**428**
a) Public administration	15,099	262	*4*	15,680	275	-
b) Other financial companies	60,485	383	*8*	59,450	598	-
of which: insurance companies	*1,149*	-	-	*49*	-	-
c) Non financial companies	160,594	12,458	*307*	166,203	19,893	*428*
d) Households	135,783	3,384	*167*	130,821	4,657	-
TOTAL	**390,665**	**16,531**	***486***	**386,438**	**25,464**	**428**

4.5 Financial assets measured at amortised cost: gross amount and total adjustments

(millions of euro)

		Gross amount				Total adjustments			Total partial write-offs
		Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities		15,147	-	4,266	52	-70	-53	-8	-
Loans		397,494	-	45,321	36,353	-813	-1,320	-19,866	**5,306**
Total	**31.12.2018**	**412,641**	**-**	**49,587**	**36,405**	**-883**	**-1,373**	**-19,874**	**5,306**
Total	**31.12.2017**	**459,983**	**-**	**-**	**52,073**	**-1,488**	**-**	**-26,609**	**-**
of which: purchased or originated credit-impaired financial assets		*X*	X	53	640	X	-3	-204	-

SECTION 4 BIS - FINANCIAL ASSETS PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 45

The breakdown of the IAS 39 captions included in caption 45 of the Balance Sheet Assets referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular no. 262, "Caption 45 Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39" was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of caption Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 45	31.12.2018	31.12.2017
50. Investments held to maturity	-	-
60. Due from banks	922	405
70. Loand to customers	30	18
TOTAL Caption 45	**952**	**423**

4.1 Bis Investments held to maturity

There were no investments held maturity relating to the insurance companies.

4.4 Bis Due from banks: breakdown

(millions of euro)

Captions	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-							
2. Compulsory reserve	-							
3. Reverse repurchase agreements	-							
4. Other	-							
B. Due from banks	**922**	**-**	**123**	**800**	**405**	**-**	**325**	**81**
1. Loans	881	-	82	800	364	-	284	81
1.1 Current accounts and deposits	*881*				*364*			
1.2 Time deposits	-							
1.3 Other loans:	-							
- Reverse repurchase agreements	-							
- Finance leases	-							
- Other	-							
2. Debt securities	41	-	41	-	41	-	41	-
2.1 Structured	-							
2.2 Other	*41*				*41*			
Total	**922**	**-**	**123**	**800**	**405**	**-**	**325**	**81**

4.5 Bis Due from banks subject to microhedging

There were no amounts due from banks subject to microhedging referring to insurance companies.

4.6 Bis Loans to customers: breakdown

(millions of euro)

Captions	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	Performing	Non Performing					Performing	Non performing				
		Purchased	Other	Level 1	Level 2	Level 3		Purchased	Other	Level 1	Level 2	Level 3
Loans	**2**	**-**	**-**	**-**	**2**	**1**	**3**	**-**	**-**	**-**	**3**	**-**
1. Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit card loans, personal loans, and transfer of one fifth of salaries	-	-	-	X	X	X	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other loans	2	-	-	X	X	X	3	-	-	X	X	X
Debt securities	**28**	**-**	**-**	**-**	**23**	**5**	**15**	**-**	**-**	**-**	**15**	**-**
8. Structured securities	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt securities	28	-	-	X	X	X	15	-	-	X	X	X
Total	**30**	**-**	**-**	**-**	**25**	**6**	**18**	**-**	**-**	**-**	**18**	**-**

4.7 Bis Loans to customers: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Performing	Non performing		Performing	Non performing	
		Purchased	Other		Purchased	Other
1. Debt securities	**28**	**-**	**-**	**15**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other issuers	28	-	-	15	-	-
- non-financial companies	*-*	*-*	*-*	*-*	*-*	*-*
- financial institutions	*5*	*-*	*-*	*-*	*-*	*-*
- insurance companies	*-*	*-*	*-*	*-*	*-*	*-*
- other	*23*	*-*	*-*	*15*	*-*	*-*
2. Loans:	**2**	**-**	**-**	**3**	**-**	**-**
a) Governments	-	-	-	-	-	-
b) Other public entities	-	-	-	-	-	-
c) Other counterparties	2	-	-	3	-	-
- non-financial companies	*-*	*-*	*-*	*-*	*-*	*-*
- financial institutions	*1*	*-*	*-*	*2*	*-*	*-*
- insurance companies	*-*	*-*	*-*	*-*	*-*	*-*
- other	*1*	*-*	*-*	*1*	*-*	*-*
Total	**30**	**-**	**-**	**18**	**-**	**-**

4.8 Bis Loans to customers subject to microhedging

There were no Loans to customers subject to microhedging referring to insurance companies.

SECTION 5 - HEDGING DERIVATIVES – CAPTION 50

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.
Derivatives are considered listed only if traded on regulated markets.

5.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2018			Notional amount	Fair value 31.12.2017			Notional amount
	Level 1	Level 2	Level 3	31.12.2018	Level 1	Level 2	Level 3	31.12.2017
A. Financial derivatives								
1. Fair Value	-	2,983	10	61,113	-	4,198	14	151,589
2. Cash flows	-	-	-	234	-	1	-	288
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**2,983**	**10**	**61,347**	**-**	**4,199**	**14**	**151,877**

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions / Type of hedge	Fair Value							Cash-flow		Foreign investm
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	8	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	55	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	96	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**63**	**-**	**-**	**-**	**-**	**-**	**96**	**-**	**-**	**-**
1. Financial liabilities	2,152	X	290	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	392	X	-	X
Total liabilities	**2,152**	**-**	**290**	**-**	**-**	**-**	**392**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to fair value micro hedges of liabilities issued, as well as fair value macro hedges of demand positions under liabilities (core deposits).

SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

6.1 Fair value change of hedged assets: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged assets / Amount	31.12.2018	31.12.2017
1. Positive fair value change	**125**	**6**
1.1 of specific portfolios:	101	6
a) financial assets measured at amortised cost	*101*	*6*
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	24	-
2. Negative fair value change	**-1**	**-210**
2.1 of specific portfolios:	-1	-210
a) financial assets measured at amortised cost	*-1*	*-210*
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**124**	**-204**

SECTION 7 – INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL – CAPTION 70

7.1 Investments in associates and companies subject to joint control: information on equity interests

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT		Votes available %
					direct ownership	% held	
A. COMPANIES SUBJECT TO JOINT CONTROL							
1	Augusto S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	5.00
2	Colombo S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	5.00
3	Diocleziano S.r.l. Capital Euro 10,000 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	5.00	5.00
4	Immobiliare Novoli S.p.A. Capital Euro 15,635,514 in shares of Euro 0.60	Firenze	Firenze	7	Banca C.R. Firenze	50.00	50.00
5	Intown Srl (formerly MSG Comparto Primo S.r.l.) Capital Euro 120,000 in shares of Euro 60,000	Milano	Milano	7	Milano Santa Giulia	50.00	50.00
6	Mir Capital Management S.A. Capital Euro 31,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	50.00
7	Mir Capital S.C.A. SICAR Capital Euro 46,830,000 in shares of Euro 1	Luxembourg	Luxembourg	7	Private Equity International	50.00	50.00
8	PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management Capital HRK 56,000,000 in shares of HRK 1,000	Zagreb	Zagreb	7	Privredna Banka Zagreb	50.00	50.00
9	Themys Investimenti S.p.A. Capital Euro 448,998 in shares of Euro 1	Milano	Milano	7	Intesa Sanpaolo	50.00	50.00
10	Vub Generali Dochodkova Spravcovska Spolocnost A.S. Capital Euro 10,090,976 in shares of Euro 33,194	Bratislava	Bratislava	7	Vseobecna Uverova Banka	50.00	50.00
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE							
1	Adriano Lease Sec S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5.00	5.00
2	AM Invest CO Italy S.p.a. (C) Capital Euro 540,000,000 in shares of Euro 1	Milano	Milano	2	Intesa Sanpaolo	5.56	5.56
3	Apulia Finance N. 4 S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
4	Autostrada Pedemontana Lombarda S.p.A. Capital Euro 300,926,000 in shares of Euro 1.000	Assago	Assago	4	Intesa Sanpaolo	17.37	17.37
5	Autostrade Bergamasche S.p.A. Capital Euro 1,357,833 in shares of Euro 0.58	Bergamo	Bergamo	4	Autostrade Lombarde Intesa Sanpaolo	22.70 7.31	22.70 7.31
6	Bancomat S.p.A. Capital Euro 1,100,000 in shares of Euro 5	Roma	Roma	4	Intesa Sanpaolo Banca 5	20.28 0.01	20.28 0.01
7	Berica 10 Residential MBS S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
8	Berica ABS 2 S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
9	Berica ABS 3 S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5	5
10	Brera Sec S.R.L. (b) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Intesa Sanpaolo	5	5
11	Caf S.p.A. Capital Euro 1,180,000 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	49	49
12	Cassa di Risparmio di Fermo S.p.A. Capital Euro 39,241,088 in shares of Euro 51.65	Fermo	Fermo	4	Intesa Sanpaolo	33.33	33.33
13	Claris Finance 2005 S.r.l. (b) Capital Euro 10,000 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	5.00	5.00

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT		Votes available %
					direct ownership	% held	
14	Compagnia Aerea Italiana S.p.A. Capital Euro 3,526,845 in shares of Euro 0.00004	Roma	Fiumicino	4	Intesa Sanpaolo	27.49	27.49
15	Cr Firenze Mutui S.r.l. Capital Euro 10,000 in shares of Euro 1	Conegliano Veneto	Conegliano Veneto	8	Banca C.R. Firenze	10.00	10.00
16	Destination Italia S.p.A. Capital Euro 2,112,450 in shares of Euro 211.25	Milano	Milano	4	Intesa Sanpaolo	38.00	38.00
17	Emisys Capital SGR S.p.A. Capital Euro 1,400,000 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	35.00	35.00
18	Equiter S.p.A. Capital Euro 150,004,017 in shares of Euro 1	Torino	Torino	4	Intesa Sanpaolo	32.88	32.88
19	Euromilano S.p.A. Capital Euro 1,356,582 in shares of Euro 15.51	Milano	Milano	4	Intesa Sanpaolo	43.43	43.43
20	Eurotlx Società di Intermediazione Mobiliare S.p.A. Capital Euro 5,000,000 in shares of Euro 1.00	Milano	Milano	4	Banca IMI	15.00	15.00
21	Eusebi Holdings B.V. Capital Euro 100 in shares of Euro 1	Amsterdam	Amsterdam	4	Intesa Sanpaolo	47.00	47.00
22	Experientia Global S.A. Capital CHF 125,000 in shares of CHF 100	Lausanne	Lausanne	4	Intesa Sanpaolo	20.00	20.00
23	Focus Investments S.p.A. Capital Euro 183.333 in shares of Euro 0.14	Milano	Milano	4	Intesa Sanpaolo	8.33	25.00
24	Gextra S.r.l. Capital Euro 600.000 in shares of Euro 1	Bologna	Bologna	4	Intesa Sanpaolo	49.00	49.00
25	Ideami S.p.A. Capital Euro 25,875,000 in shares of Euro 1	Milano	Milano	7	Banca IMI	9.66	8.25
26	Indaco Venture Partners SGR S.p.A. (formerly Venture Capital Partners SGR) Capital Euro 750.000 in shares of Euro 0.50	Milano	Milano	4	Intesa Sanpaolo	24.50	24.50
27	Intrum Italy S.p.A. Capital Euro 300.000 in shares of Euro 0.01	Milano	Milano	4	Intesa Sanpaolo	49.00	49.00
28	Ism Investimenti S.p.A. Capital Euro 6,654,902 in shares of Euro 1	Mantova	Mantova	4	Intesa Sanpaolo	27.36	27.36
29	Italconsult S.p.A. Capital Euro 18,071,378 in shares of Euro 0.88	Roma	Roma	4	Intesa Sanpaolo	10.00	10.00
30	Leonardo Technology S.r.l. Capital Euro 242,081 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	26.60	26.60
31	Mandarin Capital Management S.A. Capital Euro 271,000 in shares of Euro 10	Luxembourg	Luxembourg	4	Private Equity International	20.00	20.00
32	Marketwall S.r.l. Capital Euro 20,409 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	33.00	33.00
33	Misr International Towers Co. Capital EGP 50,000,000 in shares of EGP 10	Cairo	Cairo	4	Bank of Alexandria	27.86	27.86
34	Network Impresa S.p.A under arrangement with creditors Capital Euro 562,342 in shares of Euro 1	Limena	Limena	4	Intesa Sanpaolo	28.95	28.95
35	Penghua Fund Management Co. Ltd. Capital CNY 150,000,000 in shares of CNY 1	Shenzhen	Shenzhen	4	Eurizon Capital SGR	49.00	49.00
36	Pietra S.r.l. Capital Euro 40,000 in shares of Euro 1	Milano	Milano	4	Intesa Sanpaolo	22.22	22.22
37	Portocittà S.r.l. Capital Euro 10,000 in shares of Euro 1	Trieste	Trieste	4	Intesa Sanpaolo	25.00	25.00
38	Rainbow Capital Euro 48,500,000 in shares of Euro 50,000	Verona	Verona	4	Intesa Sanpaolo	43.20	0.00

		Registered office	Place of business	Type of relation-ship (a)	INVESTMENT		Votes available %
					direct ownership	% held	
39	R.C.N. Finanziaria S.p.A. Capital Euro 1,000,000 in shares of Euro 0.50	Mantova	Mantova	4	Intesa Sanpaolo	23.96	23.96
40	Sicily Investments S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	25.20
41	Slovak Banking Credit Bureau s.r.o. Capital Euro 9,958 in shares of Euro 3,319.39	Bratislava	Bratislava	4	Vseobecna Uverova Banka	33.33	33.33
42	Solar Express S.r.l. Capital Euro 116,000 in shares of Euro 1	Firenze	Firenze	4	Intesa Sanpaolo	40.00	40.00
43	Trinacria Capital S.a.r.l. Capital Euro 12,500 in shares of Euro 25	Luxembourg	Luxembourg	4	Intesa Sanpaolo	25.20	25.20
44	Apulia Finance N. 2 S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
45	Apulia Mortgages Finance N. 3 S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Conegliano	Conegliano	4	Banca Apulia	10.00	10.00
46	Berica 5 Residential MBS S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
47	Berica 6 Residential MBS S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
48	Berica 8 Residential MBS S.r.l. in liquidation (b) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
49	Berica 9 Residential MBS S.r.l. in liquidation (b) Capital Euro 12,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
50	Berica ABS S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
51	Berica Residential MBS 1 S.r.l. in liquidation (b) Capital Euro 10,000 in shares of Euro 1	Vicenza	Vicenza	4	Intesa Sanpaolo	5.00	5.00
52	Consorzio Bancario SIR S.p.A. in liquidation Capital Euro 1,515,151 in shares of Euro 0.01	Roma	Roma	4	Intesa Sanpaolo	38.49	38.49
53	Europrogetti e Finanza S.p.A. in liquidation Capital Euro 5,636,400 in shares of Euro 1	Roma	Roma	4	Intesa Sanpaolo	15.97	15.97
54	Impresol S.r.l. in liquidation Capital Euro 112,100 in shares of Euro 1	Milano	Milano	4	Immobiliare Cascina Rubina	30.00	30.00
55	Iniziative Immobiliari Industriali S.p.A. in liquidation Capital Euro 510,000 in shares of Euro 0.51	Arquà Polesine	Arquà Polesine	4	Intesa Sanpaolo	20.00	20.00
56	Sviluppo Industriale S.p.A. in liquidation and under arrangement with creditors (formerly Sviluppo Industriale S.p.A. under arrangement with creditors) Capital Euro 628,444 in shares of Euro 22.26	Pistoia	Pistoia	4	CR Pistoia	28.27	28.27

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

(b) These are vehicles used for securitisation transactions within the Group.

(c) Intesa Sanpaolo enjoys veto rights in the shareholders' meetings and in board of directors' meetings on specific issues, including the dividend policy.

The illustration of the criteria and the methods for the definition of the consolidation area and the motivations which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

7.2 Individually material investments in associates and companies subject to joint control: book value, fair value and dividends received

(millions of euro)

		Book value	Fair value	Dividends received (a)
A. COMPANIES SUBJECT TO JOINT CONTROL		-	-	-
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE				
1	AM Investco Italy S.p.a.	100	-	-
2	Caf S.p.a.	65	-	-
3	Cassa di Risparmio di Fermo S.p.a.	43	-	1
4	Equiter S.p.a.	104	-	3
5	Intrum Italy S.p.a.	240	-	-
6	Penghua Fund Management Co Ltd	188		19
TOTAL		**740**	**-**	**23**

(a) Dividends are received by group companies and are thus netted.

7.3 Individually material investments in associates and companies subject to joint control: financial information

(millions of euro)

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Adjustments to/write-backs on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
A. COMPANIES SUBJECT TO JOINT CONTROL														
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE														
AM Investco Italy S.p.a.	X	-	1,799	-	-	-	X	X	-	-	-	-	-	-
Caf S.p.a.	X	1	13	-	6	-	X	X	-	-	-	-	-	-
Cassa di Risparmio di Fermo S.p.a.	X	38	1,668	1,519	51	49	X	X	-11	-9	-	-9	-	-9
Equiter S.p.a.	X	146	166	-	16	17	X	X	13	11	-	11	-	11
Intrum Italy S.p.a.	X	43	-	40	-	-	X	X	-	-	-	-	-	-
Penghua Fund Management Co Ltd	X	194	331	88	100	264	X	X	67	53	-	53	-	53

(millions of euro)

	Total Shareholders' Equity	Proportionate equity	Goodwill	Other changes	Consolidated book value
A. COMPANIES SUBJECT TO JOINT CONTROL					
B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE					
AM Investco Italy S.p.a.	1,799	100	-	-	100
Caf S.p.a.	8	4	61	-	65
Cassa di Risparmio di Fermo S.p.a.	136	45	-	-2	43
Equiter S.p.a.	296	97	7	-	104
Intrum Italy S.p.a.	3	1	239	-	240
Penghua Fund Management Co Ltd	268	131	57	-	188
	2,510	**378**	**364**	**-2**	**740**

7.4 Individually immaterial investments in associates and companies subject to joint control: financial information

(millions of euro)

	Book value of investments in associates and companies subject to joint control	Total assets	Total liabilities	Total revenues	Income (loss) after tax from continuing operations	Income (loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Consolidated comprehensive income (3) = (1) + (2)
COMPANIES SUBJECT TO JOINT CONTROL	55	284	199	33	2	-	2	-	2
COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE	148	5,104	4,784	3,730	7	-	7	-	7

7.5 Investments in associates and companies subject to joint control: annual changes

(millions of euro)

	31.12.2018	31.12.2017
A. Initial amount	**678**	**1,278**
B. Increases	**618**	**1,026**
B.1 purchases	174	98
of which business combinations	-	*33*
B.2 recoveries	-	-
B.3 revaluations	427	89
B.4 other changes	17	839
C. Decreases	**-353**	**-1,626**
C.1 sales	-7	-971
C.2 impairment losses [(a)]	-21	-39
C.3 write-downs	-	-
C.3 other changes	-325	-616
D. Final amount	**943**	**678**
E. Total revaluations	**3,167**	**2,740**
F. Total impairment losses	**1,984**	**1,963**

(a) Includes 14 million euro due to losses on investments in associates and companies subject to joint control carried at equity.

Sub-caption B.3 Revaluations also includes the revaluation of investments in associates and companies subject to joint control for which changes occurred in their accounting classification and the income of companies in the companies carried at equity.
Sub-caption C.3 Other changes includes the investments in associates and companies subject to joint control reclassified to other portfolios, decreases in capital and payment of dividends.

7.6 Significant evaluations and assumptions to establish the existence of joint control or significant influence

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.
Companies are considered subject to significant influence (associates) when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

7.7 Commitments referred to investments in companies subject to joint control

As at 31 December 2018, there were commitments to subscribe the recapitalisations of Themys Investimenti S.p.A. for approximately 3.1 million euro (there is an additional commitment of around 15.1 million euro regarding the equity instruments).

7.8 Commitments referred to investments in companies subject to significant influence

As at 31 December 2018, there were no commitments to subscribe recapitalisations in companies subject to significant influence.

7.9 Significant restrictions

There is nothing to report in terms of significant restrictions.

7.10 Other information

For most of the companies subject to joint control or significant influence, the timing regarding the availability of the financial statements at the end of the year is not compatible with the terms set for the closure of Intesa Sanpaolo's consolidated financial statements; on this point, for the application of the equity method, reference is made to the last accounting reports available that, in most cases, include the interim statement of the first 9 months for the listed associates or the last financial statements or half-yearly report available for the other associates. In any case, when the accounts of the associate or joint venture used in the application of the equity method refer to a date that is different from that of Intesa Sanpaolo's financial statements, adjustments are made to take into account the effects of operations or significant events which took place between that date and the reference date of Intesa Sanpaolo's financial statements.

Impairment tests of investments

As required under IFRS, investments in associates and companies subject to joint control are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.
With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the equity investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.
In particular, where impairment indicators were recorded with respect to certain equity investments, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively "fundamental" analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the recognition of impairment losses.
In particular, the main impairment losses regarded the investments in MIR Capital SCA Sicar (3 million euro), in Fondo Rainbow (2 million euro) and in Cassa di Risparmio di Fermo (2 million euro).
In terms of any differences between the market values and the "fundamental" values provided by the values in use, reference is made to the considerations on impairment testing of goodwill in the relative chapter of these Notes to the consolidated financial statements. Furthermore, the estimate of cash flows and discounting rates in the assessment of equity investments was also carried out on a prudential basis.

SECTION 8 – TECHNICAL INSURANCE RESERVES REASSURED WITH THIRD PARTIES – CAPTION 80

8.1 Technical insurance reserves reassured with third parties: breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Non-life business	**20**	**15**
A1. Premiums reserves	8	5
A2. Claims reserves	12	10
A3. Other reserves	-	-
B. Life business	**-**	**1**
B1. Mathematical reserves	-	-
B2. Reserves for amounts to be disbursed	-	1
B3. Other reserves	-	-
C. Technical reserves for investment risks to be borne by the insured	**-**	**-**
C1. Reserves for contracts with disbursements connected with investment funds and market indices	-	-
C2. Reserves from pension fund management	-	-
D. Total technical insurance reserves reassured with third parties	**20**	**16**

8.2 Change in caption 80 Technical insurance reserves reassured with third parties

Technical insurance reserves reassured with third parties recorded no significant changes during the year as at 31 December 2018.

SECTION 9 – PROPERTY AND EQUIPMENT – CAPTION 90

(millions of euro)

	31.12.2018	31.12.2017
1. Property and equipment used in operations, measured at cost	765	779
2. Investment property, measured at cost	-	-
3. Property and equipment used in operations, revalued	5,472	5,628
4. Investment property, measured at fair value	247	271
5. Inventories of property and equipment governed by IAS 2	888	-
Total Property and equipment caption 90	**7,372**	**6,678**

9.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

	31.12.2018	31.12.2017
1. Property and equipment owned	**763**	**778**
a) land	-	-
b) buildings	-	-
c) furniture	165	161
d) electronic equipment	547	557
e) other	51	60
2. Property and equipment acquired under finance lease	**2**	**1**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	1	1
e) other	1	-
Total	**765**	**779**

9.2 Investment property: breakdown of assets measured at cost

There was no investment property measured at cost in the Intesa Sanpaolo Group.

9.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**5,456**	**-**	**-**	**5,607**
a) land	-	-	2,190	-	-	*2,154*
b) buildings	-	-	2,996	-	-	*3,183*
c) valuable art assets	-	-	270	-	-	*270*
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**16**	**-**	**-**	**15**
a) land	-	-	5	-	-	*15*
b) buildings	-	-	11	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
TOTAL	**-**	**-**	**5,472**	**-**	**-**	**5,337**

9.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**242**	**-**	**-**	**271**
a) land	-	-	*66*	-	-	*56*
b) buildings	-	-	*176*	-	-	*215*
2. Property and equipment acquired under finance lease	**-**	**-**	**5**	**-**	**-**	**-**
a) land	-	-	*2*	-	-	-
b) buildings	-	-	*3*	-	-	-
TOTAL	**-**	**-**	**247**	**-**	**-**	**271**
of which: resulting from the enforcement of guarantees	-	-	*62*	-	-	-

9.5 Inventories of property and equipment governed by IAS 2: breakdown

(millions of euro)

	31.12.2018	Of which:			31.12.2017
		Banking group	*Insurance companies*	*Other companies*	
1. Inventories of property and equipment resulting from the enforcement of guarantees	**861**	***162***	**-**	***699***	**-**
a) land	646	*2*	-	*644*	-
b) buildings	214	*159*	-	*55*	-
c) furniture	-	-	-	-	-
d) electronic equipment	-	-	-	-	-
e) other	1	*1*	-	-	-
2. Other inventories of property and equipment	**27**	***27***	**-**	**-**	**-**
Total	**888**	***189***	**-**	***699***	**-**
of which: measured at fair value less cost to sell	*2*	*2*	-	-	-

The table presents the assets governed by IAS 2, which in 2017 were posted under Other assets.

9.6 Property and equipment used in operations: annual changes

(millions of euro)

	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**2,160**	**3,198**	**1,135**	**4,002**	**270**	**488**	**11,253**
A.1 Total net adjustments	**-**	**-**	**-974**	**-3,444**	**-**	**-428**	**-4,846**
A.2 Net initial carrying amount	**2,160**	**3,198**	**161**	**558**	**270**	**60**	**6,407**
B. Increases	**131**	**146**	**42**	**192**	**-**	**14**	**525**
B.1 Purchases	**4**	**51**	**40**	**184**	**-**	**11**	**290**
of which business combinations	**-**	**29**	**-**	**-**	**-**	**-**	**29**
B.2 Capitalised improvement costs	**-**	**17**	**-**	**-**	**-**	**-**	**17**
B.3 Recoveries	**-**	**1**	**-**	**-**	**-**	**-**	**1**
B.4 Positive fair value differences recognised in:	**29**	**27**	**-**	**-**	**-**	**-**	**56**
a) shareholders' equity	**29**	**26**	**-**	**-**	**-**	**-**	**55**
b) income statement	**-**	**1**	**-**	**-**	**-**	**-**	**1**
B.5 Positive foreign exchange differences	**2**	**5**	**-**	**1**	**-**	**-**	**8**
B.6 Transfer from investment property	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.7 Other changes	**-**	**-**	**X**	**X**	**X**	**X**	**-**
C. Decreases	**96**	**45**	**2**	**7**	**-**	**3**	**153**
C.1 Sales	**-96**	**-337**	**-38**	**-202**	**-**	**-22**	**-695**
of which business combinations	**-6**	**-34**	**-**	**-**	**-**	**-**	**-40**
C.2 Depreciation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.3 Impairment losses recognised in:	**-**	**-101**	**-38**	**-195**	**-**	**-13**	**-347**
a) shareholders' equity	**-2**	**-6**	**-**	**-1**	**-**	**-1**	**-10**
b) income statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.4 Negative fair value differences recognised in:	**-2**	**-6**	**-**	**-1**	**-**	**-1**	**-10**
a) shareholders' equity	**-1**	**-32**	**-**	**-**	**-**	**-**	**-33**
b) income statement	**-**	**-32**	**-**	**-**	**-**	**-**	**-32**
C.5 Negative foreign exchange differences	**-1**	**-**	**-**	**-**	**-**	**-**	**-1**
C.6 Transfer to:	**-**	**-3**	**-**	**-1**	**-**	**-**	**-4**
a) investment	**-26**	**-65**	**-**	**-**	**-**	**-**	**-91**
b) non-current assets held for sale and discontinued operations	**-13**	**-37**	**X**	**X**	**X**	**X**	**-50**
	-13	**-28**	**-**	**-**	**-**	**-**	**-41**
C.7 Other changes	**-61**	**-96**	**-**	**-5**	**-**	**-8**	**-170**
D. Net final carrying amount	**2,195**	**3,007**	**165**	**548**	**270**	**52**	**6,237**
D.1 Total net adjustments	**5**	**223**	**1,350**	**4,761**	**-**	**442**	**6,781**
D.2 Gross final carrying amount	**2,200**	**3,230**	**1,515**	**5,309**	**270**	**494**	**13,018**
E. Measurement at cost	**1,175**	**1,583**	**1**	**-**	**59**	**-**	**2,818**

9.7 Investment property: annual changes

(millions of euro)

Assets/Amount	TOTAL	
	Land	Buildings
A. Gross initial carrying amount	**56**	**215**
A.1 Total net adjustments	-	-
A.2 Net initial carrying amount	**56**	**215**
B. Increases	**26**	**70**
B.1 Purchases	5	20
of which business combinations	-	-
B.2 Capitalised improvement costs	-	1
B.3 Positive fair value differences	1	4
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	1
B.6 Transfer from investment property	13	37
B.7 Other changes	7	7
C. Decreases	**-14**	**-106**
C.1 Sales	-2	-6
of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-8	-6
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-3	-6
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	*-3*	*-6*
C.7 Other changes	-1	-88
D. Final carrying amount	**68**	**179**
E. Fair value measurement	**-**	**-**

9.8 Inventories of property and equipment governed by IAS 2: annual changes

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
A. Initial carrying amount	-	-	-	-	-	-	-
B. Increases	**652**	**309**	**-**	**-**	**4**	**28**	**993**
B.1 Purchases	-	39	-	-	-	15	54
B.2 Recoveries	-	3	-	-	-	-	3
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	652	267	-	-	4	13	936
C. Decreases	**-6**	**-95**	**-**	**-**	**-3**	**-1**	**-105**
C.1 Sales	-5	-58	-	-	-3	-	-66
C.2 Impairment losses	-1	-27	-	-	-	-1	-29
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-10	-	-	-	-	-10
D. Final carrying amount	**646**	**214**	**-**	**-**	**1**	**27**	**888**

Row B.4 Other changes refers mainly to amounts presented under other assets in 2017.

9.8 Of which: Banking group

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
A. initial carrying amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Increases	**3**	**219**	**-**	**-**	**4**	**28**	**254**
B.1 Purchases	-	39	-	-	-	15	54
B.2 Recoveries	-	1	-	-	-	-	1
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	3	179	-	-	4	13	199
C. Decreases	**-1**	**-60**	**-**	**-**	**-3**	**-1**	**-65**
C.1 Sales	-	-29	-	-	-3	-	-32
C.2 Impairment losses	-1	-21	-	-	-	-1	-23
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-10	-	-	-	-	-10
D. Final carrying amount	**2**	**159**	**-**	**-**	**1**	**27**	**189**

Row B.4 Other changes refers mainly to amounts presented under other assets in 2017.

9.8 Of which: Insurance companies

There were no inventories of property and equipment governed by IAS 2 pertaining to insurance companies of the Intesa Sanpaolo Group.

9.8 Of which: Other companies

(millions of euro)

Assets/Amounts	Inventories of property and equipment resulting from the enforcement of guarantees					Other inventories of property and equipment	TOTAL
	Land	Buildings	Furniture	Electronic equipment	Other		
A. initial carrying amount	-	-	-	-	-	-	**-**
B. Increases	**649**	**90**	**-**	**-**	**-**	**-**	**739**
B.1 Purchases	-	-	-	-	-	-	-
B.2 Recoveries	-	2	-	-	-	-	2
B.3 Positive foreign exchange differences	-	-	-	-	-	-	-
B.4 Other changes	649	88	-	-	-	-	737
C. Decreases	**-5**	**-35**	**-**	**-**	**-**	**-**	**-40**
C.1 Sales	-5	-29	-	-	-	-	-34
C.2 Impairment losses	-	-6	-	-	-	-	-6
C.3 Negative foreign exchange differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. Final carrying amount	**644**	**55**	**-**	**-**	**-**	**-**	**699**

Row B.4 Other changes refers mainly to amounts presented under other assets in 2017.

9.9 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2018 amounted to approximately 5 million euro.

SECTION 10 – INTANGIBLE ASSETS - CAPTION 100

10.1 Intangible assets: breakdown by type of asset

(millions of euro)

	31.12.2018		Of which:						31.12.2017	
			Banking group		Insurance companies		Other companies			
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**4,163**	***X***	***3,562***	***X***	***494***	***X***	***107***	**X**	**4,056**
A.1.1 Group	x	4,163	*x*	*3,562*	*x*	*494*	*x*	*107*	x	4,056
A.1.2 Minority interests	x	-	*x*	-	*x*	-	*x*	-	x	-
A.2 Other intangible assets	**3,032**	**1,882**	***1,891***	***1,882***	***166***	**-**	***975***	**-**	**1,803**	**1,882**
A.2.1 Assets measured at cost	3,032	1,882	*1,891*	*1,882*	*166*	-	*975*	-	1,803	1,882
a) Internally generated intangible assets	*1,349*	-	*1,348*	-	*1*	-	-	-	*1,168*	-
b) Other assets	*1,683*	*1,882*	*543*	*1,882*	*165*	-	*975*	-	*635*	*1,882*
A.2.2 Assets measured at fair value	-	-	-	-	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-	-	-	-	-
b) Other assets	-	-	-	-	-	-	-	-	-	-
Total	**3,032**	**6,045**	***1,891***	***5,444***	***166***	***494***	***975***	***107***	**1,803**	**5,938**

The amount of the other intangible assets for 2018 include 975 million euro relating to concession rights, net of the financial component, connected with the motorway concession held by Autostrade Lombarde (through the subsidiary Brebemi), consolidated starting from 31 December 2018.

The allocation of goodwill between “Cash Generating Units” is reported in the following table.

(millions of euro)

CGUs/Goodwill	31.12.2018	31.12.2017
Banca dei Territori	1,211	1,211
Corporate and Investment Banking	-	-
Insurance	494	494
Asset Management	1,060	1,060
Private Banking	1,291	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	107	n.a.
Total	**4,163**	**4,056**

For a breakdown of the CGUs, see the next chapter “Information on intangible assets and goodwill”.

10.2 Intangible assets: annual changes

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**20,310**	**4,316**	**-**	**8,534**	**2,384**	**35,544**
A.1 Total net adjustments	-16,254	-3,148	-	-7,899	-502	-27,803
A.2 Net initial carrying amount	**4,056**	**1,168**	**-**	**635**	**1,882**	**7,741**
B. Increases	**107**	**627**	**-**	**1,229**	**-**	**1,963**
B.1 Purchases	107	-	-	1,229	-	1,336
of which business combinations	*107*	-	-	*1,015*	-	*1,122*
B.2 Increases of internally generated intangible assets	X	613	-	-	-	613
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	14	-	-	-	14
C. Decreases	**-**	**-446**	**-**	**-181**	**-**	**-627**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-446	-	-151	-	-597
- Amortisation	X	-444	-	-150	-	-594
- Write-downs recognised in	-	-2	-	-1	-	-3
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-2*	-	*-1*	-	*-3*
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-4	-	-4
C.5 Negative foreign exchange differences	-	-	-	-1	-	-1
C.6 Other changes	-	-	-	-25	-	-25
D. Net final carrying amount	**4,163**	**1,349**	**-**	**1,683**	**1,882**	**9,077**
D.1 Total net adjustments	16,254	3,592	-	8,049	502	28,397
E. Gross final carrying amount	**20,417**	**4,941**	**-**	**9,732**	**2,384**	**37,474**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.2 Of which: Banking group

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**19,043**	**4,309**	**-**	**7,585**	**2,384**	**33,321**
A.1 Total net adjustments	-15,481	-3,141	-	-7,128	-502	-26,252
A.2 Net initial carrying amount	**3,562**	**1,168**	**-**	**457**	**1,882**	**7,069**
B. Increases	**-**	**624**	**-**	**241**	**-**	**865**
B.1 Purchases	-	-	-	241	-	241
of which business combinations	-	-	-	*40*	-	*40*
B.2 Increases of internally generated intangible assets	X	610	-	-	-	610
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	14	-	-	-	14
C. Decreases	**-**	**-444**	**-**	**-155**	**-**	**-599**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-444	-	-125	-	-569
- Amortisation	X	-442	-	-124	-	-566
- Write-downs recognised in	-	-2	-	-1	-	-3
shareholders' equity	*X*	-	-	-	-	-
income statement	-	*-2*	-	*-1*	-	*-3*
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-4	-	-4
C.5 Negative foreign exchange differences	-	-	-	-1	-	-1
C.6 Other changes	-	-	-	-25	-	-25
D. Net final carrying amount	**3,562**	**1,348**	**-**	**543**	**1,882**	**7,335**
D.1 Total net adjustments	15,481	3,583	-	7,252	502	26,818
E. Gross final carrying amount	**19,043**	**4,931**	**-**	**7,795**	**2,384**	**34,153**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.2 Of which: Insurance companies

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**1,230**	**7**	**-**	**949**	**-**	**2,186**
A.1 Total net adjustments	-736	-7	-	-771	-	-1,514
A.2 Net initial carrying amount	**494**	**-**	**-**	**178**	**-**	**672**
B. Increases	**-**	**3**	**-**	**13**	**-**	**16**
B.1 Purchases	-	-	-	13	-	13
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	3	-	-	-	3
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-2**	**-**	**-26**	**-**	**-28**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-2	-	-26	-	-28
- Amortisation	X	-2	-	-26	-	-28
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	*X*	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	**494**	**1**	**-**	**165**	**-**	**660**
D.1 Total net adjustments	736	9	-	797	-	1,542
E. Gross final carrying amount	**1,230**	**10**	**-**	**962**	**-**	**2,202**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.2 Of which: Other companies

(millions of euro)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	**37**	**-**	**-**	**-**	**-**	**37**
A.1 Total net adjustments	-37	-	-	-	-	-37
A.2 Net initial carrying amount	**-**	**-**	**-**	**-**	**-**	**-**
B. Increases	**107**	**-**	**-**	**975**	**-**	**1,082**
B.1 Purchases	107	-	-	975	-	1,082
of which business combinations	*107*	-	-	*975*	-	*1,082*
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-
of which business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-
- Amortisation	X	-	-	-	-	-
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	*X*	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	**107**	**-**	**-**	**975**	**-**	**1,082**
D.1 Total net adjustments	37	-	-	-	-	37
E. Gross final carrying amount	**144**	**-**	**-**	**975**	**-**	**1,119**
F. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

10.3 Other information

As at 31 December 2018, there were commitments relating to investments in intangible assets, primarily software, of approximately 13 million euro.

Information on intangible assets and goodwill

The application of IFRS 3 to the accounting of acquisitions may lead to the recognition of new intangible assets and goodwill.
In the case of the Intesa Sanpaolo Group, the merger between Banca Intesa and Sanpaolo IMI and the subsequent acquisitions carried out in the previous years (of the asset management portfolio of former Nextra, CR Firenze, Pravex Bank, Intesa Vita, the bank branches and Banca Monte Parma) led to the recognition of significant amounts for intangible assets and goodwill. It is also noted that, in 2017 a contract was finalised for the acquisition of certain assets and liabilities of the former Venetian Banks, which involved the posting of new intangible assets relating to asset management relationships. As part of the acquisition of the former Venetian anks, no goodwill captions were recorded.
During 2018, three business combinations were finalised that resulted in the recognition of new intangible assets: the acquisition of the Morval Group by Fideuram, the acquisition of the Nexi business unit regarding payment card transactions in favour of customers of the former Venetian Banks and the acquisition of the Autostrade Lombarde Group.
As part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, intangible assets were recognised for an amount of 34 million euro, referring to asset management relationships, attributable to the Private Banking CGU. Following the finalisation of the acquisition of the acquiring of transactions carried out using payment cards connected with international networks performed by Nexi for customers of the former Venetian Banks, now customers of Intesa Sanpaolo, a new intangible asset was recognised in the financial statements, specifically connected with the value of the customer portfolio included in the business unit acquired, based on the contracts for special arrangements in force at the

acquisition date, for an amount of 21 million euro. That amount was allocated to a specific intangible asset attributable to the relationship with the acquired customers, fully allocated to the Banca dei Territori CGU.
Lastly, following the agreements reached with the Gavio Group, with effect from 31 December 2018 Intesa Sanpaolo acquired control of the Autostrade Lombarde Group. The difference between the purchase price and the fair value of the pro rata shareholders' equity at fair value was provisionally allocated to goodwill, for an amount of 107 million euro. Considering that, based on the indications set out in IAS 36, a CGU must represent "… *the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets*" and that Autostrade Lombarde operates in a sector extraneous to the Group's operations, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code, Autostrade Lombarde was identified as a separate CGU in the Intesa Sanpaolo Group.
For more details on the operations illustrated above, see Part G of these Notes to the consolidated financial statements.
The table below summarises the values of the intangible assets and goodwill recorded in the consolidated financial statements with the related performance during the year, subdivided by Cash Generating Unit (CGU), which represent the groups of assets subject to impairment testing on goodwill in order to determine the recoverable amount.

(millions of euro)

CGU	Financial Statements 31.12.2017	Amortisation	Acquisition of Morval Group	Acquisition of the Nexi business line	Acquisition of Autostrade Lombarde (a)	Financial Statements 31.12.2018
BANCA DEI TERRITORI DIVISION	**2,813**	**-8**	**-**	**21**	**-**	**2,826**
- Asset management intangibles - distribution	77	-6	-	-	-	71
- Insurance intangibles - distribution	18	-2	-	-	-	16
- Brand name intangibles	1,507	-	-	-	-	1,507
- Customer relations intangibles	-	-	-	21	-	21
- Goodwill	1,211	-	-	-	-	1,211
CORPORATE AND INVESTMENT BANKING DIVISION	**-**	**-**	**-**	**-**	**-**	**-**
- Brand name intangibles	-	-	-	-	-	-
- Goodwill	-	-	-	-	-	-
ASSET MANAGEMENT DIVISION	**1,060**	**-**	**-**	**-**	**-**	**1,060**
- Asset management intangibles - production	-	-	-	-	-	-
- Goodwill	1,060	-	-	-	-	1,060
PRIVATE BANKING DIVISION	**1,666**	**-1**	**34**	**-**	**-**	**1,699**
- Asset management intangibles - prod. and distribut.	-	-1	34	-	-	33
- Brand name intangibles	375	-	-	-	-	375
- Goodwill	1,291	-	-	-	-	1,291
INSURANCE DIVISION	**663**	**-23**	**-**	**-**	**-**	**640**
- Insurance intangibles - production	169	-23	-	-	-	146
- Goodwill	494	-	-	-	-	494
INTERNATIONAL SUBSIDIARY BANKS DIVISION	**-**	**-**	**-**	**-**	**-**	**-**
- Goodwill	-	-	-	-	-	-
BANK OF ALEXANDRIA (Egypt)	**-**	**-**	**-**	**-**	**-**	**-**
PRAVEX BANK (Ukraine)	**-**	**-**	**-**	**-**	**-**	**-**
AUTOSTRADE LOMBARDE	**-**	**-**	**-**	**-**	**107**	**107**
- Goodwill	-	-	-	-	107	107
GROUP TOTAL	**6,202**	**-32**	**34**	**21**	**107**	**6,332**
- Asset management intangibles	77	-7	34	-	-	104
- Insurance intangibles	187	-25	-	-	-	162
- Brand name intangibles	1,882	-	-	-	-	1,882
- Customer relations intangibles	-	-	-	21	-	21
- Goodwill	4,056	-	-	-	107	4,163

(a) Provisional purchase price allocation.

The intangible assets recognised include the intangible asset related to customers, represented by the measurement of the insurance portfolio, the assets under administration and under management (AUM) and other intangible assets with a finite life linked to the relationship with customers. Such intangible assets, with a finite life, were originally measured by discounting the income margin cash flows over a period representing the residual life, contractual or estimated, of relationships existing at the time of the business combination.

The brand name, an intangible asset related to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under “220. Net adjustments to/recoveries on intangible assets”) for a total of 32 million euro gross of the tax effect.

Based on the IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. In addition, the intangible assets with a finite useful life must be tested for impairment whenever there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.
Lastly, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows arising from intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those relating to the asset outstanding at the impairment test date. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others.
This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the volatility of the financial markets and the available market values for calculation of the recoverable amount, the value in use was used in the impairment tests for the 2018 financial statements.
An exception to the approach described above is the testing of the goodwill recognised on Autostrade Lombarde, for which the fair value was referred to. For this specific case, considering that the sector the company operates in does not fall within the scope of operations of the Group, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination of the company pursuant to Art. 2497 of the Italian Civil Code, no potential synergies were identified between the acquirer and the acquiree that normally characterise the flows deriving from the continuous use of an asset and, thus, its value in use. Therefore, with regard to the testing of the goodwill recognised on Autostrade Lombarde, the fair value resulting from a specific appraisal by an independent third party was used, set up with regard to determining the purchase price of Autostrade Lombarde pursuant to IFRS 3.
It is noted that the tests mentioned above did not concern the Corporate and Investment Banking, International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs in consideration of the absence, as of the date of the test, of intangible assets with an indefinite life to be subject to impairment test.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2018.

Impairment testing of intangibles

Insurance portfolio

The exploitation of the insurance portfolio uses models normally applied to determine the embedded value, by discounting flows representing the income margins over a period deemed to express the residual maturity of the insurance portfolio outstanding at the valuation date. The resulting value, considered to have a finite life, is amortised at variable rates over a period representing the residual life of the insurance contracts. For the 2018 financial statements, the amortisation of the asset for the year was recognised to the income statement. The amortisation for the year amounted to approximately 13% of the carrying amount of the asset at the end of 2017 (amortisation for a total of 25 million euro gross of the tax effect). The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since the trend of the insurance business did not present any particular critical issues in 2018.
The table below provides the value of mathematical reserves (including the components that in the IFRS financial statements are classified under financial liabilities of the insurance segment) detailing the various product types that contributed to the initial valuation of the insurance portfolio.

(millions of euro)

Insurance portfolio	MODEL TECHNICAL RESERVES [a]	
	31.12.2018	Change compared to 31.12.2018
Traditional	70,161	-0.4%
Pension funds	2,781	+ 6.6%
Unit-linked	68,061	-0.8%
TOTAL	**141,003**	**-0.5%**

(a) The mathematical reserve and the premium reserve are included. The figure is gross of the "shadow reserve".

The technical reserves decreased slightly (by approximately -0.5%) in 2018, standing at around 141 billion euro at year-end. In particular the reserves for traditional products decreased slightly in the period considered (by around -0.4%) compared with December 2017, amounting to a total of around 70 billion euro in December 2018. The reserves for unit-linked products also decreased slightly at the end of December 2018 (-0.8%), with overall total reserves of approximately 68 billion euro.
An analysis of product profitability and operating costs did not yield any indication of possible impairment of the asset. Financial parameters – including as regards the performance of securities in portfolio – did not show any issues of concern, as they were in line with the situation recorded in 2017. In consideration of the positive performance of assets from the date

of recognition of the intangible assets in the financial statements, and considering that the initial value of those assets at period-end had already been more than 80% amortised, no critical issues were found.

The following table presents a summary of the values of insurance intangibles according to the relevant CGU.

(millions of euro)

CGU	Financial statements 31.12.2017	Amortisation	Other changes	Financial statements 31.12.2018
Banca dei Territori				
Insurance intangibles - distribution	18	-2	-	16
Insurance				
Insurance intangibles - production	169	-23	-	146
GROUP TOTAL	**187**	**-25**	**-**	**162**

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca under compulsory administrative liquidation, in 2017 the intangible assets linked to assets under administration and assets under management (AUM) were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. The valuation, supported by a survey by an independent third party, resulted in the recognition of an intangible asset linked to the asset management portfolio of the former Venetian Banks of 80 million euro at the acquisition date, fully allocated to the Banca dei Territori CGU. Considering amortisation for the previous year (amounting to 3 million euro), and the amortisation for the period (amounting to 6 million euro), as at 31 December 2018 the intangible asset is posted in the consolidated financial statements at a value of 71 million euro.

As part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, the intangible assets were recognised in the financial statements for an amount of 34 million euro, fully allocated to asset management relationships. The intangible asset was attributed to the Private Banking CGU.
The valuation method used to estimate the economic value of those intangible assets is based on the future net cash flows from indirect deposits. Those flows are estimated based on the evolution of the customer assets and the net interest and other banking income net of operating costs and taxes. In particular, the evolution of assets under administration and assets under management was estimated over a defined time horizon, taking account of their decay physiologically observed over a past time frame deemed significant, specifically equal to 15 years. The valuation resulted in the recognition of an intangible asset linked to the asset management portfolio of 34 million euro at the acquisition date, fully allocated to the Banca dei Territori CGU. Considering amortisation for the period, amounting to 1 million euro, as at 31 December 2018 the intangible asset is posted in the consolidated financial statements at a value of 33 million euro.

Also for the AUM intangible, the book value of the intangible asset posted in the financial statements was subject to a physiological decrease due to the amortisation recorded during the year. The amortisation for 2018, which for the asset management portfolio is calculated on a straight-line basis over the period of greater significance of the expected economic benefits, totalled around 7 million euro (considering the intangible assets already recognised at the end of 2017, the amortisation, amounting to 6 million euro, represents 8% of the value recognised at the end of the previous period).
With regard to impairment testing, it is noted that the tests were conducted with reference to the intangible relating to the former Venetian Banks, concluding that the volumes of assets underlying the measurement of the intangible assets of the former Venetian Banks, if compared with the respective values of the Banca dei Territori CGU, showed negligible differences, confirming the strength of the value of the intangible asset recognised in the financial statements.
The same consideration was made for the Morval Group, for which it was not considered necessary to conduct specific analyses, given the recent measurement of the intangible asset and the fact that these analyses should take account of all cash flows linked to the assets of the Private Banking CGU which it was allocated to, and that the assets underlying the specific CGU are significantly larger than the assets acquired.
In light of the above, there were no signs of a possible impairment in the intangible recognised in the financial statements.

The following table presents an overview of the value of the AUM intangible asset, allocated to the Banca dei Territori Division and partly to the Private Banking Division.

(millions of euro)

CGU	Financial statements 31.12.2017	Amortisation	Other changes (a)	Financial statements 31.12.2018
BANCA DEI TERRITORI DIVISION				
Intangibile asset management - distribution	77	-	-6	71
PRIVATE BANKING DIVISION				
Intangibile asset management - produc. and distribut.	-	34	-1	33
GROUP TOTAL	**77**	**34**	**-7**	**104**

(a) The increase is attributable to the acquisition of the Morval Group

Other intangible assets with a finite life

The third quarter of 2018 saw the finalisation of the acquisition of the business unit regarding acquiring of payment card transactions connected to international networks (VISA and Mastercard), carried out by Nexi (former ICBPI Group) in favour of customers of the former Venetian Banks, now customers of Intesa Sanpaolo. The comparison of the consideration transferred and the balance sheet imbalance of the business unit acquired showed a residual difference to be allocated, amounting to 21 million euro. That difference, specifically connected with the value of the customer portfolio included in the business unit acquired, based on the contracts for special arrangements in force, was allocated to a specific intangible asset attributable to the relationship with the acquired customers.
The measurement of the intangible assets recognised, carried out by an independent third party, was based on the present value of the cash flows that could be generated over a specific forecast time horizon. Taking account of the lifing curve (probability of closing) of the contractual relationships in force at the acquisition date, a period of projection of cash flows of 18 years was considered in the measurement. As a result, the intangible assets will be amortised on a straight-line basis over a period of 18 years, starting from the acquisition date. Net revenues attributable to the business unit were calculated considering the fee and commission income applied to merchants, net of fee and commission expense due to the international networks, operating costs and taxes.
Within the Intesa Sanpaolo Group, that intangible asset was allocated to the Banca dei Territori CGU.

The value of the intangible asset was not subject to specific analyses of indicators of impairment, taking account of the recent valuation and the fact that the valuation for the purpose of impairment testing must not be limited only to the cash flows deriving from the asset acquired, but should also take account of all the cash flows linked to the customer assets of the specific CGU.

Brand name

IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the Purchase Price Allocation (PPA) process.
For this purpose, please note that the term "brand” is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.
With reference to acquisition of the Sanpaolo IMI Group, it was decided to limit the analysis to just two brands: the corporate brand Sanpaolo IMI, intended as an “umbrella” brand to which the brands of the network banks were related, and the brand of the subsidiary Banca Fideuram since it is an autonomous entity strongly recognised on the market for the placement of financial products through a network of financial advisors. Both are considered intangibles with indefinite useful life since they are deemed to contribute indefinitely to the formation of income flows. Market methods and fundamental, flow-based methods have been used in the initial valuation of the two brands. Value was determined as the average of the values obtained using the various methods.
As this intangible asset has no independent cash flows, for impairment testing purposes for the financial statements it was included in the verification of the retention of goodwill for the various CGUs. As discussed in further detail below, the results of the impairment test did not suggest a need for an impairment loss on the brand name intangible asset.

Impairment testing of CGUs and goodwill

Definition of Cash Generating Units (CGUs)

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them.
In IAS/IFRS terminology, such business units are known as Cash Generating Units (CGUs). The meaning of the impairment test is significant for identification of the CGUs.

IAS 36 indicates the necessity to correlate the level at which the goodwill is tested with the level of internal reporting at which management controls the increases and decreases of such value. Definition of the level closely depends on the organisational models adopted and on the managerial responsibilities governing the operating guidelines and monitoring activity. Organisational models may ignore (and in the case of the Intesa Sanpaolo Group they do ignore) the network of legal entities through which operations are carried out, and are instead very often closely designed around the definition of business operating segments as envisaged by IFRS 8. Furthermore, the identification of CGUs for goodwill impairment test purposes is consistent with the definition of the recoverable amount of an asset - which is in itself the base for impairment tests - according to which the relevant item is the amount that the company expects to recover from that asset, considering any synergies with other assets.

Therefore, in accordance with the criteria applied for the determination of the prices of the business combinations that gave rise to goodwill recognition, the recoverable amount for impairment testing purposes of the CGU to which goodwill is allocated must include not only the value of external (or universal) synergies but also the internal ones, the reason being that the specific acquirer may obtain additional value from the integration of activities obtained through business combinations, according to its business model.
The Intesa Sanpaolo Group's organisational model envisages that:
- management decisions be highly centralised at the level of the heads of the operational segments;
- strategies, identification of new products or services and commercial penetration initiatives be outlined and directed centrally for each operating division;
- planning processes and reporting systems be managed at the operational segment level;
- specialised transversal areas be defined to provide support and develop products benefiting many subsidiaries;
- the management of financial risks also be highly centralised in order to maintain, also as a result of regulatory provisions, a balance between the capital allocation policies and the financial risks in development of the various business lines;
- the divisions operate in homogeneous markets or sectors in terms of economic characteristics and development level.

As a result of this centralisation, income flows are highly dependent on the policies set up at the operational segment level, based on balanced development of the entire division and not of the individual operating areas or legal entities considered individually.
The operating divisions identified in the Intesa Sanpaolo Group are as follows:
- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks.

For the foregoing reasons, the operating divisions cited above correspond, in general terms, to the Group's CGUs, while also representing the core business areas considered for segment reporting.
These divisions are considered representative of cash generating units since each constitutes the smallest group of assets generating independent incoming cash flows and, as mentioned above, also the minimum level set by the Parent Company Intesa Sanpaolo for planning and reporting processes. Therefore, this is the minimum level to which goodwill may be allocated and monitored according to non-arbitrary criteria.

The International Subsidiary Banks Division needs specific comments, given the particular structure and conditions under which it operates.
It should firstly be mentioned that the cash flows of the various Group companies forming this business unit are strictly dependent upon policies formulated by the Division Governance Centres and Head Office Departments of the Parent Company. These policies are defined and implemented in compliance with a management plan designed to develop the entire Division in an organised manner, and not focusing only on the individual companies' strategies. Specifically, the expansion strategies for the various operating units, the identification and development of new credit, savings and service products, limits to the assumption of financial risk, commercial penetration and operations specialisation initiatives are outlined and steered at central level, following a portfolio strategy, and not devolved to the individual subsidiaries. Therefore, there is strong interaction of the flows that, at the same time, requires both single and integrated governance of all companies in the Division, and the central monitoring and control of operations of the overall business activities of the Division.
However, it is important to consider that not all factors affecting the correlation and interdependence of cash flows within the Division can be controlled by the Division's Head Office Departments.
In fact, there are circumstances outside the Group that could have varying levels of impact on the capacity to systematically manage CGU flows and control over their generation. These are circumstances largely determined in the wider sense by the conditions of the environment in which the various entities are located.
Indeed, for Banks operating abroad, the effects of country risk must be considered: i.e. the risk linked to economic, political and institutional events in the country in which the subsidiary and its business activities are based.
In view of the above, if the cash flows that the Parent Company expects from activities generated by a foreign subsidiary are deeply influenced - in terms of extent, quality and trends - by institutional, economic and political circumstances in the country in which the subsidiary is based, this subsidiary cannot be considered an integral part of the single management model for the CGU which it belongs to. The company in such a situation must, therefore, even if only temporarily, be excluded from the CGU, regardless of the Group Management's willingness to keep it within the CGU, due to the above-mentioned factors over which the Bank and Group's management clearly have no influence. The flows of the company, in fact, would be influenced to a greater extent by the country's conditions than by the unitary and centralised management policy adopted by the Division and, therefore, for impairment testing purposes, the company must be subjected to independent valuation until the conditions for the systemic central control of cash flows of the subsidiary are restored.

With regard to the Ukrainian Pravex Bank, for the purposes of the 2008 impairment testing, careful consideration of the economic and institutional events unfolding in Ukraine, which was undergoing a deep economic and currency crisis, and prudent assessment of their impact on the operational variables of the subsidiary in question, especially from the point of view of their interdependence on variables of the entire CGU, resulted in classification of this company as a completely separate CGU, treating it separately from the Group's International Subsidiary Banks Division. Subsequently, Pravex Bank was functionally allocated to Capital Light Bank, to then be moved back to the International Subsidiary Banks Division in 2018.
With regard to the subsidiary Bank of Alexandria, for the purposes of the 2011 impairment testing the bank was separated from the International Subsidiary Banks CGU due to a profound political crisis in Egypt.
For the purposes of the 2018 impairment testing, it was deemed appropriate to maintain the decisions made with respect to the previous financial statements, and thus to consider Pravex Bank and Bank of Alexandria as autonomous, distinct CGUs in conducting the impairment test for the consolidated and separate financial statements. However, it bears recalling that the goodwill associated with Pravex Bank and Bank of Alexandria were fully written down in conjunction with the impairment tests for the 2008 and 2011 financial statements, respectively.
In Pravex Bank's and Bank of Alexandria's cases, the separate assessment of the banks for impairment testing purposes, which will continue until conditions in the respective countries have been stabilised, does not affect the Group's intention to support the development of the subsidiaries.

The subsidiary Autostrade Lombarde, functionally allocated to the Corporate Centre, should be separately mentioned. Considering that it operates in a sector extraneous to the Group's mission and that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code, in relation to the indications set out in IAS 36, which state that a CGU must represent "… *the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets*", it was identified as a separate CGU in the Intesa Sanpaolo Group.

As previously mentioned, the Corporate and Investment Banking, International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs, as of the date of the test, did not possess intangible assets with an indefinite life and, as a result, were not subject to an impairment test.

Book value of the CGUs
The book value of the CGUs must be determined in a manner consistent with the criterion for estimating their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these represent the core business. In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process.
Consequently, these assets and liabilities must be properly allocated to the associated CGUs.
On this basis (so-called "equity side"), the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.
Accordingly, the carrying amount of the CGUs composed of companies belonging to a single operating division was determined by summing up the individual contributions to the balance sheet.
However, where the Parent Company or other Group companies contribute to multiple CGUs from a management standpoint, and this division is not represented in accounting information, management values must be used. In this specific case, the management driver was identified as each division's "regulatory capital", which represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules.

The table below provides the book values of the CGUs and the goodwill and brand name allocations to each. The values, determined for impairment testing purposes, include the portion of goodwill attributable to minority interests (included in the last column with minority interests).

(millions of euro)

Values	Value as at 31.12.2018			
CGU	Book value	*of which goodwill Group share*	*of which brand name*	*of which minority interests*
Banca dei Territori	20,108	*1,211*	*1,507*	*157*
Corporate and Investment Banking	15,741	-	-	*143*
Insurance	5,041	*494*	-	*1*
Asset Management	2,398	*1,060*	-	*12*
Private Banking	4,181	*1,291*	*375*	-
International Subsidiary Banks	6,101	-	-	*84*
Bank of Alexandria (Egypt)	532	-	-	*106*
Pravex Bank (Ukraine)	61	-	-	-
Autostrade Lombarde	365	*107*	-	*158*
GROUP TOTAL	**54,528**	**4,163**	**1,882**	**661**

Criteria for estimates of CGUs' value in use

The value in use of CGUs is determined by estimating the present value of future cash flows that may be expected to be generated by the CGUs. These cash flows are normally estimated by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan.
The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity (through the use of perpetual return formulae, or, alternatively, temporary return formulae, if it is not realistic to expect the assets subject to measurement to generate positive cash flows over the long term), using an appropriate growth rate "g" for the purposes of the so-called "Terminal Value." The "g" rate is determined by assuming as growth factor the rate of increase in the gross domestic product of the countries in which the cash flows are generated.
Alternatively, the Terminal Value could be determined on the basis of a final sale or liquidation value.
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates to be used must incorporate the present market values with reference to the risk-free component and the risk premium associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles.
In addition, given the diverse risks of the respective operating areas, different Beta coefficients must be used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".
An exception to the approach based on the value in use is made for the goodwill recognised on Autostrade Lombarde which, instead, was tested based on its fair value; for this specific case, considering that the sector the company operates in does not fall within the scope of operations of the Intesa Sanpaolo Group, in addition to the fact that the Group will not exercise management and coordination of the company pursuant to Art. 2497 of the Italian Civil Code, no potential synergies were identified between the acquirer and the acquiree that normally characterise the flows deriving from the continuous use of an asset and, thus, its value in use. Therefore, with regard to the testing of the goodwill recognised on Autostrade Lombarde, the fair value resulting from a specific appraisal by an independent third party was used, set up with regard to determining the purchase price of Autostrade Lombarde pursuant to IFRS 3.

Cash flow estimates

Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the 2018 financial statements, the volatility of financial markets and the uncertainties regarding the future macroeconomic environment make the definition of near-term future cash flows from operating activities and the identification of growth rates in order to calculate the Terminal value of CGUs particularly complex.
The medium-term forecasting scenario of reference (for the Eurozone and Italy only, since goodwill is no longer carried in regard to the international network) has been drawn up by the Intesa Sanpaolo Research Department taking account of the forecasts of the main Italian and international organisations and institutions.
In particular, those estimates are based on a reference scenario for the global economy of moderate expansion in the period considered (marginally above the average for the ten-year period 2008-2018, but lower than the last two years).
The growth rate of global trade is expected to slow again in 2019, to then stabilise at levels lower than those that characterised the period following the Financial Crisis.
In the United States, the forecast growth of the GDP for the next few years was revised upwards compared to one year ago, following the implementation of a more expansive fiscal policy which was not accompanied by a more restrictive than expected monetary policy. Nonetheless, growth is expected to sharply slow down from mid-2019 to the beginning of 2021, in connection with the exhaustion of fiscal stimulus, further tightening of financial conditions and the achievement of full employment. It is assumed that the Federal Reserve will implement two additional increases in the official rates in 2019, but that the restriction phase will then conclude.
In the Eurozone, GDP growth significantly underperformed expectations starting from the second quarter of 2018, especially in Germany and Italy, moving up by several quarters the slowdown on the potential that was expected to occur more gradually between 2018 and 2019. Now modest year-on-year growth is expected to mid-2019, primarily explained by a statistical comparison with a weak 2018, while the subsequent trend was not significantly revised compared to one year ago. Average annual growth is expected to slow further, and on average will be in line with the consensus. Economic activity will be supported by slightly expansive fiscal policy overall and by financial conditions that will remain highly accommodating in almost all countries in the area. The trend forecast for the euro/dollar exchange rate in 2019 is around 5% lower than one year ago, reflecting an unfavourable dynamic in interest rates and the greater uncertainty regarding European economic growth.
The trend in inflation was revised upwards compared to one year ago, and reflects higher projections of oil prices. Inflation is expected to remain substantially stable, with an annual average from 1.7% to 1.8% YoY, in line with the consensus average.
In 2018 the Italian economy is expected to record final growth of 0.9%, less than that forecast one year ago. The quicker than expected slowdown reflects both external components (specifically, the slowdown in foreign demand) and internal factors (the increased uncertainty regarding economic policy and financial conditions that accompanied first the formation of the new government and then the overall preparation of the 2019 fiscal package). At the time that the reference scenario was defined, the phase of slowdown in economic activity could not yet be said to be exhausted: confidence indicators and other economic indicators continued to report a probable extension of the phase of weakness in internal demand. After the scenario was finalised, the government announced a drastic revision of the fiscal package: the decrease in the main measures of transfer to households and the increase in coverage largely reduced the fiscal stimulus initially announced, reducing the planned deficit from 2.4% to 2.0% of the GDP. Nonetheless, the revision did not sooth the doubts regarding the medium-term trend in the deficit and debt, whose reduction depends on the implementation of increases in direct taxes which are unlikely to be implemented, without which the deficit/GDP ratio is expected to increase to 3.1%. Also because of this, the spread between Italian and German 10-year public debt remained at levels higher than those theoretically consistent with the countries' respective ratings, though falling from last October's highs.
To take account of the numerous uncertainties in the economic policy scenario, it is assumed that risk premiums for 2019 will be slightly higher than the levels at the end of 2018. The average annual growth in the GDP expected over the next few years was revised sharply downwards. The 2019 estimate (0.6%) is lower than the government estimates (1.0%), in line with the IMF's estimate (0.6%) and higher than that of the European Commission (0.2%). Subsequently, growth is expected to remain unchanged on average, from 0.9% to 1.0%, in line with the consensus estimates.

The updating of the scenario already prices in a 2019 trend in final internal demand revised even more harshly in relation to the GDP, specifically regarding the component of gross fixed investments and final internal consumer spending. The scenario is also based on an estimate of consumer prices and GDP deflators and lower consumer spending and investments than one year ago, specifically in the two-year period 2019-2020.
Though growth rates have been revised downwards, they remain consistent with a decrease in the unemployment rate during the forecast period. Nonetheless, the forecast trend is higher than that previously assumed starting from mid-2019, while the initial levels are impacted by the better than predicted performance, specifically in the first half of 2018.
The European Central Bank announced that it intends to keep the official rates unchanged at least until the summer of 2019. As a result, the reference scenario assumes that the rate on major refinancing operations will not be changed until at least the start of 2020, while the deposit rate should be raised for the first time in the fourth quarter of 2019. Subsequently, total increases of 50 bps per year in 2020-21 are assumed, in addition to a further increase of 25 bps in 2022.
That projected path, translated into changes consistent with the quarterly interbank rates (Euribor) is lower than the consensus estimates for the period 2020-23. As regards interest rates embedded in futures, the forecasts are significantly higher starting in 2020, with an average gap of 20 bps in 2020, 34 bps in 2021 and 78 bps in 2022, while it will decrease to 50 bps in 2023.
At the end of 2018, the European Central Bank terminated net purchases of securities as part of the APP (Asset Purchase Programme), which had decreased during the year. It is deemed that the suspension of the programme, which will now be limited to mere reinvestment of portfolio maturities, may lead to a relatively higher slope of the interest rate curve. For that reason, the projections on IRS rates for mid-2019 to 2022 were revised upwards. However, in the first half of 2019, the depressive effect on medium and long-term interest rates will prevail, connected with the worsening of the expectations of growth and the decreased risk appetite.
Lastly, the scenario assumes prudent risk premiums on Italian debt still at high levels in 2019, followed by a slow decrease in the period 2020-22. The average level of the BTP-Bund spread in 2019 will rise from 217 to 255 bps, though decreasing on the average of the fourth quarter of 2018. That value would potentially be consistent with a further downgrading of the country's rating in 2019. The level of Italian government bond interest rates incorporated in the scenario should also be considered prudent, implying that the spread will continue to be significantly positive compared to interbank rates also in 2019-20. In 2020 the risk premium will temporarily see a slight increase, in line with the uncertainty regarding the trend in the deficit, but the improvement in fundamentals will subsequently result in a new drop in spreads.
The scenario for the Italian banking industry has been defined based on the macroeconomic forecasts illustrated, and takes account of continuous monitoring of the performance of the banking market, as well as joint analysis with authoritative experts and forecasters of sector trends. Specifically, the moderate growth in loans to the private sector continued, once again sustained by loans to households, both for mortgage loans and consumer credit, which, in 2018 was accompanied by an improvement in the trend of loans to businesses. The change in loans to businesses was influenced by compliance with the benchmark on TLTRO2, which provided a boost at the beginning of the year and, in the opposite direction, by the cleaning of balance sheets by banks. Performance remains differentiated by business area, up for manufacturing and trade, while still falling for construction, though at a slower pace than in previous years. In conditions of high liquidity of companies, demand for credit remained subdued by low external funding requirements. On the other hand, companies' opinions on credit access conditions worsened in the last part of the year. Business debt as a percentage of GDP continued to fall.
In 2019, loans to businesses will remain weak, even though credit conditions are substantially expansive. Performance will be conditioned by the weakness of the economy and the continued climate of uncertainty, factors that tend to reduce demand. In addition, in support of bank lending, the favourable rates applied by banks and the lower appeal of corporate bond issues continue, in the face of the increase in returns demanded by the market due to the high level of the sovereign spread. In the following years, a gradual strengthening of the trend in loans to businesses is expected, which, however, will continue to be restrained due to demand factors, such as the presumable continuation of corporate deleveraging and the recovery of diversification in favour of market sources of funding, in a scenario of moderate GDP growth.
For households, the lending scenario remains positive, but with a slight slowdown in 2019. Household mortgages will continue to be favoured by very low rates for most of 2019 and by the prospects of a resilient real estate market. On the other hand, the persistence of continued overall weak house prices, falling once again in 2020, will put a brake on the growth of the stock of mortgages, which is expected to see a stronger recovery from 2021 to 2023, when the expected increase in real estate prices will be able to boost the market. Lending to households will be favoured by the reduction in the unemployment rate over the entire horizon of the scenario and the increase in disposable income. That outlook justifies the relaxed tone of the offering of bank credit to households also for the next few years.
As regards bank funding, the trends seen in 2018 confirmed the previous values, and specifically the increase in deposits and the decline for bonds. In terms of deposits, the notable growth of the demand component continued, while time deposits are still down.
These dynamics will also characterise 2019, though with more moderate trends. In particular, the decline in bonds will continue, while low market yields, the climate of uncertainty and the significant liquidity available will continue to fuel the balances on current accounts. However, in an overall situation that is still favourable for customer deposits, some critical issues related to the medium-term funding will become more evident, including the impact of the higher sovereign spread on the rates of new bond issues, which makes refinancing on the market more difficult and costly.
In the following years, current accounts will see a gradual slowdown, while flows to time deposits will start to recover and return to positive ground. With benchmark rates starting to rise, households and businesses will focus on instruments with higher yields, to the partial disadvantage of more liquid instruments. This trend will be accompanied by offering policies, with banks that must handle increased needs for demand funding. Overall, deposits are expected to grow over the entire forecast period.
For bonds, over the entire time horizon of the scenario, net redemptions of bonds placed in the retail segment are assumed. On the other hand, especially in the last few years of the forecast period, the drop in stock could be offset by issues on the wholesale market, fuelled by the placement of eligible instruments that meet the requirements of loss absorption, in a scenario of moderate acceleration of medium/long-term loans. Reimbursement of the TLTRO in 2020-21 may partially influence funding needs through bonds and time deposits.
Customer deposits will record very moderate growth on the whole.

In 2018, bank interest rates reached new record lows. However, from the summer the first rate rises on new loans emerged, due to the increase in the sovereign yield spread. The annual average of interest rates applied to businesses on new loans of large amounts were essentially stable compared to 2017, while those on loans of smaller amounts decreased year-on-year. Spreads against the Eurozone remained in negative ground. Rates on mortgage loans to households also reached new record lows, to then reverse the trend slightly. Given the low levels already reached, deposit rates remained more or less stable, recording slight decreases at the most. The cost of funding continued to fall, due in part to the reduced weight of bonds. Nonetheless, as a result of the continuing reduction in the average interest rate on the stock of loans, the spread between lending and funding rates confirmed its slight narrowing.
2018 will be remembered as the year of record lows in bank rates, with the start of a phase of gradual repricing of loans. However, conditions for loan rates will remain relaxed and increases will be moderate in 2019. This will be followed by a clearer, but still moderate, increase in the subsequent years, over the path of gradual normalisation of monetary policy and the concurrent increase in reference rates. At the same time, over the horizon of the scenario, credit risk is expected to continue to decrease gradually, whereas there will continue to be competition surrounding loans to the best customers.
The average cost of funding in 2019 will continue to benefit from the recomposition of the aggregate towards less costly forms. Current account rates are expected to remain at record lows for much of the year, with a small recovery only in the final months. Based on the expected profile of money-market rates, and considering the increase in the cost of new funding on the market, the average overall cost should begin to rise very slowly near the end of 2019 and more decisively in 2020. Nonetheless, the fall in the stock of bonds - expected for most of the horizon of the scenario - will hold back the increase in the cost of funding.
From 2019 onwards, the spread between lending and funding rates is expected to gradually recover. The growth of lending rates, combined with the lower speed of adjustment of funding rates, will allow a moderate widening of the spread in 2020-2022, followed by stabilisation. Nonetheless, unit profitability of dealing will remain low over the entire horizon, even lower than pre-crisis values.
For the seventh consecutive year, in 2018 the mark-down on on-demand deposits was in negative territory, where it is expected to remain also in 2019 and for most of 2020, given the very low Euribor rates. A trend towards a gradual improvement is expected to begin at the end of 2019 and continue in 2020-22, to then stabilise in 2023, in line with the presumed profile of the Euribor.
The mark-up on short-term interest rates in 2018 decreased further. In 2019, it is expected to slightly decline further but to remain higher than pre-crisis levels, given the low levels of monetary rates. The reduction will be clearer in 2020-2021, as market rates begin to rise once more, bringing the mark-up near pre-crisis levels.
Mutual funds and portfolio management schemes experienced a sharp slowdown in 2018, closing the year with cumulative flows only marginally positive at the most. The main causes should be attributed to the continuing tensions on the financial markets, the uncertainty regarding economic policy in Italy and the increase in the sovereign spread, as well as the gradual rise in US interest rates. Moreover, in the area of funds, the boost from Individual Savings Plans, which had supported the market the previous year, gradually decreased in 2018. On the other hand, traditional life insurance benefited from the adverse situation in the markets, returning to growth in new business after declining for three consecutive years. Instead, unit-linked policies reflect the trend in mutual funds, whose decrease was, in any event, mitigated by the subscriptions of multi-line products.
For 2019 it is assumed that the year will ideally be divided into two phases: an initial phase featuring a still subdued asset management system, also due to the uncertainties on the market linked to possible outcomes of the EU elections in May, and a second phase of gradual recovery. On the whole, flows routed to mutual funds and portfolio management schemes are expected to see a recovery on 2018, though smaller than in the past, due to particularly weak inflows at least in the first six months. The recovery of the markets assumed in the second half will contribute to the growth of stock, resulting in positive impacts on performance in all segments. Lastly, the favourable situation for life insurance will continue, sustained by subscriptions of multi-line products. In 2020, the recovery in the asset management industry will gain strength, even though flows and stock will maintain moderate growth, especially due to the gradual exhaustion of the margins for recomposition of household portfolios, which will continue for the entire horizon of the scenario.
In addition to that factor, in the following years the forecast increase in interest rates will bring investors back to fixed income instruments and, as a result, will impact the inflows to mutual funds and portfolio management schemes, which will continue to record essentially stable inflows. For life insurance, premium growth will be modest, with internal reallocation to Class III, to the detriment of traditional insurance. Finally, due to the combined effect of positive inflows and revaluations linked to the consolidation of growth in the stock market, the total assets of the asset management industry are expected to continue growing at a good pace.

The table below illustrates the macroeconomic variables expected for Italy in the period 2019-2023.

(values as a percentage)

Italy	2018	2019	2020	2021	2022	2023
REAL ECONOMY						
Real GDP Italy	0.9	0.6	1.0	1.0	0.9	0.9
Consumer prices Italy	1.2	1.2	1.4	1.8	2.0	1.6
Period-end ECB rate	0.00	0.00	0.50	1.00	1.25	1.25
3-month Euribor rate	-0.32	-0.29	0.12	0.54	1.12	1.37
10-year IRS	1.0	1.5	1.9	2.2	2.5	2.6
10-year BTP	2.6	3.6	4.3	4.4	4.3	4.3
Spread vs. Bund (basis points)	217	255	279	252	210	200
BANKING SECTOR						
Loans	0.2	0.4	0.9	1.5	2.1	2.5
Direct customer deposits	0.7	1.2	1.7	2.4	2.6	2.6
Loan rate	2.62	2.65	2.90	3.17	3.51	3.68
Funding rate	0.70	0.67	0.77	0.89	1.06	1.18
Average customer spread	1.92	1.98	2.13	2.27	2.45	2.50
Mutual funds	-2.2	3.8	3.3	4.0	4.2	4.3
Portfolio management	-2.0	2.7	2.4	3.4	3.7	3.7
Life technical reserves	5.0	6.1	5.7	5.4	5.1	4.8

The various CGUs' expected cash flows were subject to impairment testing, taking account of the macroeconomic scenario described above, and were estimated by following a two-stage assessment process. Specifically, with regard to the first forecast period, in line with the choices made for the previous Financial Statements, a timeframe of 5 years was considered, i.e. the five-year period 2019-2023. For the first 3 years of that period, the analytical estimates set out in the 2018-2021 Business Plan, approved by the Board of Directors on 5 February 2018, were used. The flows for 2022 and 2023 were estimated through inertial tracking of the flows for 2021, based on the forecasts relating to the macroeconomic scenario, thus, without considering the effect of managerial leverage.
The net income projected for the forecast years of the long-term plan has been adjusted, in accordance with IAS 36, to take account of non-monetary components and the minority-interest share of net income, as well as to exclude the effects of any reorganisation and restructuring transactions, with the exception of the effects of the actions already considered in the 2018-2021 Business Plan, and the capital gains on future sales of company assets. In addition, cash flows include those allocated to the various CGUs deriving from central corporate assets. In accordance with the equity-side approach mentioned above in relation to the determination of the carrying values of CGUs, the cash flows used for impairment testing include the flows correlated with financial assets and liabilities, given that these represent the company's core business.

Among various financial valuation techniques, such as that used for the estimate of the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". This rate, even if subject to time variations, may be assumed to be constant or decreasing (or increasing in rarer circumstances).
As an alternative to the terminal value estimation methodology, doctrine also envisages (i) the exit multiple approach and (ii) the approach based on an estimation of the liquidation value of the company. Specifically, with regard to approach (i) it should be mentioned that an exit multiple estimate has complex (and potentially subjective) elements that become even more marked at times of market uncertainty and volatility such as now. Approach (ii) is valid only for companies due to be wound up on termination of the forecasting period, and therefore not applicable with a view to a business as a going concern.
In the decisions to be taken with regard to the criteria for extrapolating cash flows beyond the forecasting period, account must be taken of the market context in which the prospective scenario is being determined.
As regards the impairment test as at 31 December 2018, 2023 - the last year of the analytical forecast, separating out the main non-recurring components - was projected in perpetuity, based on the growth factors described below, for the purposes of the terminal value.
In line with the impairment tests of the previous years, the "g" rate was determined as the average growth rate of Italy's nominal GDP, observed and forecast in the 2008-2023 period (it should be noted that, in consideration of the impairment made in the previous financial statements, no goodwill is allocated to the International Subsidiary Banks, Bank of Alexandria and Pravex Bank CGUs; consequently, it is not necessary to calculate the "g" rate for the purpose of the goodwill test for the foreign countries where the Group operates). Nominal GDP is the sum of the real GDP growth rate and the inflation rate. Each component has been calculated as the average for the period 2008-2023.
The decision made in terms of observation period for the growth rates, considering the current particular macroeconomic situation, calls for specific consideration.
Real GDP dynamics in recent years were negative or only marginally positive due to the economic-financial crisis. A turnaround from the current scenario of macroeconomic crisis took place already in 2015, which is very gradually resulting in a process of growth. In order to consider both the entire period of crisis experienced, beginning in 2008, and the prospects of an economic recovery beginning in 2015, the growth rate for estimating terminal value was calculated as the average GDP rates for the 2008-2023 period, inasmuch as this period was deemed sufficiently extensive to include, and thus average, a period of severe crisis and a prospective period of a return to a scenario of economic growth.

In short, the reference period is characterised by logics of prudence since it considers, on the one side, the financial crisis beginning in 2008 and, on the other, the expectation of economic growth until 2023.
In particular for the CGUs that show intangibles with an indefinite life on the balance sheet date, and therefore to be subject to an impairment test, the "g" rate was determined with reference to Italy, since the country of operation of these CGUs (Banca dei Territori, Insurance, Asset Management, Private Banking) is mainly Italy.
Expected real GDP and inflation figures used to calculate "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above.
Furthermore, with a prudential approach, it was checked that the “g” rate was not higher than Italy’s GDP growth rate in 2023 or, for each CGU, the growth rate of the last year of analytical forecasting.

Cash flow discounting rates
For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present market valuations, the time value of money and the asset’s specific risks.
In practice, the first characteristic (current market conditions) translates into the calculation of all parameters based on the latest available information as at the reference date of the estimate, so as to best take into account the current market assessments. The second characteristic (consistency between risks/flows and rates) must follow the specificity of flows used for impairment testing of the CGUs. This rate (in its various components) must therefore be decided by observing the specific nature of flows used to assess each CGU, in order to maintain coherence and consistency with the flows. Specifically, consistency becomes important with regard to inflation, country risk and other risk factors that, according to IAS 36, may be expressed in the flows or rate. It is important to point out that a characteristic common to all CGUs recording goodwill (and, in general, intangibles with an indefinite life) is the long-term perspective of flows used to estimate the CGU’s value in use. In fact, by its very nature, goodwill has an indefinite useful life, and therefore future cash flows are normally infinitely projectable.
This long-term perspective should be reflected in all discounting rate benchmarks by means of the appropriate selection of each, in such a way that they express normalised conditions in the long term.
The discounting rate should normally include the cost of the various sources of funding of the asset to be assessed, in other words the equity cost and debt cost (i.e. WACC, weighted average capital cost). However, in the case of a banking entity, it is estimated according to an equity-side approach, that is to say by considering only the cost of equity capital (Ke), in a manner consistent with the methods for determining cash flows, which, as stated above, include those deriving from financial assets and liabilities.
The cost of capital is determined using the Capital Asset Pricing Model (CAPM). Based on this model, the cost of capital is calculated as the sum of risk-free rate and a risk premium, in turn dependent on the specific risks implicit in the business activities (i.e. both business segment risk and country risk).
The cost of capital is determined net of taxes, in order to ensure consistency with the discounted cash flows.
As the various CGUs of the Intesa Sanpaolo Group operate in different business segments and with different risk factors, the specific costs of capital of each CGU were identified.
It should be noted that, since cash flows were determined in nominal terms, discounting rates were also determined in nominal terms, meaning that they incorporate inflation expectations.
Entering into the details of the various components that contribute to the determination of discounting rates, it may be remarked that:

- in regard to the risk-free component and the country risk premium (CRP), reference was made to the current extremely low values with respect to the general interest rate scenario. Although the level of interest rates is not expected to increase significantly (at least in the short/medium-term), it is in any case appropriate to reflect on whether the current situation may or may not reasonably be expected to last beyond the so-called “explicit period” of forecasting of the financial flows for the assessments regarding the impairment tests. In fact, as is common knowledge, terminal value, calculated as the perpetual return of cash flows "at full capacity" after the forecast period, is an important component to calculate the value of the CGUs: in this sense the reflection must focus on the analysis of the current macroeconomic context, to check whether the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated in the discount rate of the flow implied in the terminal value, according to a long-term calculation logic, such as the one underlying the impairment test process. Based on the situation described above, the currently low level of interest rates (especially in the risk-free component), heavily affected by the monetary policies of the ECB, will unlikely persist beyond the medium term; therefore, considering the aforementioned long-term prospect that must guide the impairment test, for the 2018 Financial Statements it was deemed appropriate to adopt an approach consistent with the previous Financial Statements, involving the use of differentiated discount rates for the discounting of the cash flows of the CGUs:
  - concerning the risk-free component included in the discounting rate of the cash flows of the explicit forecasting horizon, a decision was made to use the average monthly return (December 2018) of the 10-year German Government bonds (Bund);
  - concerning the risk-free component included in the discounting rate of the cash flow of the terminal value (cash flow projectable beyond the period of explicit forecasting), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast in 2023, which is the last year of flow forecast period, internally estimated based on the medium-term forecast scenario mentioned previously. The macro-economic forecasts considered, with reference to interest rates, estimate in 2023 a return to conditions that, though not yet “normalised”, can in any event be projected for the purpose of the terminal value, according to the long-term logic underlying the impairment test.

  In line with the above, also for the CRP a methodology was considered that envisages the use of differentiated values. In addition, it should be noted that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy - the “country risk” essentially coincides with the “Italy risk”. The CRP, therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2018 Financial Statements, was calculated as follows:
  - concerning the CRP included in the discount rate of the financial flows of the explicit forecast time period, the average BTP-Bund spread of December 2018 was considered;

- concerning the CRP included in the discount rate of the financial flows of the terminal value, the average annual BTP-Bund spread estimated in 2023 was considered, based on the medium-term forecast scenario mentioned previously;

Therefore, for the purposes of terminal value, risk-free rates and country-risk spreads 130 bps higher than the current values at year-end overall were prudentially considered.

– the equity risk premium – represented by the difference between stock market yield and the Return on Investment on risk-free securities determined in reference to a sufficiently wide time horizon – was calculated on the basis of historical data, given its higher degree of reliability and visibility and also in the light of the current macroeconomic context, which reflects particularly volatile stock market prices not always representative of economic "fundamentals," while also creating a framework of uncertainty within which it is difficult to formulate reliable forecasts of results in order to estimate the equity risk premium implicit in stock market quotations. Specifically, the geometric mean for the equity risk premium was used, recorded on the US market for the period 1928-2018, adjusted for the differential between the US inflation rate and the German inflation rate (the market used as the basis for risk-free calculation);
– the Beta coefficient, which measures the specific degree of risk of an individual company or business sector, was calculated by identifying a sample of companies, comparable in business terms, for each CGU, and with reference to this sample the average or median Beta figure used was that recorded on a monthly basis over a five-year period;

Summary of growth rates and discounting rates used

The following table presents a summary, for each CGU subject to impairment test, of the parameters relevant to determining value in use: weighted average 2019-2023 growth rates, the "g" growth rates for terminal value purposes, the various discounting rates and inflation rates.

RATES/PARAMETERS CGU	Nominal growth rates for impairment test (2019-2023)	NOMINAL DISCOUNTING RATES				LONG-TERM "G" GROWTH RATES		INFLATION RATES
		2018 flows	2018 Terminal Value	2017 flows	2017 Terminal Value	2018	2017	2018
CGU subject to impairment test								
Banca dei Territori	48.38%	10.02%	11.37%	9.40%	10.62%	1.46%	1.50%	1.46%
Insurance	14.27%	7.65%	9.00%	7.01%	8.23%	1.46%	1.50%	1.46%
Asset Management	8.53%	8.24%	9.59%	7.76%	8.98%	1.46%	1.50%	1.46%
Private Banking	12.65%	8.17%	9.52%	7.38%	8.59%	1.46%	1.50%	1.46%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(1) For the purpose of impairment testing the goodwill allocated to the Autostrade Lombarde CGU, reference was made to the fair value, not the value in use.

Impairment testing results

The outcomes of the impairment test showed how, as at 31 December 2018, the values in use (or the fair value for Autostrade Lombarde) of each of the CGUs that feature intangible assets with an indefinite life were higher than the respective book values. Thus, it was not necessary to proceed to any impairment of the goodwill or brand names allocated.
It is specified that, for the sake of completeness of the analysis, the value in use was calculated also for the CGUs to which intangible assets with an indefinite life are no longer allocated, as they are written down in the previous financial statements. The Group's total value in use was confirmed to be greater than the sum of the carrying amounts of the individual CGUs.

Based on its market valuation, the Group's value in use is higher than its market capitalisation. The price of Intesa Sanpaolo ordinary share as at 28 December 2018 (1.94 euro), was down compared to the values measured at the end of the previous year (about -30%). The performance of the price of Intesa Sanpaolo stock in 2018 moved in line with that of the Italian banking securities index, while it performed worse than the FTSE MIB index during the same period (around -16%). 2018 was a particularly difficult year for the financial markets, dominated by uncertainty and high volatility. At global level, the main causes include: the fears of a slowdown in global economic growth, the gradual raising of interest rates by the US Federal Reserve and the "trade war" between the United States and China. In Italy, following expansion in the first half, in the second half of the year stock prices were influenced by the strong political tensions and uncertainties connected with investors' expectations regarding the Italian government's approach to economic and financial policy. The complexity of relations with the European Union - linked to the definition of the new fiscal package and public finance targets - generated tension on government bonds in Italy which was also reflected in a worsening of Italy's credit rating by the rating agencies. Yields on government bonds increased, even for shorter maturities. Following significant fluctuations, the risk premium began to grow once again and the spread between Italian and German government bonds stood at over 300 basis points in mid-October. Despite the fact that since the beginning of 2018 income and equity conditions of bank have significantly improved, both stock prices and risk premiums on bonds in the banking sector have been impacted by the uncertainties in the Italian financial market.
Thus, the price of the Intesa Sanpaolo stock continues to be affected by the national macroeconomic framework and the endogenous conditions of the Italian financial market, specifically those of bank securities, and, therefore, is impacted by factors that are extraneous to the performance of the business policies set up by the Group. It is expected that these difficulties, which were partially eliminated in the last part of 2018, may fully disappear within a reasonably short period of time

and that the market will then resume valuation of individual financial institutions according to their fundamentals and individual performances.
The target price estimates, published in December 2018 and early January 2019 by investment firms and financial analysts assigned to the Intesa Sanpaolo Group, are currently concentrated around 2.59 euro on average, with maximum values of up to 3.05 euro. Compared to the end of 2017, the target prices are down by approximately 20%.
In any event, it bears observing that valuations expressed by financial analysts have different characteristics from the "fundamental" assessment represented by value in use.
The following may be observed regarding the valuations expressed by financial analysts:

- the prospective income flows forecast by analysts extend to 2021 and, compared to the estimates generated within the Group, are substantially in line;
- the cost of the capital used (in not particularly frequent cases, where this parameter is explicitly stated) is often determined in overall terms at Group level; the cost of capital of Intesa Sanpaolo used to discount the flow of the terminal value falls within the range identified by the analysts;
- the growth rates used for the purposes of terminal value, where explicitly stated, were substantially in line with those used in impairment testing;
- similarly to the observations made for the impairment test of the 2017 Financial Statements, from the methodological standpoint, use was often made of multiples (in terms of P/E or ROE) applied to current market quotations or expected profitability for the coming years; these are thus methods that provide a fair value, rather than a long-term value in use.

It bears observing that the valuations in question were intended for financial investors and thus aimed to determine prices and values in the short term. These valuations represent the value potentially obtainable from sale on the market of limited amounts of securities, i.e. the disposal of a minority interest, and are therefore closely pegged to prices and to current market conditions. Conversely, the value in use is based on the consideration that the value of an asset is a direct expression of the cash flows it is able to generate throughout the period of its use. This value is thus also based on the internal expectations of the company, as opposed to market valuations, which are instead based on the short-term expectations of the market itself.

Finally, it is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, value in use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 130 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the "g" growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. If, in the future, the macroeconomic scenario should deteriorate with respect to the assumptions, this would have effects on the estimate of the various CGUs' cash flows and on the main assumptions adopted, which could yield results in the financial statements of the coming years different from those outlined in these Financial Statements.

Sensitivity analyses
Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IAS/IFRS.
In particular, for CGUs that present residual values of intangibles with indefinite useful lives, the impact on the value in use of an increase of up to 50 bps in discounting rates and a decrease of up to 50 bps in the growth rate for terminal value purposes was verified. In addition, analyses were conducted of changes in the value in use resulting from a decrease in the cash flows used for terminal value purposes. No events of impairment would emerge in any of the CGUs tested, even in the event of an increase in discounting rates of 50 bps, or a decrease in the "g" rate of 50 bps or a decrease in the terminal value cash flow of 10%.

The table below illustrates the sensitivity (in percentage terms) of the value in use of the CGUs that present residual intangible assets with indefinite useful lives to changes in the "g" rate or discounting rate of -/+10 basis points, as well as a reduction in the cash flows used for terminal value purposes of 10%.

Sensitivity	CHANGE IN VALUE IN USE		
CGU	Sensitivity to growth rate "g" - 10 bps	Sensitivity to discount rate + 10 bps	Sensitivity to Terminal value cash flows - 10%
Banca dei Territori	-0.78%	-1.06%	-7.13%
Insurance	-0.99%	-1.27%	-7.01%
Asset Management	-0.89%	-1.16%	-6.79%
Private Banking	-0.92%	-1.20%	-6.99%
Autostrade Lombarde (1)	n.a.	n.a.	n.a.

(1) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, but rather, on the fair value of the company defined for the purpose of determining the purchase price pursuant to IFRS 3.

Based on the table above, changes in discount rates (increasing) or growth rates (decreasing) within 10 bps would lead to a general decrease in the values in use ranging between 0.78% and 1.27%. Regarding the financial flow considered for the purpose of the Terminal value, a 10% decrease of the same would lead to reductions in the Values in use ranging between 6.79% and 7.13%.

Still considering stress testing, analyses were performed with the aim of determining the limits for the main inputs, beyond which impairment testing of the CGUs would require the recognition of impairment. The following table presents the "g" growth rates and discounting rates for each CGU that would result in a value in use in line with its carrying amounts, assuming equal cash flows to be discounted.

Sensitivity	"g" growth rate	Difference compared to the "g" rate used	TV discounting rate	Difference compared to the Ke discounting rate used
CGU				
Banca dei Territori	-0.08%	-153 bps	12.54%	117 bps
Insurance	-12.29%	-1.374 bps	18.42%	942 bps
Asset Management (1)	n.a	n.a	n.a	n.a
Private Banking (1)	n.a	n.a	n.a	n.a
Autostrade Lombarde (2)	n.a	n.a	n.a	n.a

(1) For the Asset Management and Private Banking CGUs, the flows discounted over the explicit forecasting horizon are substantially already higher than the carrying amounts. As a result, the sensitivity analysis of the parameters that modify the discounted Terminal Value, if cash flows remain equal, is not applicable, as there would never be a reduction in the Terminal Value that would lead to the value in use of the CGU at values near the carrying amount.

(2) The recoverable amount of the Autostrade Lombarde CGU was not determined based on its value in use, but rather, on the fair value of the company defined for the purpose of determining the purchase price pursuant to IFRS 3.

As shown by the data contained in the table, the values in use of the CGUs would reduce until the book values, with consequent impairment problems, only in correspondence with the significant worsening of the discounting rates (Ke) and the "g" growth rates.

SECTION 11 – TAX ASSETS AND LIABILITIES – CAPTION 110 OF ASSETS AND CAPTION 60 OF LIABILITIES

11.1 Deferred tax assets: breakdown

Deferred tax assets, recognised with regard to deductible temporary differences, totalled 13,933 million euro, of which 12,696 million euro refers to taxes recorded through profit or loss and 1.237 million euro to taxes with a balancing entry under shareholders' equity.

The first of these amounts refers to losses brought forward, to the portion of tax benefits not offset in relation to adjustments to loans and provisions for risks and charges deductible in future years, and to the benefit from realignment of the taxable value of goodwill, trademarks and other intangible assets pursuant to Article 15, par. 10, 10-bis and 10-ter of Law Decree 185/2008. Deferred tax assets recorded as a balancing entry under shareholders' equity almost exclusively refer to tax on negative valuation reserves for financial assets measured at fair value through other comprehensive income, to the cash flow hedges and to recognition of actuarial losses on personnel funds.

11.2 Deferred tax liabilities: breakdown

Deferred tax liabilities amounted to 2,270 million euro and the balancing entry is mostly in the income statement (1,404 million euro) as well as in shareholders' equity (866 million euro).

11.3 Changes in deferred tax assets (through profit or loss)

(millions of euro)

	31.12.2018	Of which:			31.12.2017
		Banking group	Insurance companies	Other companies	
1. Initial amount	**12,261**	***11,916***	***330***	***15***	**10,037**
2. Increases	**1,745**	***1,707***	***30***	***8***	**3,818**
2.1 Deferred tax assets recognised in the period	454	*423*	*28*	*3*	1,513
a) related to previous years	*28*	*28*	*-*	*-*	*23*
b) due to changes in accounting criteria	*-*	*-*	*-*	*-*	*5*
c) value recoveries	*-*	*-*	*-*	*-*	*-*
d) other	*426*	*395*	*28*	*3*	*1,485*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	1,291	*1,284*	*2*	*5*	309
2.4 Business combinations	-	-	-	-	1,996
3. Decreases	**-1,310**	***-1,277***	***-33***	**-**	**-1,594**
3.1 Deferred tax assets eliminated in the period	-689	*-656*	*-33*	-	-1,154
a) reversals	*-567*	*-565*	*-2*	-	*-966*
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-122*	*-91*	*-31*	-	*-188*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-621	*-621*	-	-	-440
a) changes into tax credits pursuant to Law no. 214/2011	*-440*	*-440*	-	-	*-19*
b) other	*-181*	*-181*	-	-	*-421*
3.4 Business combinations	-	-	-	-	-
4. Final amount	**12,696**	***12,346***	***327***	***23***	**12,261**

"Other increases," pursuant to point 2.3: as a result of the 2019 Budget Act (Law 145 of 30 December 2018) – which provided for the deduction in instalments over ten tax periods of adjustments to loans to customers made on first-time adoption of IFRS 9 – in the final quarter of the year the amount of current tax, equal to 1,131 million euro, was transferred to deferred tax assets and it also became possible to recognise additional ineligible IRAP DTAs of 140 million euro arising from the greater recoverability of the IRAP resulting from the deduction in instalments.

Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities. Other decreases a) changes into tax credits pursuant to Law 214/2011 refer to the conversion into tax credits, pursuant to Law no. 214/2011 of deferred tax assets deriving from Adjustments to loans deductible in future years and those relating to Goodwill, trademarks and other intangibles already recognised in the financial statements as at 31 December 2014, as also shown in the following detail table. These changes can take place in the presence of statutory tax losses, for an amount equal to the product of the loss for the year recognised in the financial statements of the previous year of the consolidated companies and the ratio of deferred tax assets to the sum of share capital and reserves resulting from the aforementioned financial statements, or with reference to the deferred tax assets recognised in the financial statements of the previous year of the consolidated companies relating to the same type of negative components for the portion of these that contributed to tax losses or negative net production values, deemed significant for IRES and IRAP purposes, respectively.

11.4 Changes in deferred tax assets pursuant to Law 214/2011

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Initial amount	**8,746**	**8,491**
2. Increases	**-**	**931**
3. Decreases	**-465**	**-676**
3.1 Reversals	-	-505
3.2 Changes into tax credits	-440	-19
a) from losses for the year	*-23*	*-19*
b) from fiscal losses	*-417*	-
3.3 Other decreases	-25	-152
4. Final amount	**8,281**	**8,746**

11.5 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

	31.12.2018	Of which:			31.12.2017
		Banking group	*Insurance companies*	*Other companies*	
1. Initial amount	**1,143**	***822***	***297***	***24***	**1,107**
2. Increases	**613**	***463***	***150***	**-**	**743**
2.1 Deferred tax liabilities recognised in the period	294	*154*	*140*	-	243
a) related to previous years	-	-	-	-	*36*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*294*	*154*	*140*	-	*207*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	319	*309*	*10*	-	232
2.4 Business combinations	-	-	-	-	268
3. Decreases	**-352**	***-330***	***-22***	**-**	**-707**
3.1 Deferred tax liabilities eliminated in the period	-65	*-51*	*-14*	-	-171
a) reversals	*-22*	*-21*	*-1*	-	*-94*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*-43*	*-30*	*-13*	-	*-77*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-287	*-279*	*-8*	-	-536
3.4 Business combinations	-	-	-	-	-
4. Final amount	**1,404**	***955***	***425***	***24***	**1,143**

Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous year. Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

11.6 Changes in deferred tax assets (recorded in equity)

(millions of euro)

	31.12.2018	Of which:			31.12.2017
		Banking group	*Insurance companies*	*Other companies*	
1. Initial amount	**938**	***847***	***91***	**-**	**1,094**
2. Increases	**615**	***409***	***13***	***193***	**163**
2.1 Deferred tax assets recognised in the period	613	*407*	*13*	*193*	148
a) related to previous years	-	-	-	-	-
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*613*	*407*	*13*	*193*	*148*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	2	*2*	-	-	15
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-316**	***-253***	***-63***	**-**	**-319**
3.1 Deferred tax assets eliminated in the period	-274	*-211*	*-63*	-	-318
a) reversals	*-258*	*-196*	*-62*	-	*-312*
b) write-offs	-	-	-	-	-
c) due to changes in accounting criteria	-	-	-	-	-
d) other	*-16*	*-15*	*-1*	-	*-6*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-42	*-42*	-	-	-1
3.4 Business combinations	-	-	-	-	-
4. Final amount	**1,237**	***1,003***	***41***	***193***	**938**

11.7 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

	31.12.2018	Of which:			31.12.2017
		Banking group	*Insurance companies*	*Other companies*	
1. Initial amount	**1,002**	***727***	***275***	**-**	**434**
2. Increases	**282**	***200***	***7***	***75***	**672**
2.1 Deferred tax liabilities recognised in the period	208	*133*	-	*75*	100
a) related to previous years	*1*	*1*	-	-	-
b) due to changes in accounting criteria	-	-	-	-	*30*
c) other	*207*	*132*	-	*75*	*70*
2.2 New taxes or tax rate increases	-	-	-	-	-
2.3 Other increases	74	*67*	*7*	-	572
2.4 Business combinations	-	-	-	-	-
3. Decreases	**-418**	***-172***	***-246***	**-**	**-104**
3.1 Deferred tax liabilities eliminated in the period	-378	*-133*	*-245*	-	-97
a) reversals	*-181*	*-107*	*-74*	-	*-32*
b) due to changes in accounting criteria	-	-	-	-	-
c) other	*-197*	*-26*	*-171*	-	*-65*
3.2 Tax rate reductions	-	-	-	-	-
3.3 Other decreases	-40	*-39*	*-1*	-	*-7*
3.4 Business combinations	-	-	-	-	-
4. Final amount	866	*755*	*36*	*75*	1,002

Probability test on deferred taxation

IAS 12 requires for tax assets and liabilities to be recognised according to the following criteria:

- a deferred tax liability must be recognised for all taxable temporary differences;
- a deferred tax asset must be recognised for all deductible temporary differences to the extent that it is probable that taxable income will be earned that can offset the deductible temporary differences. Deferred tax assets not recognised in the past - inasmuch as the conditions for their recognition were not met - must be recognised during the year in which those conditions arise.

The book value of deferred tax assets must therefore be tested each year to determine whether it is reasonably certain that taxable income will be earned in the future that will ensure their recovery.

Given the amount of deferred tax assets carried among the Group's assets, including in the 2018 Financial Statements, an analysis was conducted to verify projections of future profitability sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carrying them (a procedure known as a "probability test").

The probability test on the deferred tax assets carried in the 2018 Financial Statements was conducted separately, due to the different conditions of use of the underlying temporary differences, for the following cases:

a) deferred tax assets recognised in relations to tax losses of Veneto Banca and Banca Popolare di Vicenza ("Banche Venete") and their subsidiaries Banca Nuova and Banca Apulia, which can only be used on an individual basis by Intesa Sanpaolo;
b) deferred tax assets recognised for tax losses of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI);
c) other deferred tax assets triggered by deductible temporary differences for IRES tax purposes, arising at the Group's Italian companies, on the assumption that these companies almost fully participate in the national fiscal consolidation ("Other deferred tax assets - IRES");
d) deferred tax assets triggered by deductible temporary differences for IRAP tax purposes ("Deferred tax assets - IRAP").

The probability test on the deferred tax assets relating to the tax losses of the Venetian Banks and their subsidiaries – equal to 1,288 million euro (of which 1,120 million euro equal to the base IRES tax rate of 24% and 168 million euro to the additional IRES tax rate of 3.5%), which are added to an additional 148 million euro in tax losses generated, only for the purposes of additional IRES, by Intesa Sanpaolo and the Group's network banks merged and to be merged (these deferred tax assets were also considered for the purposes of the test) - was conducted considering the individual position of Intesa Sanpaolo.

For the losses of Veneto Banca and Banca Popolare di Vicenza, the possibility of use on an exclusively individual basis by Intesa Sanpaolo derives from the regulations that set out the transfer (Art. 7, paragraph 3 of Law Decree No. 99/2017, converted with modifications by Law No. 121/2017, and Article 15 of Low Decree No. 18/2016) at the time of the purchase of the business units of those banks. For the losses of Banca Nuova (formerly an investee of Banca Popolare di Vicenza) and of Banca Apulia (formerly an investee of Veneto Banca), instead, use on an individual basis depends on the merger of those companies into Intesa Sanpaolo (Banca Nuova has already been merged, with accounting and tax effects from 1 January 2018, while the merger of Banca Apulia is planned, with accounting and tax effects from 1 January 2019).

Based on the forecast income of the Parent Company, which can be taken from the Business Plan for the years up to 2021, deriving from the inertial tracking of the flows of 2021 for 2022 and 2023 (in line with the time horizon considered for the impairment test on goodwill) and estimated for the following years by prudently assuming that gross income will remain steady, equal to that estimated for 2023, total absorption of the deferred tax assets in question could be achieved over a time horizon deemed compatible with the "probability" requirement set out in IAS 12, also considering the Bank's proven forecasting ability.

In the 2018 Financial Statements, deferred tax assets of 61 million euro are also entered, which derive from previous years' tax losses being absorbed (244 million euro as at 31 December 2018) of the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI). The analyses carried out in relation to the income forecasts of the Luxembourg subsidiary confirm the ability of that company to use the losses against which deferred tax assets are recognised.

Nevertheless, in conducting the probability test for the other deferred tax assets for IRES and the deferred tax assets for IRAP carried in the Group's Financial Statements as at 31 December 2018, as in the case of the 2011-2017 Financial Statements, deferred tax assets arising from temporary deductible differences associated with impairment losses on loans (other than those deriving from the first-time adoption of the IFRS 9; see below), as well as goodwill and other intangible assets with indefinite useful lives[11] ("eligible deferred tax assets" and "eligible temporary differences"), if carried in the financial statements within 2014, were considered separately. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of eligible temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011). Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net production value also in relation to IRAP deferred tax assets that pertain to eligible temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above convertibility forms – which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) – provide an additional, supplementary recovery method suited to ensuring the recovery of eligible deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus eligible temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but rather the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to article 2, paragraphs 56-bis and 56-bis.1, of Law Decree 225/2010. The convertibility of deferred tax assets on tax losses and negative net production values that result from eligible temporary differences is therefore a sufficient condition for the recognition of eligible deferred tax assets, excluding them from the area of application of the probability test.

[11] With art. 17 of Law Decree 83 of 27 June 2015, the convertibility into tax credits was excluded (for any reason provided for by Law Decree 225 of 29 December 2010) of the deferred tax assets relating "to the value of the goodwill and the other intangible assets entered for the first time starting from the financial statements relating to the year underway at the date the provision comes into force", i.e. starting from 2015.

An additional limit to the straight convertibility of deferred tax assets was introduced by art. 11 of Law Decree 59 of 3 May 2016, amended by Law Decree 237 of 23 December 2016, which subordinated the transformation into tax credits of the eligible deferred tax assets which were not matched by an actual prepayment of taxes (so-called "type 2 DTA") to the payment of an annual fee, equal to 1.5% of their overall value, for the years 2016-2030. No fee is due for the transformation into tax credits of the eligible deferred tax assets which were matched by an actual prepayment of greater taxes ("type 1 DTA"). Considering that both the deferred tax assets recognised by the Companies that are part of the fiscal consolidation of Intesa Sanpaolo, as well as those included in the Parent Company's financial statements following the acquisition of the business units of the Venetian Banks resulted from "type 1 DTA", the Group is not currently required to pay this fee.

Article 1, paragraphs 1067 and 1068 of the 2019 Budget Act (Law 145 of 30 December 2018) envisage the deductibility (both for IRES and IRAP purposes) over ten tax periods, starting from the one under way as at 31 December 2018, of the adjustments to loans to customers recognised in the financial statements of banks and financial institutions on first-time adoption of the International Financial Reporting Standard IFRS 9. According to that clarified in the Explanatory Report on the Measure, deferred tax assets recognised in financial statements in relation to the deferral of said deduction cannot be converted into tax credits based on the aforementioned provisions of Law Decree no. 225/2010. Therefore, those taxes must be subject to probability testing.

Based on the above, the probability test on other deferred tax assets - IRES was carried out as follows:

a) identifying the "other deferred tax assets - IRES", i.e. those not relating to the tax losses of the Venetian Banks, their subsidiaries and other Group companies and ISPHI, which were subject to a specific test to determine whether they could be recognised in the financial statements (see above);
b) identifying "ineligible" deferred tax assets among other deferred tax assets, as they cannot be converted into tax credits (see above);
c) analysing such ineligible deferred tax assets and deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and by foreseeable recovery timing;
d) forecasting the quantification of future taxable income of the Group - which can be taken from the Business Plan, for the years up to 2021, deriving from the inertial tracking of the flows of 2021 for 2022 and 2023, and estimated for the following years by prudently assuming that gross income will remain steady, equal to that estimated for 2023, for the purpose of verifying the ability to recover the deferred tax assets set forth in point b) above.

The analysis conducted indicated an IRES taxable base that was more than sufficient and adequate to allow recovery of the deferred tax assets relating to IRES carried in the financial statements as at 31 December 2018.

Also for deferred tax assets - IRAP, the probability test was conducted analytically, referring only to the ineligible deferred tax assets (for those that can be converted into tax credits, as stated, the prospective certain use based on the cases of conversion into tax credits set out in paragraphs 56-bis and 56-bis.1 of Art. 2 of Law Decree 225/2010, effectively constitute a sufficient prerequisite for recognition in the financial statements, implicitly passing the related probability test).
The test was conducted by comparing the estimated forecast taxable income for IRAP purposes of Intesa Sanpaolo - which can be taken from the Business Plan, for the years up to 2021, deriving from the inertial tracking of the flows of 2021 for 2022 and 2023, and estimated for the following years by prudently assuming that gross income will remain steady, equal to that estimated for 2023, with the cancelled ineligible temporary changes found as at 31 December 2018 and resulting in the residual IRAP taxable base for each year.
Considering that, for IRAP purposes, different from that set out for IRES tax losses, there is no carrying forward of tax losses or the possibility of offsetting them as part of a consolidation, where in one or more years the residual taxable base is negative, the deferred tax assets - IRAP that can be recognised in the financial statements must be limited to only the amounts of the temporary differences that can be recovered in each year considered.
The calculations performed resulted in a positive residual IRAP taxable base in each of the years included in the reference time horizon of the test.

That specified above shows the positive result of the probability test with regard to the various components of deferred taxation which formed at consolidated level.

For the purpose of completeness, it is noted that the 2019 Budget Act (Law 145 of 30 December 2018) set out new, longer timing for the reversals of eligible DTA, besides providing for deduction in instalments over ten tax periods of adjustments to loans to customers made on first-time adoption of the IFRS 9, resulting in the recognition of new ineligible DTA, of which 140 million euro arising in the last quarter in relation to the greater recoverability of the IRAP resulting from said law.
In particular, the Law provided for: 1) postponing to 2026 the deductions that would otherwise have pertained to 2018 for write-downs and impairment losses on loans to customers made and not deducted in the previous years (Art. 1, paragraphs 1056 and 1065); 2) with regard to amortisation relating to the values of goodwill recognised, (i) deferring from 2018 to 2019 the start of the amortisation process, (ii) extending the process by one year (from ten to eleven years), (iii) redefining the annual percentage deductions (Art. 1, paragraph 1079).
These effects were also considered in the probability tests described above.

SECTION 12 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 120 OF ASSETS AND CAPTION 70 OF LIABILITIES

12.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Non-current assets held for sale		
A.1 Financial assets	939	283
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	355	341
of which: resulting from the enforcement of guarantees	*32*	-
A.4 Intangible assets	-	-
A.5 Other	3	3
Total A	**1,297**	**627**
of which measured at cost	***362***	***348***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***279***
of which Fair value level 3	***935***	***-***
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
of which: resulting from the enforcement of guarantees	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	***-***	***-***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***
C. Liabilities associated with non current assets held for sale		
C.1 Debts	-241	-247
C.2 Securities	-	-
C.3 Other	-17	-17
Total C	**-258**	**-264**
of which measured at cost	***-258***	***-264***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-	-
D.5 Other	-	-
Total D	**-**	**-**
of which measured at cost	***-***	***-***
of which Fair value level 1	***-***	***-***
of which Fair value level 2	***-***	***-***
of which Fair value level 3	***-***	***-***

The caption “Financial assets” is almost fully comprised of high risk loans deriving from the former Venetian banks, for an amount of 612 million euro and non-performing credit exposures subject to disposal, which will be finalised during 2019 for 323 million euro.

12.2 Other information

There is no other significant information to note as at 31 December 2018.

12.3 Information on companies subject to significant influence not carried at shareholders' equity

As at 31 December 2018, there were no investments in companies subject to significant influence not carried at equity and classified as held for sale.

SECTION 13 – OTHER ASSETS – CAPTION 130

13.1 Other assets: breakdown

(millions of euro)

Other	4,677
Amounts due from tax authorities relating to insurance business	2,162
Amounts to be credited and items under processing	1,104
Cheques and other instruments held	530
Amounts to be debited - deriving from securities transactions	216
Transit items	18
TOTAL 31.12.2018	**8,707**
TOTAL 31.12.2017	**9,358**

The sub-caption “Other” includes operating loans, i.e. loans for operations granted through the provision of non-financial activities and services, for an amount of 87 million euro (in line with the balance as at 31 December 2017).

The sub-caption “Other” includes assets for costs incurred to obtain and execute contracts, for an amount of 268 million euro, mainly referring to costs for bonuses capitalised by Banca Fideuram and Intesa Sanpaolo Vita (and, therefore, subject to amortisation over the year for 27 million euro) as they are strictly related to the acquisition and maintenance of the funding.

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

(millions of euro)

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**63,878**	X	X	X	**66,785**	X	X	X
2. Due to banks	**43,937**	X	X	X	**33,204**	X	X	X
2.1 Current accounts and on demand deposits	4,862	X	X	X	6,142	X	X	X
2.2 Time deposits	2,463	X	X	X	2,812	X	X	X
2.3 Loans	33,659	X	X	X	21,391	X	X	X
2.3.1 Repurchase agreements	*25,607*	*X*	*X*	*X*	*14,156*	*X*	*X*	*X*
2.3.2 Other	*8,052*	*X*	*X*	*X*	*7,235*	*X*	*X*	*X*
2.4 Debts for commitments to repurchase own equity instruments	172	X	X	X	164	X	X	X
2.5 Other debts	2,781	X	X	X	2,695	X	X	X
Total	**107,815**	**-**	**96,594**	**11,291**	**99,989**	**-**	**88,475**	**11,556**

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E.2.
The amount under Debts for commitments to repurchase own equity instruments refers to put options sold with minority stakes of fully consolidated equity investments as underlying asset, attributable to the Put & Call Agreement to purchase 9.75% of Bank of Alexandria for a total of approximately 172 million euro.

The repurchase agreements presented in the table include long-term repurchase transactions with a total carrying amount of 662 million euro, related to the various cases described below.
The first case relating to Banca Fideuram, for a carrying amount of 455 million euro, involves de-risking transactions finalised in previous years with the twofold aim of both funding the bank's operations (through repurchase transactions) and reducing the credit risks associated with the portfolio of securities issued (through the acquisition of financial guarantees).
The transactions have a non-replaceable underlying portfolio of Italian government securities (with maturities from 2019 to 2033) hedged against interest rate risk through IRS contracts and against credit risk through CDS contracts, already recorded in the financial statements at the time of execution of the repurchase transactions and recognised under financial assets measured at amortised cost. The nominal value and the maturity date are the same as that of the securities.
The second case relates to Banca IMI, for a carrying amount of 207 million euro, and concerns medium/long-term repurchase transactions concluded in previous years aimed at financing transactions for the purchase of Italian government bonds (with short-term maturities) hedged against interest and exchange rate risk through CCS contracts.
This form of medium-/long-term funding has allowed the Bank to obtain a better net return on its investments in securities than it would have obtained by raising funds through other forms of financing with the same time horizon but not collateralised by the same guarantee structure.
For recognition purposes, an assessment was conducted aimed at understanding the purpose underlying the contractual agreements, taking into account the instructions provided by the supervisory authorities in Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013, "Accounting treatment of 'long-term structured repurchase agreements'."
The analysis focused on the structure, cash flows and risks associated with the transactions and was aimed at verifying whether the cases described above were similar to the long-term structured repurchase agreements described in the above Document, and, in order to be compliant with the principle of the prevalence of substance over form, whether the indicators referred in paragraph B.6 of the Guidance on Implementing IFRS 9, according to which the transaction may be considered substantially similar to a credit derivative contract, and, in particular, a credit default swap, were present.
With respect to the first case, the repurchase agreements were not concurrent with the purchases of the securities and execution of the interest rate swaps, inasmuch as the securities and derivative instruments were already present in the portfolio. In addition, buying securities and entering into derivatives occurred with market counterparties other than those with which the repurchase agreements were entered into. The credit risk was also closed with financial guarantees.

With respect to the second case, although the repurchase agreements were concurrent with the purchases of the securities and execution of the interest rate swaps, those agreements were entered into with different counterparties and on shorter maturities than those of the securities.
Consequently, in both cases the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document, supporting the inapplicability of the guidelines provided in paragraph B.6 of the Guidance on Implementing IFRS 9. All the transactions pertaining to the cases described above have therefore been recognised, considering the individual contractual components separately.

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

(millions of euro)

Transaction type/ Group members	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	**267,889**	**X**	**X**	**X**	**258,137**	**X**	**X**	**X**
2. Time deposits	**22,698**	**X**	**X**	**X**	**30,498**	**X**	**X**	**X**
3. Loans	**26,287**	**X**	**X**	**X**	**25,208**	**X**	**X**	**X**
3.1 Repurchase agreements	24,105	X	X	X	21,303	X	X	X
3.2 Other	2,182	X	X	X	3,905	X	X	X
4. Debts for commitments to repurchase own equity instruments	**15**	**X**	**X**	**X**	**49**	**X**	**X**	**X**
5. Other debts	**7,011**	**X**	**X**	**X**	**9,494**	**X**	**X**	**X**
Total	**323,900**	**-**	**306,618**	**17,222**	**323,386**	**-**	**295,471**	**28,202**

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

(millions of euro)

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	73,269	40,683	31,843	33	82,317	52,550	29,738	2,318
1.1 structured	*2,727*	*1,210*	*1,382*	*33*	*3,687*	*1,798*	*1,733*	*150*
1.2 other	*70,542*	*39,473*	*30,461*	*-*	*78,630*	*50,752*	*28,005*	*2,168*
2. other	8,791	-	6,752	1,876	10,668	-	9,386	1,282
2.1 structured	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
2.2 other	*8,791*	*-*	*6,752*	*1,876*	*10,668*	*-*	*9,386*	*1,282*
Total	**82,060**	**40,683**	**38,595**	**1,909**	**92,985**	**52,550**	**39,124**	**3,600**

1.4 Details of subordinated debts/securities

There were no subordinated debts with banks and customers as at 31 December 2018.
As at the reporting date, subordinated securities issued amounted to 10,873 million euro, attributable entirely to the Parent Company.

1.5 Details of structured debts

There are no structured debts as at 31 December 2018.

1.6 Finance lease payables

As at 31 December 2018, there finance lease payables for a non-material amount.

SECTION 1 BIS - FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES MEASURED AT AMORTISED COST PURSUANT TO IAS 39 - CAPTION 15

The breakdown of the IAS 39 captions included in caption 15 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular 262, "Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39" was created, which comprises the captions set out in the table below:

Breakdown of caption Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 - Caption 15	31.12.2018	31.12.2017
10. Due to banks	4	1
20. Due to customers	68	57
30. Securities issued	738	1,254
TOTAL Caption 15	**810**	**1,312**

1.1 Bis Due to banks: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018	31.12.2017
1. Due to central banks	**-**	**-**
2. Due to banks	**4**	**-**
2.1 Current accounts and deposits	-	-
2.2 Time deposits	-	-
2.3 Loans	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Debts for commitments to repurchase own equity instruments	-	-
2.5 Other debts	4	1
TOTAL (Book value)	**4**	**1**
Fair value - level 1	**-**	**-**
Fair value - level 2	**4**	**1**
Fair value - level 3	**-**	**-**
Total Fair value	**4**	**1**

1.2 Bis Breakdown of "Due to banks": subordinated debts

There were no subordinated debts pertaining to Insurance Companies as at 31 December 2018.

1.3 Bis Breakdown of "Due to banks": structured debts

There were no structured debts pertaining to Insurance Companies as at 31 December 2018.

1.4 Bis Due to banks subject to microhedging

There were no structured debts due to banks subject to microhedging pertaining to Insurance Companies as at 31 December 2018.

1.5 Bis Finance lease payables

There were no finance lease payables pertaining to Insurance Companies as at 31 December 2018.

1.6 Bis Due to customers: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018	31.12.2017
1.Current accounts and deposits	-	-
2 Time deposits	-	-
3. Loans	-	-
3.1 Repurchase agreements	-	-
3.2 Other	-	-
4. Debts for commitments to repurchase own equity instruments	-	-
5. Other debts	68	57
Total (Book value)	**68**	**57**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**67**	**58**
Total Fair Value	**67**	**58**

1.7 Bis Breakdown of "Due to customers": subordinated debts

There were no subordinated debts due to customers pertaining to Insurance Companies as at 31 December 2018.

1.8 Bis Breakdown of "Due to customers": structured debts

There were no structured debts due to customers pertaining to Insurance Companies as at 31 December 2018.

1.9 Bis Due to customers subject to microhedging

There were no amounts due to customers subject to microhedging pertaining to Insurance Companies as at 31 December 2018.

1.10 Bis Finance lease payables

There were no finance lease payables due pertaining to Insurance Companies as at 31 December 2018.

1.11 Bis Securities issued: breakdown

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A.Securities								
1. Bonds	738	-	738	-	1,254	-	1,254	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	*738*	-	*738*	-	*1,254*	-	*1,254*	-
2. Other	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-
Total	**738**	**-**	**738**	**-**	**1,254**	**-**	**1,254**	**-**

1.12 Bis Breakdown of "Securities issued": subordinated securities

As at 31 December 2018, a total of 738 million euro related to insurance companies, fully attributable to level-2 other bonds (fair value 738 million euro), which at the end of 2017 amounted to 1,254 million euro.

1.13 Bis Breakdown of "Securities issued": securities subject to microhedging

There were no Securities issued subject to microhedging pertaining to Insurance Companies.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

2.1 Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018					31.12.2017				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	**2,476**	**2,784**	**17**	**-**	**2,801**	**7,781**	**8,439**	**13**	**-**	**8,453**
2. Due to customers	**2,543**	**2,602**	**12**	**-**	**2,614**	**-**	**-**	**-**	**-**	**-**
3. Debt securities	**6,122**	**4,903**	**726**	**-**	**X**	**4,570**	**4,394**	**75**	**-**	**X**
3.1 Bonds	-	-	-	-	X					X
3.1.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 Other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	6,122	4,903	726	-	X	4,570	4,394	75	-	X
3.2.1 Structured	*6,122*	*4,903*	*726*	-	*X*	*4,570*	*4,394*	*75*	-	*X*
3.2.2 Other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	**11,141**	**10,289**	**755**	**-**	**5,415**	**12,351**	**12,833**	**88**	**-**	**8,453**
B. Derivatives										
1. Financial derivatives	**X**	**4,633**	**25,293**	**141**	**X**	**X**	**2,676**	**24,216**	**130**	**X**
1.1 Trading	X	4,633	25,213	108	X	X	2,676	24,074	88	X
1.2 Fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	80	33	X	X	-	142	42	X
2. Credit derivatives	**X**	**6**	**776**	**2**	**X**	**X**	**8**	**1,265**	**2**	**X**
2.1 Trading	X	6	776	2	X	X	8	1,265	2	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**4,639**	**26,069**	**143**	**X**	**X**	**2,684**	**25,481**	**132**	**X**
Total (A+B)	**11,141**	**14,928**	**26,824**	**143**	**X**	**X**	**15,517**	**25,569**	**132**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E 2.
The changes in fair value recorded during the year were positive by 351 million euro and related entirely to derivatives.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December, the Group did not have any Financial liabilities held for trading: subordinated liabilities.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

The Group has structured debts of 5,701 million euro classified under Financial liabilities held for trading as at 31 December 2018.

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30

3.1 Financial liabilities designated at fair value: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018					31.12.2017				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
2. Due to customers	**4**	**-**	**4**	**-**	**4**	**4**	**-**	**3**	**-**	**3**
2.1 Structured	4	-	4	-	X	4	-	3	-	X
2.2 Other	-	-	-	-	X		-		-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**4**	**-**	**4**	**-**	**4**	**4**	**-**	**3**	**-**	**3**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.
The Bank has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies and life policies connected to social initiatives, managed by the Bank based on fair value, under “amounts due to customers”.

3.2 Breakdown of “Financial liabilities designated at fair value”: subordinated liabilities

As at 31 December 2018, the Group did not have any subordinated liabilities classified under Financial liabilities designated at fair value.

SECTION 3 BIS – FINANCIAL LIABILITIES PERTAINING TO INSURANCE COMPANIES DESIGNATED AT FAIR VALUE PURSUANT TO IAS 39 - CAPTION 35

The breakdown of the IAS 39 captions included in caption 35 of the Balance Sheet Liabilities pertaining to insurance companies is provided below.

In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular 262, "Caption 35 Financial liabilities pertaining to insurance companies designated at fair value pursuant to IAS 39" was created, which comprises the captions set out in the table below:

Breakdown of caption Financial liabilities pertaining to insurance companies designated at fair value pursuant to IAS 39 - Caption 35	31.12.2018	31.12.2017
40. Financial liabilities held for trading	44	67
50. Financial liabilities measured at fair value	67,755	68,166
60. Hedging derivatives	1	-
TOTAL Caption 35	**67,800**	**68,233**

3.1 Bis Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018					31.12.2017				
	Nominal or notional amount	Fair value			Fair value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cashl liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	X	3	41	-	X	X	-	65	-	X
1.1 Trading	X	3	40	-	X	X	-	65	-	X
1.2 Fair value option	X	-	1	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	2	-	X
2.1 Trading	X	-	-	-	X	X	-	2	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	X	3	41	-	X	X	-	67	-	X
Total (A+B)	X	3	41	-	X	X	-	67	-	X

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

3.2 Bis Breakdown of "Financial liabilities held for trading": subordinated liabilities

With regard to the Financial liabilities held for trading: subordinated liabilities, there were no amounts for Insurance Companies as at 31 December 2018.

3.3 Bis Breakdown of "Financial liabilities held for trading": structured debts

With regard to Financial liabilities held for trading: structured debts, no amounts were recorded for Insurance Companies as at 31 December 2018.

3.4 Bis Financial liabilities measured at fair value: breakdown

(millions of euro)

Type of transaction/Values	31.12.2018					31.12.2017				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
2. Due to customers	**67,755**	**-**	**67,755**	**-**	**67,755**	**68,166**	**-**	**68,166**	**-**	**68,118**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	67,755	-	67,755	-	X	68,166	-	68,166	-	X
3. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**67,755**	**-**	**67,755**	**-**	**67,755**	**68,166**	**-**	**68,166**	**-**	**68,118**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

3.5 Bis Breakdown of "Financial liabilities measured at fair value": subordinated liabilities

There are no subordinated liabilities classified under Financial liabilities measured at fair value through profit and loss as at 31 December 2018.

3.6 Bis Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value	31.12.2018		Notional value	Fair value	31.12.2017		Notional value
	Level 1	Level 2	Level 3	31.12.2018	Level 1	Level 2	Level 3	31.12.2017
A) Financial derivatives	**-**	**1**	**-**	**59**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	1	-	59	-	-	-	-
3) foreign investments	-	-	-	-	-	-	-	-
B) Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) fair value	-	-	-	-	-	-	-	-
2) cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1**	**-**	**59**	**-**	**-**	**-**	**-**

3.7 Hedging derivatives: breakdown by hedged portfolio and type of hedge

There were no hedging derivatives for hedged portfolios pertaining to Insurance Companies.

SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

4.1. Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

Captions	Notional value	Fair value	31.12.2018		Notional value	Fair value	31.12.2017	
	31.12.2018	Level 1	Level 2	Level 3	31.12.2017	Level 1	Level 2	Level 3
A) Financial derivatives	**136,980**	**-**	**7,216**	**5**	**111,043**	**-**	**7,484**	**5**
1) Fair value	129,693	-	5,705	5	101,826	-	5,802	5
2) Cash flows	7,287	-	1,511	-	9,217	-	1,682	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**136,980**	**-**	**7,216**	**5**	**111,043**	**-**	**7,484**	**5**

4.2. Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions/Type of hedge	FAIR VALUE							CASH FLOW		FOREIGN INVESTM.
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	543	-	22	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	3,145	X	225	2	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	1,031	X	4	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**3,688**	**-**	**247**	**2**	**-**	**-**	**1,031**	**-**	**4**	**-**
1. Financial liabilities	644	X	98	-	-	-	X	5	X	X
2. Portfolio	X	X	X	X	X	X	-	X	1,502	X
Total liabilities	**644**	**-**	**98**	**-**	**-**	**-**	**-**	**5**	**1,502**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to fair value micro hedges of loans disbursed and cash flow macro hedges of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.

SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50

5.1 Fair value change of hedged liabilities

(millions of euro)

Fair value change of hedged liabilities/Group members	31.12.2018	31.12.2017
1. Positive fair value change of financial liabilities	398	478
2. Negative fair value change of financial liabilities	-	-
Total	**398**	**478**

SECTION 6 – TAX LIABILITIES – CAPTION 60

For information on this section, see Section 11 of Assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70

For information on this section, see Section 12 of Assets.

SECTION 8 – OTHER LIABILITIES – CAPTION 80

8.1 Other liabilities: breakdown

(millions of euro)

Captions	
Other	6,558
Due to tax authorities	1,659
Due to suppliers	1,438
Amounts to be credited and items under processing	1,101
Amounts due to third parties	385
Personnel charges	301
Due to social security entities	203
TOTAL 31.12.2018	**11,645**
TOTAL 31.12.2017	**12,247**

As required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers, which are included under the sub-caption “Other”, amounted to 143 million euro.

SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90

9.1 Employee termination indemnities: annual changes

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Initial amount	**1,410**	**1,403**
B. Increases	**252**	**308**
B.1 Provisions in the year	15	13
B.2 Other	237	295
- of which business combinations	-	*107*
C. Decreases	**-472**	**-301**
C.1 Benefits paid	-182	-83
C.2 Other	-290	-218
- of which business combinations	-2	-
D. Final amount	**1,190**	**1,410**
Total	**1,190**	**1,410**

C.1 refers to benefits paid as at 31 December 2018.
The sub-captions B.2 Other increases and C.2 Other decreases mainly include changes in the employer's share of employee termination indemnities (increases) allocated to INPS and in supplementary pension funds (decreases). The related charges are included in the income statement in table 12.1 under sub-caption c) employee termination indemnities for the portion paid to INPS and under sub-caption g) payments to external pension funds, for the respective portions.

For greater detail on actuarial calculations, see Section 10.5 – Post employment defined benefit plans.

9.2 Other information

The value of employee termination indemnities qualifying as unfunded defined benefit plans totalled 1,190 million euro as at December 2018, while at the end of 2017 it amounted to 1,410 million euro.

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100

10.1 Allowances for risks and charges: breakdown

(millions of euro)

Captions/Components	31.12.2018	31.12.2017
1. Allowances for credit risk associated with commitments and financial guarantees given	**510**	**327**
2. Allowances on other commitments and other guarantees given	**-**	**-**
3. Post-employment benefits	**261**	**1,104**
4. Other allowances for risks and charges	**4,293**	**4,377**
4.1 legal disputes	854	651
4.2 personnel charges	1,709	1,715
4.3 other	1,730	2,011
Total	**5,064**	**5,808**

1 – Post employment benefits include allowances for defined benefit plans, illustrated in point 10.5 below.
The contents of 4 – Other allowances for risks and charges are illustrated in point 10.6 below.

10.2 Allowances for risks and charges: annual changes

(millions of euro)

Captions	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
A. Initial amount	**535**	**1,104**	**4,377**	**6,016**
B. Increases	**204**	**35**	**713**	**952**
B.1 Provisions in the year	149	6	605	760
B.2 Time value changes	-	4	17	21
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other	55	25	91	171
- of which business combinations	-	-	*13*	*13*
C. Decreases	**-229**	**-878**	**-797**	**-1,904**
C.1 Uses in the year	-183	-867	-502	-1,552
C.2 Changes due to discount rate variations	-	-	-2	-2
C.3 Other	-46	-11	-293	-350
- of which business combinations	-	-	*-23*	*-23*
D. Final amount	**510**	**261**	**4,293**	**5,064**

Point A of the Initial amount referring to the caption “Allowances on other commitments and other guarantees given” includes the effect of the transition to the new IFRS 9.

For the Post-employment benefits, the sub-caption C.1 Use during the year, includes around 863 million euro for the disbursements made following acceptance of the Capitalisation Offer for the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino, as further detailed in section 10.5 below.

Other allowances for risks and charges also included the allowances for personnel relating to the charges for voluntary incentive-driven exit plans, seniority bonuses and other charges.

As at 31 December 2018, there were variations amounting to 22 million euro due to changes in the discounting rate.

10.3 Allowances for credit risk associated with commitments and financial guarantees given

(millions of euro)

Captions	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	59	44	42	145
2. Financial guarantees given	27	35	303	365
Total	**86**	**79**	**345**	**510**

10.4 Allowances on other commitments and other guarantees given

As at 31 December 2018, there were no allowances on other commitments and other guarantees given.

10.5 Post-employment defined benefit plans

1. Illustration of the characteristics of the funds and related risks

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 "Employee Benefits", is determined via the "projected unit credit method" by an independent actuary.

The defined benefit plans, in which the companies of the Intesa Sanpaolo Group are co-obliged, can be distinguished in:
- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:
- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service;
- Post-retirement medical plan and other benefits for employees of Bank of Alexandria (Egypt): defined benefit plans providing health coverage and other benefits to employees, even after retirement. The bank is responsible for the costs and risks related to the disbursement of said benefits;
- Defined benefit plans in effect within Banca Intesa Beograd: these are long-term benefits established by the Collective Contract (which refers to provisions of law in the Republic of Serbia) for employees in service to be paid upon termination of employment.

External funds include:
- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino", a fund with legal status, full economic independence and independent asset management;
- Complementary pension fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", an entity with legal status and independent asset management. The fund includes the following: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio in Bologna, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Complementary pension fund for the employees of Banco di Napoli in 2004; retired employees of the Complementary pension fund of the former Fin.Opi, transferred to the Fund in question on 1 June 2005; current and retired employees of Banca Popolare dell'Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell'Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of Cassa di Risparmio di Udine e Pordenone, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Fund in 2006; retired employees of Cassa di Risparmio di Forlì, formerly enrolled in the Complementary pension fund for the employees of said bank, transferred to the Fund in question on 1 January 2007; retired employees of the former Carive internal Fund, transferred to the Fund in question on 1 January 2008; retired employees of the former CR Firenze FIP internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Terni e Narni internal fund, transferred to the Fund in question on 1 January 2010; retired employees of Cassa di Risparmio di Pistoia e Pescia internal fund, transferred to the Fund in question on 1 September 2012; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Pension Fund for key Managers, former Key Managers and entitled parties of

former Comit, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the "Casse del Centro" Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees already formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Cassa di Risparmio di Mirandola, transferred to the Fund in question on 1 April 2016; retired employees formerly enrolled in the Pension Fund for the Personnel of the former Cassa di Risparmio di Prato transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the Defined Benefit Plan of the former Cassa di Risparmio di Fabriano e Cupramontana transferred to the Fund in question on 1 May 2018.
It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;

- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section. This fund has legal status, full economic independence pursuant to article 12 of the Italian Civil Code and is independently managed;
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank's employees in service as at 31 December 1990 and already enrolled in the former "contracted-out" fund.
- Employee pension plan of Intesa Sanpaolo Private Banking (Suisse): the plan provides supplementary benefits when the pension is due or in the event of an unfavourable event (disability and death) based on local social security regulations (LPP); the obligations are covered by dedicated assets, managed through a contractual relationship between the company and Axa Fondation LPP, Winterthur, Suisse romande;
- Defined benefit fund for the employees of Banque Morval SA: this fund provides supplementary benefits when the pension is due or in the event of an unfavourable event (disability and death) based on local social security regulations (LPP). The Fund is a legal entity and, although it is defined as semi-autonomous under the local regulations, its assets are independent.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the "*Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo*", with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was completed in the second half of 2018: the subscriptions received led to a decrease in the obligation of around 1,676 million euro, partly covered by the Pension Fund's assets (around 808 million euro) and partly through the use of Funds set up specifically for this purpose by the co-obligated banks, under the guarantee given (around 868 million euro).

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined to satisfy the pension and profitability objectives as adequately as possible.

2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability is determined by the "projected unit credit method" and is recorded in the balance sheet net of any plan assets. Moreover, with application of the new revised IAS 19 from 1 January 2013, actuarial profits and losses calculated in the valuation process for the plans are immediately recognised in the statement of comprehensive income and, therefore, in shareholders' equity.

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2018			31.12.2017		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**1,410**	**212**	**3,539**	**1,403**	**201**	**3,499**
Current service costs	2	4	6	8	3	27
Recognised past service costs	-	1	-	-	-	-
Interest expense	13	13	23	14	11	59
Actuarial losses due to changes in financial assumptions	1	-	14	9	1	55
Actuarial losses due to changes in demographic assumptions	2	4	-	1	-	6
Actuarial losses based on past experience	-	-	24	2	17	135
Positive exchange differences	-	2	1	-	-	-
Increases - business combinations	-	-	-	-	5	-
Participants' contributions	X	-	1	X	-	-
Actuarial profits due to changes in financial assumptions	-23	-17	-10	-1	-6	-
Actuarial profits due to changes in demographic assumptions	-1	-	-35	-	-3	-11
Actuarial profits based on past experience	-10	-2	-23	-4	-	-40
Negative exchange differences	-	-1	-	-	-10	-3
Benefits paid	-182	-10	-151	-91	-6	-188
Decreases - business combinations	-2	-	-	-	-	-
Curtailments of the fund	X	-	-1,675	X	-	-
Settlements of the fund	X	-6	-	X	-	-
Other increases	234	-	61	282	-	-
Other decreases	-254	-1	-	-213	-1	-
Final amount	**1,190**	**199**	**1,775**	**1,410**	**212**	**3,539**

Liabilities of the defined benefit obligations pension plan	31.12.2018			31.12.2017		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	1,190	2	-	1,410	2	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	197	1,775	-	210	3,539

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average rise of 0.09% for the various maturities, compared to the previous year.

3. Information on the fair value of plan assets

The following tables show the changes in plan assets for certain defined benefit plans and their composition.

(millions of euro)

Plan assets	31.12.2018		31.12.2017	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**118**	**2,558**	**110**	**2,630**
Return on assets net of interest	-7	-59	6	58
Interest income	3	21	3	41
Positive exchange differences	-	1	-	-
Increases - business combinations	-	-	4	-
Employer contributions	6	2	2	-
Participants' contributions	-	1	-	-
Negative exchange differences	-1	-	-4	-3
Decreases - business combinations	-	-	-	-
Benefits paid	-	-151	-3	-188
Curtailments of the fund	-6	-808	-	-
Settlements of the fund	-4	-	-	-
Other changes	-	51	-	20
Final amount	**109**	**1,616**	**118**	**2,558**

(millions of euro)

Plan assets: additional information	31.12.2018				31.12.2017			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**56**	**51.4**	**194**	**12.0**	**60**	**51.0**	**446**	**17.0**
- of which level-1 fair value	56		176		60		422	
Mutual funds	**-**	**-**	**99**	**6.1**	**-**	**-**	**252**	**10.0**
- of which level-1 fair value	-		50		-		244	
Debt securities	**45**	**41.3**	**550**	**34.0**	**46**	**39.0**	**1,160**	**46.0**
- of which level-1 fair value	-		550		46		1,160	
Real estate assets and investments in real estate companies	**8**	**7.3**	**461**	**28.5**	**7**	**6.0**	**511**	**20.0**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**10**	**0.6**	**-**	**-**	**12**	**-**
- of which level-1 fair value	-		-		-		12	
Other assets	**-**	**-**	**302**	**18.8**	**5**	**4.0**	**177**	**7.0**
- of which level-1 fair value	-		-		-		-	
TOTAL ASSETS	**109**	**100.0**	**1,616**	**100.0**	**118**	**100.0**	**2,558**	**100.0**

(millions of euro)

Plan assets: additional information	31.12.2018				31.12.2017			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**56**	**52.0**	**194**	**12.0**	**60**	**51.0**	**446**	**17.0**
- of which financial companies	56		46		60		107	
- of which non financial companies	-		148		-		339	
Mutual funds	**-**	**-**	**99**	**6.0**	**-**	**-**	**252**	**10.0**
Debt securities	**45**	**41.0**	**550**	**34.0**	**46**	**39.0**	**1,160**	**46.0**
Government bonds	45		389		46		848	
- of which investment grade	*45*		*386*		*46*		*845*	
- of which speculative grade	-		*3*		-		*3*	
Financial companies	-		70		-		144	
- of which investment grade	-		*42*		-		*111*	
- of which speculative grade	-		*28*		-		*33*	
Non Financial companies	-		91		-		168	
- of which investment grade	-		*51*		-		*119*	
- of which speculative grade	-		*40*		-		*49*	
Real estate assets and investments in real estate companies	**8**	**7.0**	**461**	**28.0**	**7**	**6.0**	**511**	**20.0**
Insurance business	**-**	**-**	**10**	**1.0**	**-**	**-**	**12**	**-**
Other assets	**-**	**-**	**302**	**19.0**	**5**	**4.0**	**177**	**7.0**
TOTAL ASSETS	**109**	**100.0**	**1,616**	**100.0**	**118**	**100.0**	**2,558**	**100.0**

The difference between net defined benefit liabilities (Table 10.5.2) and the plan assets (Table 10.5.3) is recognised under the post-employment plans and, in some cases, under other allowances for risks and charges.

4. Description of the main actuarial assumptions

The table below indicates the actuarial assumptions and interest rates used by the various funds.

Actuarial assumptions	31.12.2018				31.12.2017			
	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate	Discount rates	Expected rate of return	Expected rates of wage rises	Annual inflation rate
EMPLOYEE TERMINATION INDEMNITIES	1.07-2.33%	X	2.67-2.85%	0.0%	0.85-2.95%	X	2.62-2.82%	1.5%
INTERNAL PLANS								
- of which Italy	-	-	-	-	0.7-0.8%	-	1.9%	1.5%
- of which Egypt	16.0%	-	8.5%	8.5%	15.0%	-	9.0%	9.0%
- of which England	2.9%	-	2.2%	2.2%	2.2%	-	2.2%	2.2%
- of which Serbia	4.0%	-	4.3%	0.0%	0.0%	-	3.6%	-
EXTERNAL PLANS								
- of which Italy	1-1.6%	2.8-2.9%	2.6-2.7%	1-1.5%	0.9-1.91%	1.9-5%	2.4-2.6%	0.9-1.5%
- of which USA	4.0%	4.0%	-	-	3.5%	-	-	-
- of which Svizzera	0.9%	-	-	0.5%	0.0%	0.0%	-	-

Starting from 2013, the Intesa Sanpaolo Group primarily uses the EUR Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The EUR Composite AA curve is obtained daily from the Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2018					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	1,124	1,237	191	203	1,677	1,867
Rate of wage rises	1,179	1,178	201	197	1,793	1,758
Inflation rate	1,214	1,144	201	193	1,845	1,709

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 10.5.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.

The average duration of the defined benefit obligation is 11.76 years for pension funds and 9.59 years for employee termination indemnities.

Any outflows to be made over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the former Banco di Napoli Fund) shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

6. Plans regarding more than one employer

The Group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Complementary Pension Fund for the employees of Banco di Napoli.
The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer to Section A of the Complementary Pension Fund for the employees of Banco di Napoli did not modify the guarantees and commitments undertaken by the parties in the past.

7. Defined benefit plans that share risks among entities under joint control

The Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the "projected unit credit method" and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

10.6 Allowances for risks and charges – Other allowances

Allowances for legal disputes mainly refer to provisions for anatocism, credit recovery disputes, labour disputes, and other civil and administrative disputes.

The allowance for personnel charges includes charges for voluntary incentive-driven exit plans and charges for seniority bonuses to employees and other charges.

Other allowances mainly include provisions for tax litigation, operational risks, private bankers' indemnities, and other litigation.

(millions of euro)

Captions/Components	31.12.2018	31.12.2017
2. Other allowances		
2.1 legal disputes	854	651
2.2 personnel charges	1,709	1,715
incentive-driven exit plans	*1,163*	*1,185*
employee seniority bonuses	*188*	*200*
other personnel expenses	*358*	*330*
2.3 other risks and charges	1,730	2,011
other indemnities due to agents of the distribution network	*272*	*265*
other	*1,458*	*1,746*
Total	**4,293**	**4,377**

SECTION 11 – TECHNICAL RESERVES – CAPTION 110

11.1 Technical reserves: breakdown

This caption corresponds to caption C of the insurance company balance sheet liabilities.

(millions of euro)

Captions	Direct work	Indirect work	31.12.2018	31.12.2017
A. Non-life business	**789**	**-**	**789**	**678**
A.1 premiums reserves	591	-	591	497
A2. claims reserves	195	-	195	180
A3. other reserves	3	-	3	1
B. Life business	**73,916**	**-**	**73,916**	**76,405**
B1. mathematical reserves	70,778	-	70,778	70,978
B2. reserves for amounts to be disbursed	791	-	791	342
B3. other reserves	2,347	-	2,347	5,085
C. Technical reserves for investment risks to be borne by the insured	**6,092**	**-**	**6,092**	**5,843**
C1. reserves for contracts with disbursements connected with investment funds and market indices	755	-	755	911
C2. reserves from pension fund management	5,337	-	5,337	4,932
D. Total technical reserves	**80,797**	**-**	**80,797**	**82,926**

11.2 Technical reserves: annual changes

(millions of euro)

Items	31.12.2018	31.12.2017
A. Non-life insurance	**789**	**678**
Initial amount	678	592
Business combinations	-	-
Changes in the reserve (+/-)	111	86
B. Life business and other technical reserves	**80,008**	**82,248**
Initial amount	82,248	85,027
Business combinations	-	-
Change in premiums	7,628	5,858
Change in payments	-8,252	-10,028
Changes due to income and other bonuses recognised to insured parties (+/-)	1,035	1,392
Changes due to exchange differences (+/-)	-	-
Changes in other technical reserves (+/-)	-2,651	-1
C. Total technical reserves	**80,797**	**82,926**

SECTION 12 – REDEEMABLE SHARES – CAPTION 130

Not applicable to the Group.

SECTION 13 – GROUP SHAREHOLDERS' EQUITY – CAPTIONS 120, 130, 140, 150, 160, 170 AND 180

13.1 Share capital and Treasury shares: breakdown

For information on this section, see point 13.3 below.

13.2 Share capital – Parent Company's number of shares: annual changes

(millions of euro)

	Ordinary	Other
A. Initial number of shares	**15,859,786,585**	**932,490,561**
- fully paid-in	15,859,786,585	932,490,561
- not fully paid-in	-	-
A.1 Treasury shares (-)	**-10,127,350**	**-**
A.2 Shares outstanding: initial number	**15,849,659,235**	**932,490,561**
B. Increases	**1,652,877,960**	**-**
B.1 New issues	1,649,570,381	-
- for consideration	510,626,591	-
business combinations	*2,717,826*	-
conversion of bonds	-	-
exercise of warrants	-	-
other	*507,908,765*	-
- for free	1,138,943,790	-
in favour of employees	*169,153,670*	-
in favour of directors	-	-
other (conversion of savings shares)	*969,790,120*	-
B.2 Sale of treasury shares	3,307,579	-
B.3 Other	-	-
C. Decreases	**-9,410,262**	**-932,490,561**
C.1 Annulment	-	-932,490,561
C.2 Purchase of treasury shares	-9,035,838	-
C.3 Disposal of companies	-	-
C.4 Other	-374,424	-
D. Shares outstanding: final number	**17,493,126,933**	**-**
D.1 Treasury shares (+)	16,230,033	-
D.2 Final number of shares	17,509,356,966	-
- fully paid-in	17,509,356,966	-
- not paid-in	-	-

13.3 Share capital: other information

The share capital of the Bank as at 31 December 2018 amounted to 9,085 million euro, divided into 17,509,356,966 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in.

During the year the compulsory conversion of the outstanding savings shares into newly issued ordinary shares of the Bank, with the same characteristics as the ordinary shares outstanding at the conversion date, was completed. This conversion took place at a conversion ratio of 1.04 ordinary shares for each savings share converted (without payment of a cash adjustment) with concurrent removal of the indication of the par value of all of the shares of Intesa Sanpaolo S.p.A. outstanding as at the effective date, in order for the share capital to remain unchanged and be divided solely into ordinary shares.

As a result of this conversion, the share capital was increased through the issue of 969,790,120 new ordinary shares, against the cancellation of 932,490,561 outstanding savings shares.

13.4 Reserves from retained earnings: other information

Reserves amounted to 13,006 million euro and included legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, art. 7, par. 3 and Law 218 of 30 July 1990, art. 7) and other reserves, as well as the consolidation reserve (equal to 6,834 million euro).

The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year.

Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to branches abroad and other reserves set up in the past following specific legal provisions.
Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.
The valuation reserves amounted to a negative figure of 904 million euro and included valuation reserves for assets measured at fair value through other comprehensive income of -300 million euro, valuation reserves pertaining to insurance companies of 9 million euro and reserves for cash flow hedges of -816 million euro, exchange rate valuation reserves (relating to fully consolidated equity investments) of -1,011 million euro and reserves for revaluations of property and equipment and legally-required revaluation reserves of 1,564 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans of -375 million euro, in addition to approximately -25 million euro of valuation reserves connected to minority equity investments.

13.5 Equity instruments: breakdowns and annual changes

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Book value (millions of euro)
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	750,000,000	745
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	1,250,000,000	1,240
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	1,250,000,000	1,241
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	1,000,000,000	877
Total								**4,103**

There were no changes in the equity instruments during the year.

13.6 Other information

There is no other information to report.

SECTION 14 - MINORITY INTERESTS – CAPTION 190

For details regarding the breakdown of minority interests, see section F, “Part B.1. Consolidated shareholders’ equity: breakdown by type of company”.

14.1 Breakdown of caption 190 Minority interests

(millions of euro)

Companies		31.12.2018
Investments in consolidated companies with significant minority interests		**311**
1	BANK OF ALEXANDRIA	106
2	RISANAMENTO SPA	84
3	AUTOSTRADE LOMBARDE S.P.A.	73
4	VSEOBECNA UVEROVA BANKA A.S.	48
Other investments		**96**
TOTAL 2018		**407**
TOTAL 2017		**399**

14.2 Equity instruments: breakdown and annual changes

There were no equity instruments pertaining to minority interests.

OTHER INFORMATION

1. Commitments and financial guarantees given – *Excluding insurance companies*

(millions of euro)

	Commitments and financial guarantees given - nominal amount			31.12.2018	31.12.2017
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**179,613**	**11,647**	**1,536**	**192,796**	**59,063**
a) Central Banks	1,865	-	-	1,865	-
b) Public administration	8,016	1,245	8	9,269	-
c) Banks	32,244	754	-	32,998	3,098
d) Other financial companies	9,910	2,619	65	12,594	-
e) Non-financial companies	117,945	6,107	1,423	125,475	55,965
f) Households	9,633	922	40	10,595	-
2. Financial guarantees given	**34,731**	**3,104**	**925**	**38,760**	**40,670**
a) Central Banks	-	-	-	-	-
b) Public administration	519	46	-	565	-
c) Banks	3,451	60	-	3,511	3,170
d) Other financial companies	1,048	78	8	1,134	-
e) Non-financial companies	29,248	2,874	910	33,032	37,500
f) Households	465	46	7	518	-

In this table - in accordance with the instructions of Circular 262 - the “commitments to disburse funds” include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 136,683 million euro in 2018). However, the column with the comparison figures shows the amounts published in the 2017 Financial Statements that only referred to "irrevocable commitments to disburse funds”, in accordance with the instructions of the 4th update of Circular 262.

1. Commitments and financial guarantees given – *Insurance companies*

As at 31 December 2018, there were no entries in this table, whereas as at 31 December 2017 there was an amount of 9 million euro relating to other commitments for the insurance companies.

2. Other commitments and other financial guarantees given – *Excluding insurance companies*

As at 31 December 2018 there were no exposures of this type.

3. Assets pledged as collateral of liabilities and commitments

(millions of euro)

Portfolios	31.12.2018	31.12.2017
1. Financial assets measured at fair value through profit or loss	3,454	5,163
2. Financial assets measured at fair value through other comprehensive income	36,144	40,921
3. Financial assets measured at amortised cost	125,364	130,736
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

Intragroup deposits of 1,455 million euro, established to serve securities lending with subjects outside the Group, were netted.

4. Information on operating leases

The costs recorded in the year related to motor vehicles and office equipment and central and peripheral software are allocated to the various captions according to the nature of the asset. The amounts included as potential lease payments are immaterial.

In view of the application of IFRS 16, which took place on 1 January 2019, it is noted that the future lease payments for non-cancellable property contracts amounted to 1.9 billion euro.

5. Breakdown of investments related to unit-linked and index-linked policies

(millions of euro)

	Disbursements connected with pension funds and market indices	Disbursements in connection with pension fund management	31.12.2018
Assets in the balance sheet	35,830	5,337	41,167
Intra-group assets	318	-	318
Total Assets	**36,148**	**5,337**	**41,485**
Financial liabilities in the balance sheet	35,161	-	35,161
Technical reserves in the balance sheet	755	5,337	6,092
Intra-group liabilities	-	-	-
Total Liabilities	**35,916**	**5,337**	**41,253**

6. Management and dealing on behalf of third parties

(millions of euro)

Type of service	31.12.2018	31.12.2017
1. Trading on behalf of customers		
a) Purchases	668,003	718,245
1. settled	*653,637*	*703,140*
2. to be settled	*14,366*	*15,105*
b) Sales	677,132	715,104
1. settled	*677,055*	*714,541*
2. to be settled	*77*	*563*
2. Portfolio management	**-**	
a) individual	52,652	57,928
b) collective	124,159	127,608
3. Custody and administration of securities	**-**	**-**
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	38,970	54,586
1. securities issued by companies included in the consolidation area	*-*	*21*
2. other securities	*38,970*	*54,565*
b) third-party securities held in deposit (excluding portfolio management): other	328,295	326,222
1. securities issued by companies included in the consolidation area	*9,293*	*19,757*
2. other securities	*319,002*	*306,465*
c) third party securities deposited with third parties	371,028	315,136
d) portfolio securities deposited with third parties	124,530	171,267
4. Other	**534,131**	**399,743**

Note regarding financial payables

In relation to point 3: "IFRS 7 – Contractual clauses of financial payables", of Bank of Italy/Consob/Isvap document no. 4 of March 2010, the following is specified:

- there were no cases of non-compliance by companies of the Intesa Sanpaolo Group with the relative contractual clauses set forth in bond issues, medium-/long-term loans received from financial entities and other debt contracts, which involved or which could involve the application of acceleration clauses;
- bond issues, medium-/long-term loans received from Supranational Organisations and other debt contracts of Intesa Sanpaolo Group companies may contain standard negative pledges and covenants based on current practice.

Due to the nature of commitments undertaken, in line with market practices, and the remote probability of default, these clauses may be considered as immaterial.

7. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	72,635	-29,451	43,184	34,112	7,763	1,309	4,070
2. Repurchase agreements	50,506	-	50,506	49,906	270	330	203
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2018	**123,141**	**-29,451**	**93,690**	**84,018**	**8,033**	**1,639**	**X**
TOTAL 31.12.2017	**96,041**	**33,631**	**62,410**	**55,334**	**28,103**	**X**	**4,273**

8. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	81,691	29,430	52,261	34,084	17,051	1,126	678
2. Repurchase agreements	46,138	-	46,138	46,107	8	23	181
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2018	**127,829**	**29,430**	**98,399**	**80,191**	**17,059**	**1,149**	**X**
TOTAL 31.12.2017	**97,901**	**33,631**	**64,270**	**51,229**	**12,182**	**X**	**859**

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, Intesa Sanpaolo does not have any netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements.
In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRAs (for repurchase agreements).
With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2018.
For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/provided as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value;
- derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) “Net amount”.

9. Securities lending transactions

The banking service accessory securities lending, offered mainly by Intesa Sanpaolo private Banking (ISPB) to customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract involves transfer of the ownership of a certain quantity of securities of a specific type, with the obligation for ISPB to return them, paying a consideration amount as remuneration for their availability. The transaction involves government securities that ISPB in turn transfers to the Parent Company Intesa Sanpaolo for non-speculative purposes.
As at 31 December 2018, the collateral of transactions mainly referring to ISPB amounted to 1.5 billion euro.

10. Disclosure on joint-control assets

These are not present in the Intesa Sanpaolo Group.

Part C – Information on the consolidated income statement

SECTION 1 – INTEREST – CAPTIONS 10 AND 20

1.1. Interest and similar income: breakdown

(millions of euro)

Captions	Debt securities	Loans	Other transactions	2018	2017
1. Financial assets measured at fair value through profit or loss	**111**	**17**	**-**	**128**	**92**
1.1 Financial assets held for trading	94	1	-	95	83
1.2 Financial assets designated at fair value	4	-	-	4	9
1.3 Other financial assets mandatorily measured at fair value	13	16	-	29	-
2. Financial assets measured at fair value through other comprehensive income	**753**	**3**	**X**	**756**	**676**
3. Financial assets measured at amortised cost	**388**	**9,672**	**X**	**10,060**	**9,236**
3.1 Due from banks	24	666	X	690	548
3.2 Loans to customers	364	9,006	X	9,370	8,688
4. Hedging derivatives	**X**	**X**	**-982**	**-982**	**28**
5. Other assets	**X**	**X**	**31**	**31**	**38**
6. Financial liabilities	**X**	**X**	**X**	**493**	**436**
Total	**1,252**	**9,692**	**-951**	**10,486**	**10,506**
of which: interest income on impaired financial assets	*-*	*1,148*	*-*	*1,148*	*719*

Interest and similar income also includes interest income on securities relating to repurchase agreements.
In Financial assets measured at amortised cost, Loans to customers include interest on impaired financial assets of 1,148 million euro, of which 525 million euro on bad loans, 587 million euro on unlikely to pay positions and 36 million euro on operations relating to past due non-performing loans. Interest on impaired financial assets also include interest due to the passing of time, equal to 564 million euro (time value) which came to 691 million euro in 2017 and was, instead, included among "Net losses/recoveries for credit risk".
In 2018, the caption "Hedging derivatives" includes the differentials on hedging transactions, adjusting interest income recognised on hedged financial instruments, while in 2017 the caption included the positive balance of the differentials on hedging transactions reported in table 1.5.
"Financial liabilities" include interest on funding transactions with negative rates.

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

The balance as at 31 December 2018 includes 2,173 million euro relating to financial assets in foreign currency.

1.2.2 Interest income on finance lease receivables

As at 31 December 2018, interest income on finance leases amounted to 318 million euro.

1.3 Interest and similar expense: breakdown

(millions of euro)

Captions/Types	Debts	Securities	Other transactions	2018	2017
1. Financial liabilities measured at amortised cost	**999**	**2,340**	X	**3,339**	**3,427**
1.1 Due to Central Banks	73	X	X	73	30
1.2 Due to banks	360	X	X	360	274
1.3 Due to customers	566	X	X	566	533
1.4 Securities issued	X	2,340	X	2,340	2,590
2. Financial liabilities held for trading	**1**	**-**	**15**	**16**	**10**
3. Financial liabilities designated at fair value	**10**	**11**	**-**	**21**	**-**
4. Other liabilities and allowances	**X**	**X**	**16**	**16**	**6**
5. Hedging derivatives	**X**	**X**	**-642**	**-642**	**-**
6. Financial assets	**X**	**X**	**X**	**394**	**359**
Total	**1,010**	**2,351**	**-611**	**3,144**	**3,802**

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets. Hedging derivatives refer to interest expense on liabilities.
In 2018, the caption “Hedging derivatives” includes the differentials on hedging transactions, adjusting interest expense recognised on hedged financial instruments, while in 2017 the positive imbalance was reported under “Interest and similar income”.
“Financial assets” include interest on lending transactions with negative rates.

1.4. Interest and similar expense: other information

1.4.1 Interest expense on foreign currency financial liabilities

Interest and similar expense in 2018 includes 1,587 million euro relative to financial liabilities in foreign currency.

1.4.2 Interest expense on finance lease payables

In 2018, interest expense on finance leases was immaterial.

1.5. Differentials on hedging transactions

(millions of euro)

Captions	2018	2017
A. Positive differentials on hedging transactions	2,453	2,814
B. Negative differentials on hedging transactions	-2,793	-2,786
C. Balance (A-B)	**-340**	**28**

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

Type of service/Amounts	2018	2017
a) guarantees given	**353**	**378**
b) credit derivatives	**-**	**-**
c) management, dealing and consultancy services	**4,020**	**4,152**
1. trading in financial instruments	95	95
2. currency dealing	52	45
3. portfolio management	2,565	2,571
3.1 individual	*684*	*714*
3.2 collective	*1,881*	*1,857*
4. custody and administration of securities	58	65
5. depositary bank	32	18
6. placement of securities	541	663
7. reception and transmission of orders	101	120
8. consultancy services	144	147
8.1. on investments	*130*	*128*
8.2. on financial structure	*14*	*19*
9. distribution of third party services	432	428
9.1. portfolio management	*388*	*374*
9.1.1. individual	*14*	*10*
9.1.2. collective	*374*	*364*
9.2. insurance products	*38*	*48*
9.3. other products	*6*	*6*
d) collection and payment services	**657**	**608**
e) servicing related to securitisations	**-**	**1**
f) services related to factoring	**105**	**114**
g) tax collection services	**-**	**-**
h) management of multilateral trading facilities	**-**	**-**
i) management of current accounts	**1,258**	**1,138**
j) Other services	**3,518**	**3,153**
Total	**9,911**	**9,544**

"Other services" mostly includes fees on credit and debit cards of 1,047 million euro as well as commissions on loans of 765 million euro, as well as fee and commission income collected by the insurance companies for 1,444 million euro.

2.2 Fee and commission expense: breakdown

(millions of euro)

Services/Amounts	2018	2017
a) Guarantees received	**84**	**89**
b) Credit derivatives	**6**	**-**
c) Management, dealing and consultancy services	**965**	**942**
1.trading in financial instruments	41	46
2. currency dealing	3	2
3. portfolio management	51	44
3.1 own portfolio	*11*	*5*
3.2 third party portfolio	*40*	*39*
4. custody and administration of securities	51	53
5. placement of financial instruments	150	149
6. “out-of-branch” offer of financial instruments, products and services	669	648
d) Collection and payment services	**213**	**197**
e) Other services	**1,040**	**888**
Total	**2,308**	**2,116**

Sub-caption e) - Other services includes 592 million euro fees on credit and debit cards, 168 million euro on the placement of investment insurance products, 186 million euro on banking services to Italian branches, 77 million euro on banking services to foreign branches and 17 million euro on other minor services.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.
In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to a 94 million euro, referring to both fee and commission income and expense.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2018		2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	21	-	27	1
B. Other financial assets mandatorily measured at fair value	5	20	-	-
C. Financial assets measured at fair value through other comprehensive income	36	-	36	14
D. Investments in associates and companies subject to joint control	12	-	39	-
Total	**74**	**20**	**102**	**15**

SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

4.1 Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**80**	**1,334**	**-192**	**-1,450**	**-228**
1.1 Debt securities	68	307	-130	-411	-166
1.2 Equities	11	134	-43	-151	-49
1.3 Quotas of UCI	1	2	-19	-4	-20
1.4 Loans	-	-	-	-	-
1.5 Other	-	891	-	-884	7
2. Financial liabilities held for trading	**478**	**860**	**-61**	**-717**	**560**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	478	860	-61	-717	560
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**257**
4. Derivatives	**17,550**	**30,443**	**-18,288**	**-29,602**	**-147**
4.1 Financial derivatives:	16,334	27,344	-15,262	-28,334	-168
- on debt securities and interest rates	*11,631*	*17,686*	*-11,140*	*-17,986*	*191*
- on equities and stock indexes	*1,389*	*8,207*	*-2,720*	*-6,958*	*-82*
- on currencies and gold	*X*	*X*	*X*	*X*	*-250*
- other	*3,314*	*1,451*	*-1,402*	*-3,390*	*-27*
4.2 Credit derivatives	1,216	3,099	-3,026	-1,268	21
of which: natural hedging associated with the fair value option	*X*	*X*	*X*	*X*	-
Total	**18,108**	**32,637**	**-18,541**	**-31,769**	**442**

Net result includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.
Regarding structured financial products and their impact on the income statement, for detailed information please refer to Part E of these Notes to the consolidated financial statements - Information on risks and relative hedging policies.

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

5.1 Fair value adjustments in hedge accounting: breakdown

(millions of euro)

Income component/Amount	2018	2017
A. Income from:		
A.1 fair value hedge derivatives	686	2,285
A.2 financial assets hedged (fair value)	748	216
A.3 financial liabilities hedged (fair value)	924	1,770
A.4 cash flow hedge: derivatives	-	-
A.5 currency assets and liabilities	-	-
Total income from hedging (A)	**2,358**	**4,271**
B. Expenses for		
B.1 fair value hedge derivatives	-1,653	-2,665
B.2 financial assets hedged (fair value)	-205	-1,474
B.3 financial liabilities hedged (fair value)	-525	-147
B.4 cash flow hedge: derivatives	-86	-
B.5 currency assets and liabilities	-	-
Total expense from hedging (B)	**-2,469**	**-4,286**
C. Fair value adjustments in hedge accounting (A - B)	**-111**	**-15**
of which: fair value adjustments in hedge accounting on net positions	**-**	**-**

B4 “Expense for cash flow hedge derivatives” includes the recognition in the income statement of the pro rata portion of the CFH reserve previously recorded by the subsidiary Autostrade Lombarde.
For the details on the business combination, refer to that illustrated in Part G.

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2018			2017		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Financial assets measured at amortised cost	95	-114	-19	166	-173	-7
1.1 Due from banks	*20*	*-3*	*17*	*18*	-	18
1.2 Loans to customers	*75*	*-111*	*-36*	*148*	*-173*	-25
2. Financial assets measured at fair value through other comprehensive income	601	-93	508	753	-209	544
2.1 Debt securities	*601*	*-93*	*508*	*753*	*-209*	544
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**696**	**-207**	**489**	**919**	**-382**	**537**
Financial liabilities valued at amortized cost						
1. Due to banks	3	-31	-28	2	-	2
2. Due to customers	1	-1	-	1	-	1
3. Securities issued	120	-32	88	4	-42	-38
Total liabilities (B)	**124**	**-64**	**60**	**7**	**-42**	**-35**

SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110

7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**14**	**-**	**-5**	**-2**	**7**
1.1 Debt securities	14	-	-5	-	9
1.2 Loans	-	-	-	-2	-2
2. Financial liabilities	**37**	**2**	**-18**	**-**	**21**
2.1 Securities issued	37	-	-	-	37
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	2	-18	-	-16
3. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**51**	**2**	**-23**	**-2**	**28**

For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of the Notes to the consolidated financial statements.

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**150**	**315**	**-172**	**-23**	**270**
1.1 Debt securities	54	13	-103	-4	-40
1.2 Equities	8	270	-12	-2	264
1.3 Quotas of UCI	43	-	-33	-3	7
1.4 Loans	45	32	-24	-14	39
2. Financial assets: exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**150**	**315**	**-172**	**-23**	**270**

SECTION 7 BIS – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 - CAPTION 115

The breakdown of the IAS 39 captions included in caption 115 of the Income Statement referring to insurance companies is shown below.
In relation to the adoption of the Deferral Approach, in the consolidated financial statement layouts established by the 5th update to the Bank of Italy Circular 262, "Caption 115 Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39" was created, which comprises the captions set out in the table below:

(millions of euro)

Breakdown of caption Profits (losses) on financiali assets and liabilities pertaining to insurance companies pursuant to IAS 39 - Caption 35	31.12.2018	31.12.2017
10. Interest and similar income	1,783	1,892
20. Interest and similar expense	-60	-69
70. Dividend and similar income	242	227
80. Profits (Losses) on trading	29	-140
90. Fair value adjustments in hedge accounting (*)	-	-
100. Profits (Losses) on disposal or repurchase of:	252	316
a) loans	-	-
b) financial assets available for sale	*252*	*316*
c) Investments held to maturity	-	-
d) financial liabilities	-	-
110. Profits (losses) on financial assets/liabilities designated at fair value	994	1,259
TOTAL Caption 115	**3,240**	**3,485**

(*) There are no hedges in hedge accounting

7.1 Bis. Interest and similar income: breakdown

(millions of euro)

	Debt securities	Loans	Other transactions	2018	2017
1. Financial assets held for trading	7	-	-	7	10
2. Financial assets designated at fair value	18	-	-	18	23
3. Financial assets available for sale	1,757	-	-	1,757	1,858
4. Investments held to maturity	-	-	-	-	-
5. Due from banks	1	-	-	1	1
6. Loans to customers	-	-	-	-	-
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	-	-	-
Total	**1,783**	**-**	**-**	**1,783**	**1,892**

7.2 Bis. Interest and similar income: differentials on hedging transactions

There were no amounts pertaining to insurance companies.

7.3 Bis. Interest and similar income: other information

7.3.1 Bis Interest income on foreign currency financial assets

There were no amounts pertaining to insurance companies.

7.3.2 Bis Interest income on finance lease receivables

There were no amounts pertaining to insurance companies.

7.4 Bis. Interest and similar expense: breakdown

(millions of euro)

Captions/Types	Debts	Securities	Other transactions	2018	2017
1. Due to Central Banks	-	X	-	-	-
2. Due to banks	4	X	-	4	5
3. Due to customers	-	X	-	-	-
4. Securities issued	X	56	-	56	64
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities designated at fair value	-	-	-	-	-
7. Other liabilities and allowances	X	X	-	-	-
8. Hedging derivatives	X	X	-	-	-
Total	**4**	**56**	**-**	**60**	**69**

7.5. Bis. Interest and similar expense: differentials on hedging transactions

There were no amounts pertaining to insurance companies.

7.6. Bis. Interest and similar expense: other information

7.6.1 Bis Interest expense on foreign currency financial liabilities

There were no amounts pertaining to insurance companies.

7.6.2 Bis Interest expense on finance lease payables

There were no amounts pertaining to insurance companies.

7.7 Bis. Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2018		2017	
	Dividends	Income from quotas of UCI	Dividends	Income from quotas of UCI
A. Financial assets held for trading	-	-	-	-
B. Financial assets available for sale	50	147	55	136
C. Financial assets designated at fair value	40	5	32	4
D. Investments in associates and companies subject to joint control	-	X	-	X
Total	**90**	**152**	**87**	**140**

7.8 Bis. Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial assets held for trading	**-**	**-**	**-15**	**-4**	**-19**
1.1 Debt securities	-	-	-10	-1	-11
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	-	-	-5	-3	-8
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**22**
4. Derivatives	**16**	**45**	**-4**	**-38**	**26**
4.1 Financial derivatives:	14	44	-4	-36	25
- on debt securities and interest rates	*-*	*10*	*-1*	*-4*	*5*
- on equities and stock indexes	*14*	*34*	*-3*	*-32*	*13*
- on currencies and gold	*X*	*X*	*X*	*X*	*7*
- other	-	-	-	-	-
4.2 Credit derivatives	2	1	-	-2	1
Total	**16**	**45**	**-19**	**-42**	**29**

7.9 Bis. Fair value adjustments in hedge accounting: breakdown

There were no fair value adjustments in hedge accounting pertaining to insurance companies.

7.10 Bis. Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2018			2017		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	401	-149	252	431	-115	316
3.1 Debt securities	*216*	*-59*	*157*	*276*	*-81*	*195*
3.2 Equities	*98*	*-40*	*58*	*37*	*-15*	*22*
3.3 Quotas of UCI	*81*	*-50*	*31*	*118*	*-19*	*99*
3.4 Loans	6	-	6	-	-	-
4.Investments held to maturity	-	-	-	-	-	-
Total assets	**401**	**-149**	**252**	**431**	**-115**	**316**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

7.11 Bis. Profits (losses) on financial assets/liabilities designated at fair value:

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**310**	**1,119**	**-4,679**	**-850**	**-4,100**
1.1 Debt securities	17	79	-83	-47	-34
1.2 Equities	73	80	-237	-74	-158
1.3 Quotas of UCI	201	956	-4,328	-726	-3,897
1.4 Loans	19	4	-31	-3	-11
2. Financial liabilities	**5,101**	**-**	**-5**	**-**	**5,096**
2.1 Debt securities	-	-	-	-	-
2.2 Due to banks	16	-	-	-	16
2.3 Due to customers	5,085	-	-5	-	5,080
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
4. Credit and financial derivatives	**5**	**49**	**-8**	**-48**	**-2**
Total	**5,416**	**1,168**	**-4,692**	**-898**	**994**

SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2018	2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Due from banks	**-66**	**-**	**-**	**62**	**-**	**-4**	**-56**
- Loans	-55	-	-	51	-	-4	-9
- Debt securities	-11	-	-	11	-	-	-47
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans to customers	**-1,058**	**-255**	**-5,466**	**1,261**	**3,015**	**-2,503**	**-2,597**
- Loans	-1,033	-255	-5,466	1,231	3,009	-2,514	-2,598
- Debt securities	-25	-	-	30	6	11	1
of which: purchased or originated credit-impaired	-	-	*-16*	-	*12*	*-4*	*-62*
C. Total	**-1,124**	**-255**	**-5,466**	**1,323**	**3,015**	**-2,507**	**-2,653**

8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2018	2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	**-43**	**-**	**-**	**39**	**1**	**-3**	**-501**
B. Loans	**-2**	**-**	**-**	**3**	**-**	**1**	**-**
- to customers	-1	-	-	1	-	-	-
- to banks	-1	-	-	2	-	1	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
C. Total	**-45**	**-**	**-**	**42**	**1**	**-2**	**-501**

SECTION 8 BIS – NET LOSSES/RECOVERIES PERTAINING TO INSURANCE COMPANIES PURSUANT TO IAS 39 – CAPTION 135

8.1 Bis. Net impairment losses on loans: breakdown

There were no amounts pertaining to insurance companies.

8.2 Bis. Net impairment losses on financial assets available for sale: breakdown

(millions of euro)

	IMPAIRMENT LOSSES		RECOVERIES		2018	2017
	Individual write-offs	other	Individual of interest	other		
A. Debt securities	-	-	-	-	-	-2
B. Equities	-	-26	X	X	-26	-6
C. Quotas of UCI	-	-	-	-	-	-
D. Due from banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-26**	**-**	**-**	**-26**	**-8**

8.3 Bis. Net impairment losses on investments held to maturity: breakdown

There were no amounts pertaining to insurance companies.

8.4 Bis. Net impairment losses on other financial activities: breakdown

There were no amounts pertaining to insurance companies.

SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140

9.1 Profits (Losses) from changes in contracts: breakdown

As part of profits (losses) from changes in contracts without derecognition, losses of 11 million euro were recognised.

SECTION 10 - NET INSURANCE PREMIUMS - CAPTION 160

10.1 Net insurance premiums: breakdown

(millions of euro)

Premiums deriving from insurance business	Direct work	Indirect work	2018	2017
A. Life business				
A.1 Gross accounted premiums (+)	7,781	-	7,781	6,473
A.2 Premiums ceded for reinsurance (-)	-1	X	-1	-2
A.3 Total	7,780	-	7,780	6,471
B. Non-life business				
B.1 Gross accounted premiums (+)	507	-	507	432
B.2 Premiums ceded for reinsurance (-)	-15	X	-15	-7
B.3 Changes in the gross amount of premium reserve (+/-)	-95	-	-95	-77
B.4 Changes in premium reserves reassured with third parties (-/+)	3	-	3	-2
B.5 Total	400	-	400	346
C. Total net premiums	**8,180**	**-**	**8,180**	**6,817**

SECTION 11 - OTHER NET INSURANCE INCOME (EXPENSE) - CAPTION 170

11.1 Other net insurance income (expense): breakdown

(millions of euro)

Captions	2018	2017
1. Net change in technical reserves	68	2,535
2. Claims accrued and paid during the year	-8,715	-10,284
3. Other income/expenses arising from insurance business	-1,321	-1,263
Total	**-9,968**	**-9,012**

11.2 Breakdown of Net change in technical reserves

(millions of euro)

Net change in technical reserves	2018	2017
1. Life business		
A. Mathematical reserves	**307**	**2,806**
A.1 Gross annual amount	307	2,806
A.2 Amount reinsured with third parties (-)	-	-
B. Other technical reserves	**-27**	**80**
B.1 Gross annual amount	-27	80
B.2 Amount reinsured with third parties (-)	-	-
C. Technical reserves for investment risks to be borne by the insured	**-211**	**-351**
C.1 Gross annual amount	-211	-351
C.2 Amount reinsured with third parties (-)	-	-
Total "life business reserves"	**69**	**2,535**
2. Non-life business		
Changes in other technical reserves of non-life business other than the claims fund, net of ceded reinsurance	-1	-

11.3 Breakdown of Claims accrued and paid during the year

(millions of euro)

Charges associated to claims	2018	2017
LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF REINSURANCE CEDED		
A. Amounts paid	**-8,161**	**-10,203**
A.1 Gross annual amount	-8,162	-10,203
A.2 Amount reinsured with third parties (-)	1	-
B. Change in funds for amounts to be disbursed	**-451**	**12**
B.1 Gross annual amount	-450	12
B.2 Amount reinsured with third parties (-)	-1	-
Total life business claims	**-8,612**	**-10,191**
NON-LIFE BUSINESS: CHARGES ASSOCIATED TO CLAIMS, NET OF RECOVERIES AND REINSURANCE CEDED		
C. Amounts paid	**-92**	**-87**
C.1 Gross annual amount	-98	-91
C.2 Amount reinsured with third parties (-)	6	4
D. Change in recoveries net of quotas borne by reinsurers	**1**	**1**
E. Change in the claims reserve	**-12**	**-7**
E.1 Gross annual amount	-14	-8
E.2 Amount reinsured with third parties (-)	2	1
Total non-life business claims	**-103**	**-93**

11.4 Breakdown of Other income/expenses arising from insurance business

(millions of euro)

	2018	2017
Other income	**151**	**113**
Life business	126	92
Non-life business	25	21
Other expenses	**-1,472**	**-1,376**
Life business	-1,382	-1,291
Non-life business	-90	-85

SECTION 12 - ADMINISTRATIVE EXPENSES - CAPTION 190

12.1 Personnel expenses: breakdown

(millions of euro)

Type of expense	2018	2017
1) Employees	**5,899**	**7,142**
a) wages and salaries	4,074	3,908
b) social security charges	1,034	1,009
c) termination indemnities	45	55
d) supplementary benefits	5	5
e) provisions for termination indemnities	15	13
f) provisions for post employment benefits	11	48
- defined contribution plans	-	-
- defined benefit plans	*11*	*48*
g) payments to external pension funds	322	302
- defined contribution plans	*320*	*301*
- defined benefit plans	*2*	*1*
h) costs from share based payments	140	149
i) other benefits in favour of employees	253	1,653
2) Other non-retired personnel	**11**	**9**
3) Directors and statutory auditors	**22**	**26**
4) Early retirement costs	**-**	**-**
Total	**5,932**	**7,177**

It should be specified that 3) Directors and Statutory Auditors includes remuneration to members of the Board of Directors of the Parent Company and members of the Board of Directors and the Board of Statutory Auditors of the various Group companies.

12.2 Average number of employees by categories

	2018	2017
Personnel employed	**88,724**	**87,263**
a) managers	1,587	1,522
b) total officers	34,138	33,515
c) other employees	52,999	52,226
Other personnel	**167**	**198**
TOTAL	**88,891**	**87,461**

The average workforce (for the determination of which, part-time workers are calculated as 0.5 FTE) was higher in 2018 than in 2017, as in 2017 the personnel of the former Venetian banks was calculated only starting from the date of entry into the Group, while in 2018 it was calculated for the entire year.

12.3 Post employment defined benefit plans: costs and revenues

(millions of euro)

	2018			2017		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-2	-4	-6	-8	-3	-27
Interest expense	-13	-13	-23	-14	-11	-59
Interest income	-	3	21	-	3	41
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-	-	-	-	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

This table illustrates the economic components referred to “Employee termination indemnities” – caption 90 of Balance sheet liabilities and “Allowances for risks and charges - post employment benefits” – caption 100b of Balance sheet liabilities.

12.4 Other benefits in favour of employees

The balance as at 31 December 2018 amounted to 253 million euro, referred to contributions for health assistance, lunch vouchers, premiums of insurance policies stipulated in favour of employees and provisions for seniority bonuses, charges for incentive-driven exit plans and other charges for integration.

12.5 Other administrative expenses: breakdown

(millions of euro)

Type of expense/Amount	2018	2017
Expenses for maintenance of information technology and electronic equipment	558	561
Telephonic, teletransmission and transmission expenses	77	86
Information technology expenses	**635**	**647**
Rentals and service charges - real estate	316	296
Security services	45	43
Cleaning of premises	46	43
Expenses for maintenance of real estate assets furniture and equipment	79	92
Energy costs	106	102
Property costs	9	4
Management of real estate assets expenses	**601**	**580**
Printing, stationery and consumables expenses	41	42
Transport and related services expenses (including counting of valuables)	100	99
Information expenses	181	179
Postal and telegraphic expenses	67	73
General structure costs	**389**	**393**
Expenses for consultancy fees	229	243
Legal and judiciary expenses	166	185
Insurance premiums - banks and customers	48	57
Professional and legal expenses	**443**	**485**
Advertising and promotional expenses	**141**	**134**
Services rendered by third parties	**305**	**277**
Indirect personnel costs	**85**	**93**
Other costs	**619**	**444**
Recovery of taxes and duties	**915**	**917**
Recovery of taxes and duties	**-7**	**-8**
Recovery of other expenses	**-56**	**-87**
Total	**4,070**	**3,875**

Other expenses include 422 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund. In 2017 the same expenses amounted to 290 million euro.

SECTION 13 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 200

13.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown

(millions of euro)

Captions	Provision	Reallocations	Net provision
Stage 1	-54	87	33
Stage 2	-33	41	8
Stage 3	-123	170	47
Total	**-210**	**298**	**88**

13.2 Net provisions associated with commitments and other guarantees given: breakdown

With regard to net provisions associated with commitments and other guarantees given, there were no amounts as at 31 December 2018.

13.3 Net provisions for other risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	Net provision
Net provisions for legal disputes	-162	71	-91
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-109	77	-32
Total	**-271**	**148**	**-123**

"Net provisions for risks and charges", which amounted to negative 123 million euro, includes the provisions that mainly regarded litigation, including revocatory actions and other disputes.

SECTION 14 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 210

14.1 Net adjustments to property and equipment: breakdown

(millions of euro)

Assets/Income component	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Owned	-346	-39	3	-382
- used in operations	*-346*	*-10*	*1*	*-355*
- investment	-	-	-	-
- inventories	*X*	*-29*	*2*	*-27*
A.2 Acquired under finance lease	-1	-	-	-1
- used in operations	*-1*	-	-	*-1*
- investment	-	-	-	-
Total	**-347**	**-39**	**3**	**-383**

For the determination of adjustments, see the illustration provided in Part A – Accounting policies.

SECTION 15 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 220

15.1 Net adjustments to intangible assets: breakdown

(millions of euro)

Assets/Income component	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-594	-3	-	-597
- internally generated	*-443*	*-2*	*-*	*-445*
- other	*-151*	*-1*	*-*	*-152*
A.2 Acquired under finance lease	-	-	-	-
Total	**-594**	**-3**	**-**	**-597**

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

SECTION 16 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 230

16.1 Other operating expenses: breakdown

(millions of euro)

Type of expense/Amount	2018
Other expenses for consumer credit and leasing transactions	7
Settlements for legal disputes	8
Amortisation of leasehold improvements	42
Other non-recurring expenses	65
Other	168
Total 2018	**290**
Total 2017	**312**

16.2 Other operating income: breakdown

(millions of euro)

Recovery of expenses	785
Rentals and recovery of expenses on real estate	36
Income related to consumer credit and leasing	30
Reimbursements for services rendered to third parties	10
Insurance reimbursements	6
Other non-recurring income	66
Other	89
Total 2018	**1,022**
Total 2017	**6,214**

SECTION 17 – PROFITS (LOSSES) ON INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL - CAPTION 250

17.1 Profits (Losses) on investments in associates and companies subject to joint control: breakdown

(millions of euro)

Income components/Sectors	2018	2017
1) Companies subject to joint control		
A. Revenues	125	816
1. Revaluations	*116*	*5*
2. Profits on disposal	*9*	*811*
3. Recoveries	-	-
4. Other	-	-
B. Charges	-6	-5
1. Write-downs	*-3*	*-1*
2. Impairment losses	*-3*	*-4*
3. Losses on disposal	-	-
4. Other	-	-
Net result	**119**	**811**
2) Investments in associates		
A. Revenues	73	359
1. Revaluations	*72*	*337*
2. Profits on disposal	*1*	*22*
3. Recoveries	-	-
4. Other	-	-
B. Charges	-15	-20
1. Write-downs	*-11*	*-10*
2. Impairment losses	*-4*	*-10*
3. Losses on disposal	-	-
4. Other	-	-
Net result	**58**	**339**
Total	**177**	**1,150**

For companies subject to joint control and significant influence, revenues from recognition at equity of the equity stakes is included under Revaluations, while the losses from the recognition at equity of the equity stakes is recorded under Write-downs.

SECTION 18 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 260

18.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown

(millions of euro)

Assets/Income component	Revaluations	Write-downs	Foreign exchange differences		Net result
			Positive	Negative	
A. Property and equipment	**6**	**-15**	**-**	**-**	**-9**
A.1 Owned	6	-14	-	-	-8
- used in operations	*1*	*-1*	-	-	-
- investment	*5*	*-13*	-	-	*-8*
- inventories	-	-	-	-	-
A.2 Acquired under finance lease	-	-1	-	-	-1
- used in operations	-	-	-	-	-
- investment	-	*-1*	-	-	*-1*
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned	-	-	-	-	-
B.1.1 internally generated	-	-	-	-	-
B.1.2 other	-	-	-	-	-
B.2 Acquired under finance lease	-	-	-	-	-
Total	**6**	**-15**	**-**	**-**	**-9**

SECTION 19 – GOODWILL IMPAIRMENT - CAPTION 270

19.1 Goodwill impairment: breakdown

The results of impairment testing on goodwill recorded in the financial statements did not lead to adjustments in 2018. See Part A – Accounting policies for details on the means of determination of goodwill impairment.

For a description of the impairment testing methods for goodwill, reference should be made to Part B – Section 10 – Intangible Assets in these Notes to the consolidated financial statements.

SECTION 20 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 280

20.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

Income component/Amount	2018	2017
A. Real estate assets	**18**	**63**
- profits on disposal	23	105
- losses on disposal	-5	-42
B. Other assets (a)	**434**	**43**
- profits on disposal	443	44
- losses on disposal	-9	-1
Net result	**452**	**106**

(a) Included profits and losses on disposal of subsidiaries.

Profits on disposal under Other assets include the capital gain deriving from the loss of control over Tersia, now Intrum, for a total of 443 million euro, comprised of 204 million euro in profit deriving from the disposal of 51% of the subsidiary, net of accessory charges, and 239 million euro in profits deriving from the fair value measurement of the interest maintained in the company (49%).
Losses on disposal under Other assets include the capital loss deriving from the disposal of SEC Servizi, for a total of 9 million euro.

SECTION 21 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 300

21.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2018	2017
1. Current taxes (-)	-1,019	-830
2. Changes in current taxes of previous years (+/-)	12	58
3. Reduction in current taxes of the year (+)	70	26
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	440	19
4. Changes in deferred tax assets (+/-)	-658	335
5. Changes in deferred tax liabilities (+/-)	-231	-72
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**-1,386**	**-464**

In 2018, new deferred tax assets of 140 million euro were recognised, as a result of the changes introduced by the 2019 Budget Act (Law 145 of 30 December 2018) to the rules governing the deductibility of the impacts of the first-time adoption of the IFRS 9.

21.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2018
Income before tax from continuing operations	5,458
Income before tax from discontinued operations	-
Theoretical taxable income	**5,458**

	Taxes	%
Income taxes - theoretical tax charge	**1,804**	**33.1**
Increase of taxes	**315**	**5.7**
Non-deductible interest expense	144	2.6
Other	171	3.1
Decrease of taxes	**-733**	**-13.4**
Effects of the participation exemption	-199	-3.6
Effects of international companies lower rates	-223	-4.1
Other	-311	-5.7
Total changes in taxes	**-418**	**-7.7**
Total income tax expense for the period	**1,386**	**25.4**
of which: - total income tax expense from continuing operations	**1,386**	**25.4**
- total income tax expense from discontinued operations	**-**	**0.0**

SECTION 22 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS- CAPTION 320

22.1 Income (Loss) after tax from discontinued operations: breakdown

There were no cases either in the current year or the comparison year.

22.2 Breakdown of taxes on income from discontinued operations

There were no cases either in the current year or the comparison year.

SECTION 23 – MINORITY INTERESTS - CAPTION 340

23.1 Breakdown of caption 340 Minority interests

(millions of euro)

		31.12.2018
Investments in consolidated companies with significant minority interests		
1	Bank of Alexandria S.A.E	-25
2	Private Equity International S.A:	-11
3	Privredna Banka Zagreb d.d.	-5
4	Risanamento S.p.A.	17
5	Vseobecna Uverova Banka a.s.	-4
6	Banca Apulia S.p.A.	6
TOTAL 2018		**-22**
TOTAL 2017		**-38**

SECTION 24 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 25 – EARNINGS PER SHARE

Earnings per share

	31.12.2018	31.12.2017	
	Ordinary shares	Ordinary shares	Savings shares
Weighted average number of shares	16,772,376,006	15,837,253,005	932,490,561
Income attributable to the various categories of shares (millions of euro)	4,050	6,900	416
Basic EPS (euro)	0.24	0.44	0.45
Diluted EPS (euro)	0.24	0.44	0.45

25.1 Average number of ordinary shares (fully diluted)

For further information on this section, see the chapter "Shareholder base, stock price performance and other information" in the Report on operations.

25.2 Other information

There is no other information to be provided.

Part D – Consolidated comprehensive income

(millions of euro)

	Statement of comprehensive income	2018	2017
10.	**Net income (loss)**	**4,072**	**7,354**
	Other comprehensive income that may not be reclassified to the income statement	**403**	**1,208**
20.	Equity instruments measured at fair value through other comprehensive income	124	-
	a) fair value changes	*123*	**-**
	b) transfer to other components of shareholders' equity	*1*	**-**
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
	a) fair value changes	**-**	**-**
	b) transfer to other components of shareholders' equity	**-**	**-**
40.	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	**-**	**-**
	b) fair value changes (hedging instrument)	**-**	**-**
50.	Property and equipment	-11	1,765
60.	Intangible assets	**-**	**-**
70.	Defined benefit plans	407	-52
80	Non-current assets held for sale and discontinued operations	-	-
90.	Share of valuation reserves connected with investments carried at equity	-	-
100.	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	-117	-505
	Other comprehensive income that may be reclassified to the income statement:	**-838**	**-142**
110.	Hedges of foreign investments:	-	-
	a) fair value changes	**-**	**-**
	b) reclassification to the income statement	**-**	**-**
	c) other changes	**-**	**-**
120.	Foreign exchange differences:	-6	-26
	a) value change	**-**	**-**
	b) reclassification to the income statement	**-**	**-**
	c) other changes	-6	-26
130.	Cash flow hedges:	146	342
	a) fair value changes	*388*	*342*
	b) reclassification to the income statement	*-248*	-
	c) other changes	*6*	-
	of which: gains (losses) on net positions	-	-
140.	Hedging instruments (not designated elements)	-	-
	a) value change	**-**	**-**
	b) reclassification to the income statement	**-**	**-**
	c) other changes	**-**	**-**
145.	Financial assets measured at fair value through other comprehensive income, pertaining to insurance companies	-587	-121
	a) value change	*-474*	*-90*
	b) reclassification to the income statement	*-104*	*-56*
	c) other changes	*-9*	*25*
150.	Financial assets (other than equities) measured at fair value through other comprehensive income	-883	-75
	a) fair value changes	*-585*	*-354*
	b) reclassification to the income statement	*-238*	*287*
	- adjustments for credit risk	*7*	*536*
	- gains/losses on disposals	*-245*	*-249*
	c) other changes	*-60*	*-8*
160.	Non-current assets held for sale and discontinued operations	**-**	**-**
	a) fair value changes	**-**	**-**
	b) reclassification to the income statement	**-**	**-**
	c) other changes	**-**	**-**
170.	Share of valuation reserves connected with investments carried at equity:	89	-197
	a) fair value changes	**-**	**-**
	b) reclassification to the income statement	**-**	**-**
	- impairment losses	**-**	**-**
	- gains/losses on disposals	**-**	**-**
	c) other changes	*89*	*-197*
180.	Income taxes associated with other comprehensive income that may be reclassified to the income statement	403	-65
190.	**Total other comprehensive income**	**-435**	**1,066**
200.	**Comprehensive income (Captions 10+190)**	**3,637**	**8,420**
210.	**Total consolidated comprehensive income pertaining to minority interests**	**32**	**39**
220.	**Total consolidated comprehensive income pertaining to the Parent Company**	**3,605**	**8,381**

Part E – Information on risks and relative hedging policies

INTRODUCTION

In this Part E, the qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.

Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-acceptance activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework establishes the general risk appetite principles, together with the controls for the overall risk profile and the main specific risks.

The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- The Intesa Sanpaolo Banking Group is focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo aims at a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - limits are set for operational risks (including specific treatment for IT, Cyber and Legal Risk);
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles shall be applied, by considering the specific characteristics of the market and the competitive scenario where the growth takes place.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

- the overall risk profile; and
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress, and also contains the non-financial risks with appropriate limits.

In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio 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.
Management of the specific risks is implemented by establishing specific limits and mitigation measures to be taken in order to limit the impact of especially severe future scenarios on the Group. These limits and measures seek to "steer" the most significant risk concentrations such as, for example, single name concentrations, sovereign risk and the public sector.

Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss. In 2018, the CRA was extended to the Non-Banking Financial Institution, Corporate and SME Corporate Unrated portfolios and to the beneficiary groups of the Credit Ceilings. In addition, the following were introduced: i) a specific CRA limit for leveraged transactions, as defined in the guidelines issued by the ECB, ii) an Early Warning threshold to control unsecured transactions on counterparties whose lending growth is not subject to Constraints (the Green CRA). The objective of this threshold is to mitigate the effect of higher provisions due to the introduction of Calendar Provisioning.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.

The limits set in the RAF are divided into two categories, hard limits and soft limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, the responsibility for approving the remediation plan is assigned:
- to the Board of Directors for the hard limits, typically used for the main metrics used to control overall risk (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for the soft limits, set on the metrics used to monitor the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

The limits themselves may be accompanied by the Early Warning thresholds, the exceeding of which is promptly discussed in the competent management committee[12].

Within the annual RAF update process, a number of key steps can be identified:
- Risk Assessment and RAF setting: this phase assesses the risk actually taken (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the appetite for the risk (Risk Appetite), identifying and investigating the main types of risk of the Group, including prospective risks, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the following are analysed in detail: the regulatory contexts, the situations of the reference market, the Group's position, and the nature of the potential threats, also with the aid of specific stress tests;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors sets and approves the risk objectives, the tolerance threshold (where identified) and the risk management policies.

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, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:
- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the short term (one year) and the medium term (four years, in line with the time-frame of the business plan) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to four years for the baseline scenario.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).

[12] The competent Management Committee varies according to the RAF metrics considered:
- for capital adequacy, credit risk and profit stability metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risks Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Reputational and Operational Risk Committee.

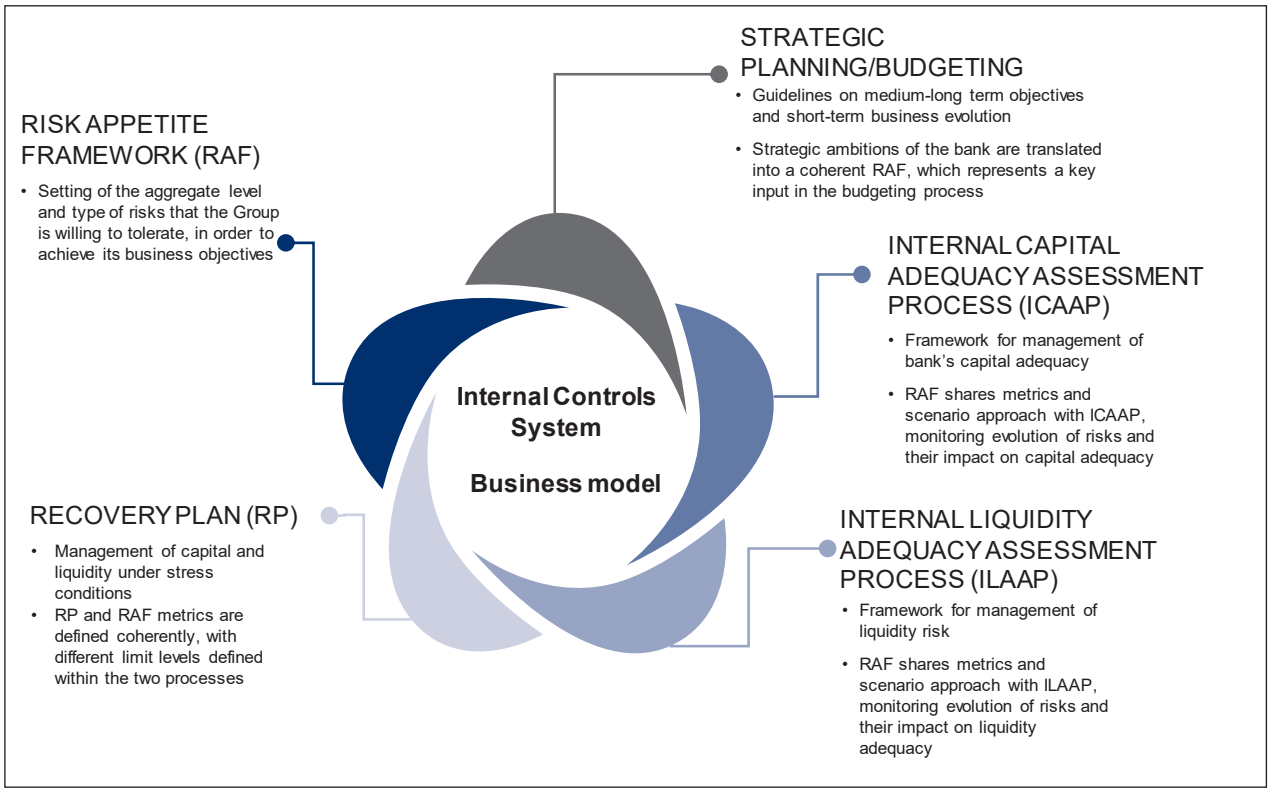
The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document in the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between 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. Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:

- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2017 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.

The conduct of the stress tests consists of three basic steps:
- selection and approval of scenarios;
- execution of stress tests;
- approval of results.

Intesa Sanpaolo distinguishes between the following types of stress tests:
- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

With specific regard to the regulatory multi-risk exercises, please note that in 2018 the Intesa Sanpaolo Group took part in the 2018 EU-Wide Stress Test, the exercise conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Committee for Systemic Risk (ESRB) on the financial statements of European banks as at 31 December 2017. As usual, the exercise consisted of the estimation of the impacts on the Group's financial position and results arising from the application of two scenarios – baseline and adverse – and covered a time horizon of three years (2018-2020). The EU-Wide Stress Test is an important source of information for the purposes of the SREP as the results are useful to the competent authorities in assessing Intesa Sanpaolo's ability to comply with the related prudential requirements in stress scenarios. Intesa Sanpaolo acknowledges the results of the 2018 EU-Wide Stress Test announced by the EBA on 2 November 2018, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) resulting from the stress test for 2020, the final year considered in the exercise, for Intesa Sanpaolo is:
- 13.04% on a phased-in basis, in accordance with the transitional arrangements for 2020 and 12.28% on a fully-loaded basis, under the baseline scenario;
- 10.40% on a phased-in basis, in accordance with the transitional arrangements for 2020 and 9.66% on a fully-loaded basis, under the adverse scenario;

compared to the starting figure, recorded as at 31 December 2017 taking into account the impact of the first-time adoption of IFRS 9, of 13.24% on a phased-in basis and 11.85% on a fully-loaded basis. The CET1 ratio resulting from the stress test for 2020 under the adverse scenario would be 10.99% on a phased-in basis and 10.26% on a fully-loaded basis, taking into account the capital increase executed on 11 July 2018 to serve the 2018-2021 LECOIP 2.0 Long-term Incentive Plan and the conversion of savings shares into ordinary shares finalised on 7 August 2018, other things being equal.

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. The survey conducted in the two-year period 2017/2018 to obtain a picture of the risk culture throughout the entire Group examined, through questionnaires and interviews, the perceptions and opinions regarding a range of dimensions, 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 survey identified widespread attention to the behavioural and value aspects, together with the positive perception, felt uniformly across the Group, regarding several distinct dimensions, such as risk awareness, trust, compliance with the rules, and openness to dialogue. In 2018 initiatives were implemented aimed at strengthening cooperation and internal communications, in order to promote a wider dissemination of working approaches strongly geared towards innovation and proactive problem-solving of the issues. This involved the following in particular:
- consultation and dialogue sessions on emerging issues, aimed at developing an appropriate tone at the top;

- frequent listening sessions and communication opportunities accessible to all the staff, to ensure a level of awareness at all organisational levels;
- workshops for broad audiences across all management levels to strengthen cross collaboration and change management, in line with the evolution of the environmental situation and the competitive dynamics;
- introduction of management development tools that provide easier access (thourgh digital content), free from physical and logistical constraints, to develop individual attitudes and professional interests. Lastly, following on from the staff training programmes already carried out in previous years, a major "on-the-job mentoring" initiative was implemented to guide operational conduct, assess the quality of organisational risk management approaches, and monitor the most significant and complex change processes, with particular attention to situations of corporate evolution (acquisition of new entities) and the internal remodulation of business lines, in order to ensure full business continuity and to preserve high and uniform quality control standards across the Group.

Risk governance organisation

The policies relating to risk taking and the processes for the management of the risk that the Group is or could be exposed to are defined by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risk Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some management committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. In particular:

- the Steering Committee, chaired by the Managing Director and CEO, is a body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, for the presentation of the related proposal to the Board of Directors, the allocation, on authority from the Board of Directors, of the Group RAF limits to the Divisions and/or the Group companies, and the examination of the ICAAP and ILAAP report and of the Risks Tableau de Bord.
- The Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life 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, responsible for evaluating, inter alia, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk and proposals for operational limits, in addition to defining, within the scope of the powers received, the distribution thereof amongst the Group's major units; in addition, the session verifies the financial risk profile and the exposure to the liquidity and interest rate risk of the Group or its main operational units;
  - the Management Guidelines and Operating Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically verifies the Group's overall financial risk profile, as well as taking appropriate measures aimed at mitigating it.
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks[13].
- the Group Control Coordination, Reputational and Operational Risk Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - the "Operational and Reputational Risk" session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving, in accordance with indications of the Board of Directors, operational risk transfer strategies.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling

[13] The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee; however, it does include the models used for stress testing and forward-looking income statement valuations.

the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility.

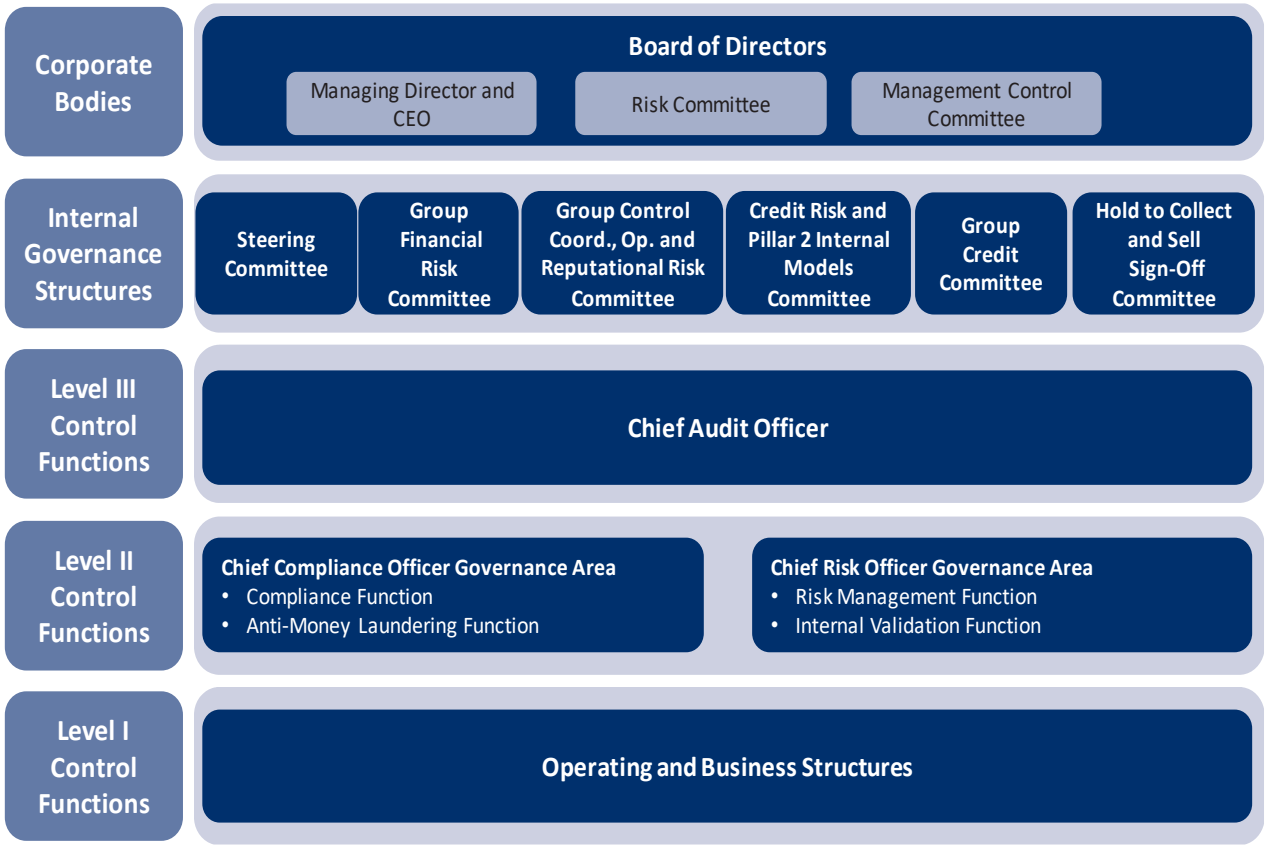
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk and the adoption of lending decisions and the granting of credit ceilings to the extent of its assigned powers.
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Group Committee is responsible for approving the assumption of market risks put forward by the business structures of the Corporate and Investment Banking Division on the HTCS shares required for Originate to Share transactions.

The Chief Risk Officer Governance Area, in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a "second line of defence" in the management of corporate risks that is separate and independent from the business supporting functions.
This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, in addition to ensuring the management of the Group's overall risk profile, by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the Corporate Bodies. It also implements the level II controls of credit and other risks, and ensures the validation of internal risk measurement systems.
To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:

- Credit Risk Management Department;
- Financial and Market Risks Department;
- Enterprise Risk Management Department;
- Internal Validation and Controls Department;
- Foreign Banks Risk Governance
- Coordination of Risk Management Initiatives.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. The risk control functions of subsidiaries with a decentralised management model and the representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk, monitoring the related compliance and planning the necessary mitigation measures and (ii) collaborates 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.



The Parent Company performs a guidance and coordination role[14] with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of business continuity with the law and supervisory regulations, as well as internal policies, procedures and regulations.

[14] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. and Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

The internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration. The internal control system is made up of a documentation infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls present in the Company, which incorporate all the company policies and the instructions of the Supervisory Authorities, as well as the provisions of law, including the principles laid down in Legislative Decree 231/2001.
The regulatory framework consists of “Governance Documents”, adopted from time to time, that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Internal Code of Conduct, Group Regulations, Group Committees Regulation, Regulation on Related Party Transactions, Integrated Internal Control System Regulations, Authorities and powers, Guidelines, Function charts of the Organisational Structures, etc.) and more strictly operational regulations that govern business processes, individual operations and the associated controls (Rules, Process Guidelines, Control Sheets, etc.).
More specifically, the corporate rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording of every operational event and, in particular, of each transaction, with an adequate level of detail, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the control functions;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units, the internal audit department and the other control functions;
- ensure adequate levels of business continuity.

The Company’s organisational solutions also include controls at each operational level that enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
In terms of Corporate Governance, Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee
Based on this system:

- the Board of Directors is the body responsible for strategic supervision and performs all the tasks assigned to it by the Articles of Association, the applicable regulations and the Bank’s governance documents;
- the Managing Director and CEO performs the tasks assigned by the supervisory regulations to the body responsible for management, as set out in the Bank’s governance documents, approved by the Board of Directors, except for the responsibilities assigned to the Board;
- the Management Control Committee performs the control function.

The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors.
The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.

Such a model provides for the following types of control:

- ***Level I***: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
- ***Level II***: risk and compliance controls for the purpose of ensuring, inter alia:
  - the correct implementation of the risk management process;
  - compliance with the operating limits assigned to the various functions;
  - compliance of company operations with the rules, including self-governance rules.

  The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:
  - Chief Compliance Officer Governance Area, which is assigned the duties and responsibilities of the “compliance” function, as defined in the reference regulations. The Chief Compliance Officer’s area also includes the Anti-money laundering Head Office Department, which is tasked with the duties and responsibilities of the “anti-money laundering function”, as defined by the reference regulations;
  - Chief Risk Officer Governance Area, which is assigned the role of the risk management function, as defined by the applicable regulations. The Chief Risk Officer Governance Area also includes the Internal Validation and Controls Head Office Department, which is tasked, among other things, with the duties and responsibilities of the “validation function”, as defined by the applicable regulations.
- ***Level III***: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Chief Audit Officer of the Parent Company and the

equivalent local units of Group companies, where established.
The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.

Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out II level controls on credit and other risks.
The purpose of the credit controls is to verify the proper classification and provisioning and the adequacy of the recovery process for individual exposures (so-called single names).
In general, the control activities development includes the credit processes assessment also to verify that suitable I level controls are in place, including proper execution and traceability. The potential areas of investigation to be examined through Single Name controls therefore also consider the results of the monitoring carried out by the I Level Control Functions within the different credit clusters.
The control of risks other than credit risk is aimed at verifying that I level controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

In accordance with recent regulatory developments, the Internal Validation and Controls Head Office Department is also responsible for the development and maintenance of the framework for the identification, assessment and management of the Model Risk for the risk models (Pillar 1 and 2) and for the managerial models that are also used for accounting purposes.

The internal control system implemented by the Bank includes the validation function, which is in charge of the ongoing assessment, in accordance with the supervisory regulations for banks[15], of the compliance of internal risk measurement and management systems for the determination of the capital requirements with regulatory provisions,with company needs and with changes in the reference market. Moreover internal validation assesses the business and accounting models in application of IFRS 9. The validation function is assigned to the Internal Validation and Controls Head Office Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations requesting a uniform management of the control process on internal risk measurement systems, in line with the independence requirements established by the applicable regulations.
On an annual basis a validation plan, submitted to the Board of Directors for approval, is prepared.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function assesses[16] the management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of internal systems, extension of the internal systems/request for model change, ex ante notification and ongoing validation).
Both during the initial application phase and on an ongoing basis (at least annually), the results of the activities are presented to the competent functions, transmitted to the Chief Audit Officer for its related internal auditing work, as well as to the competent Management Committees and Governance Bodies for approval of the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.
With respect to Pillar 2 risks, the validation function carries out analyses on methodologies, verifying in particular that the measurement metrics adopted in quantifying significant risks are economically and statistically consistent, assessing that the methodologies adopted and the estimates produced to measure significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both ex-ante, when adopting/modifying the internal systems used for Pillar 2 purposes, and ex-post as part of the prudential control process. The latter are summarised in the ICAAP/ILAAP report while, for substantial or significant modifications of internal systems, the validation function produces a report to be submitted to the competent Managerial Committees and the Governance Bodies[17].
The function also manages the internal validation process at Group level, interacting with the Supervisory Authorities, the relevant Corporate Bodies and the functions responsible for the III level controls reported in regulations. It adopts a decentralised approach for companies with local validation functions[18] (several international companies), coordinating and supervising the activities of those companies, and adopting a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory Provisions for banks, EU directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.
The function generally also provides advice and suggestions to company and Group functions on an ongoing basis, with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

[15] Regulation (EU) 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

[16] The validation function is also responsible for calculating the default rates for the development/recalibration of the models and of the ECAF monitoring process.

[17] In the event of substantial/significant modifications, the approval process requires that the Risk Management Head Office Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation unit, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.

[18] Note that the functional reporting of local validation units to the Internal Validation and Controls Head Office Department has been formalised.

In 2018, the validation function carried out its activities, the results of which are presented in detail in the Annual report on the regulatory models and the Annual report on the management models. With regard to the transversal activities for the various risks, the main areas of investigation in which the function had a significant involvement were:
- validation of the main methodological and process implementations for compliance with IFRS 9;
- updating of the Rules for the validation of the Group internal systems (introducing the concepts of Standard and Full validation);
- involvement in the 2018 EBA stress test for its areas of responsibility;
- activities related to the requests from the Internal Audit department during the transversal audit on Internal Validation;
- involvement, as Data Owner, in the "Default Rates" process transformation within the RADAR project.

With regard to Credit Risks, the main areas of investigation in which the function had a significant involvement in 2018 are listed below:
- preparation and submission for approval of the framework for the definition of margins of conservatism as required by the EBA guidelines;
- participation in the Target Review of Internal Models (TRIM) on credit risk (SME Corporate);
- assurance activities required by the regulator on the Corporate, Institutions and Retail remediation plans;
- calculation of the default rates for the update of the central tendencies and for the Risks Tableau de Bord;
- validation of the main methodological and process implementations for the application of the new Definition of Default according to the Two Step Approach;
- validation of the substantial changes made to the LGD Corporate Defaulted Asset model;
- validation activities for ex-ante notification for the updating of the time series of all the validated models;
- validation of substantial changes to the models of the Institutions segment (PD and LGD, processes);
- establishment of the framework for the backtesting of the accounting LGD applied to doubtful positions (LGD defaulted assets), which involves verification of the conservatism of estimates, through Cohen's D statistical tes;
- involvement in the Banco Posta Mutui and Prestiti Personali projects;
- backtesting of the Static Pool portfolio.

With regard to operational risk, the validation activities in 2018 concerned, as usual, the assessment of the due maintenance of the ORM framework and monitoring of the performance of the model calculation (AMA scope). In addition, the function took part in the annual exercise, requested by the ECB, concerning the implementation of common metrics for the validation of the AMA models: the template with the summary of the information and simulations required was prepared as instructed and sent to the ECB.

In the area of market and counterparty risks, the activity focused on the definition and execution of analyses in compliance with the requests made by the Regulator following the inspections (TRIM), which ended in June 2017 and November 2017, for market and counterparty risks respectively. In this regard, it should be noted that the set of continuous analyses on the pricing models used in the risk calculation architecture has been progressively extended. With regard to market risks, the first official reporting was carried out on the analysis of hypothetical portfolios and preliminary analyses were set up to quantify the impact of the use of proxies in the internal model for market risks. With regard to counterparty risks, backtesting analyses were introduced to quantify the performance of the internal model in relation to the main types of financial instruments and a continuous analysis was also introduced to assess the adequacy of the backtesting sample used by the development function. Monitoring continued of the progress of the main projects with impacts on market and counterparty risks (e.g. Fundamental Review of Trading Book). The analyses conducted on an ongoing basis included the backtesting (issued quarterly for both risks), the review of the period for the calculation of the Stressed VaR and the stress testing of the Incremental Risk Charge model (market risk area), and the monitoring of the model's calibration parameters and revision of the simulation drivers (counterparty risk model).

For the Pillar 2 Risks, the main areas of analysis in 2018 were:
- revision of the changes and refinements made to the models used for stress purposes within the ICAAP (related to the credit risk, strategic risk and exchange risk of the Banking Book) and more generally for the stress test framework, by participating in the drafting of the stress testing book;
- assessment of the changes made to the model for the calculation of the economic capital with respect to interest rate risk in the banking book;
- revision of behavioural models for sight items and prepayment, also in light of the refinements of the path dependent model, which seeks to dynamically measure the effect of changes in market rates on interest measures;
- assessment of changes made to the methodology for generating scenarios for calculating the economic capital with respect to insurance risk;
- assessment of the minor changes or updates to the underlying time series of the models used for other risk profiles such as country risk, pension risk, real estate risk, etc.;
- involvement in the 2018 EBA stress test through the validation of net revenue simulation models (PPNR);
- validation of the methodology used to quantify the daily liquidity risk.

In addition, structural changes to the general prudential assessment framework were evaluated, including for example:
- the increase in the confidence level used for the calculation of the economic capital (from 99.85% to 99.90%);
- extension of the time horizon for Pillar 2 baseline projections to three years in line with the Pillar 1 projections;
- introduction of stressed projections for Pillar 2 over the one-year horizon, in replacement of the Confidence Level Sensitivity on economic capital presented in the previous ICAAP exercise;
- introduction of risk diversification to provide a better representation of the absorbed capital of the entire Group risk portfolio;
- first quantification of the economic capital buffer calculated for reputational risk and model risk.

With regard to the Group's International Subsidiaries, the activities carried out mainly concerned the areas of credit risk, operational risks and Pillar 2 risk, also covering the following transversal activities:
- validation of the main methodological and process implementations for the adoption of IFRS 9 in all the international subsidiaries;
- extension/customization of the updated "Rules for the validation of the Group internal systems" and the related Handbooks in the individual local entities;
- validation of the main methodological and process implementations for the application of the new Default Definition for the international subsidiaries included in the scope of the Two Step Approach (VUB and ISPSLO);
- validation of the framework of the EWS model that will be adopted at local level by the individual international subsidiaries.

In particular, with regard to credit risk, the following activities were carried out in 2018:
- validation of the re-estimates of the internal models (management/regulatory) adopted by the international subsidiaries of the Group, in particular with regard to the LGD Performing and Defaulted Asset models of the retail area, the Corporate and slotting model of the subsidiary PBZ, and the Corporate models and the PD Retail and Micro processes of the Hungarian subsidiary CIB;
- preparation of the documentation accompanying the ELBE application in the Mortgage segment for the subsidiary VUB;
- termination of the ECB obligations related to the application for the extension of the corporate models of the subsidiary Intesa Sanpaolo Bank Luxembourg S.A., relating to the Model Change application by the Parent Company;
- monitoring of the obligations notified by the competent Regulator to the individual international subsidiaries.

With regard to operational risks, the main activities carried out were:
- coordination of the Remote Verification process;
- revision of the annual reports prepared by the local validation functions for PBZ, VUB and CIB.

The activities carried out during the year in relation to the monitoring of Pillar 2 risks mainly concerned the coordination of the preparation of the validation reports for the ICAAP report for the two international subsidiaries PBZ and ISPSLO and the validation of the methods used for mangerial purposes. In particular, the framework for measuring the banking book interest rate risk has been aligned to the methodology adopted by the parent company (sight items and prepayment behavioural models).

Compliance

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operational structures, reports directly to the Corporate Bodies and has access to all activities within the Bank, as well as any significant information for the performance of his/her duties.
The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:
- identifying and assessing compliance risk;
- proposing the functional and organisational measures for mitigation of this risk;
- conducting pre-assessments of the compliance of innovative projects, operations and new products and services;
- providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
- monitoring, including through the use of information provided by the other control functions, of ongoing compliance;
- disseminating a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the aforementioned guidelines. The Chief Compliance Officer submits periodic reports to the Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Group which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to direction, coordination and control of the Group. These models are organised in such a way as to account for the Group's structure in operational and territorial terms. In particular:
- for specifically identified Italian Banks and Companies, whose operations are highly integrated with the Parent Company, the compliance supervision is centralised at the Parent Company;
- for the other Companies, that have a legal obligation or have been specifically identified based on the business conducted, as well as the International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

Anti-Money Laundering

The duties and responsibilities of the Anti-money laundering Function are assigned, as required by the regulations, to the Anti-money laundering Head Office Department, which reports to the Chief Compliance Officer, and is therefore independent and autonomous in relation to the operating structures, reporting directly to the Corporate Bodies, and has access to all activities within the Bank, as well as to any significant information for the performance of its duties.

Specifically, the Anti-Money Laundering Head Office Department ensures monitoring of compliance risk in the area of money laundering, terrorist financing and embargoes, corruption (financial crime) and weapons, in addition to administrative liability of entities, by:

- laying down the general principles to be adopted within the Group for the management of compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the data storage Archive and the assessment and monthly submission to the Financial Intelligence Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating departments for the submission to the Financial Intelligence Unit of reports deemed accurate.

The Anti-money laundering Head Office Department performs its role of guidance, coordination and control of the Group according to a model similar to the one described for the Compliance function.

Internal Auditing

Internal auditing activities are assigned to the Chief Audit Officer, who reports directly to the Board of Directors (and, on its behalf, to its Chairman), functionally reporting to the Management Control Committee, without prejudice to the appropriate sharing of information with the Managing Director and CEO. The Chief Audit Officer does not have any direct responsibilities for the operational areas.
This function has a structure and a control model which is organised according to the evolution of the organisational structure of Intesa Sanpaolo and of the Group.
The Internal Auditing structures of the Group's Italian and international companies report to the Chief Audit Officer in terms of functions.
The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.
In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance corporate functions, also through participation in projects, so as to generate added value and improve the effectiveness of the control and corporate governance processes.
The audit action directly concerns Intesa Sanpaolo and the Group companies.
The Internal Auditing Department is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF.
The Head of the Internal Auditing Department enjoys due autonomy and independence from the operating structures. The Department has access to all the activities conducted at both the head office departments and the local structures. If third parties are assigned significant activities for the functioning of the internal control system (e.g. data processing), the internal auditing department must also have access to the activities carried out by those parties.
The department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IIA).
As required by the international standards, the department is subject to an external Quality Assurance Review every five years. The last review was carried out in 2016 and assigned the department the highest assessment envisaged ("Generally Compliant"). At the end of 2018, on request from the Management Control Committee, a new assessment was conducted that will end in the first quarter 2019.
In performing its duties, the function uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.
The Chief Audit Officer ensures the proper conduct of the internal process for managing whistleblowing reports.
The Chief Audit Officer coordinates the "Integrated Internal Control System" session of the Group Control Coordination, Reputational and Operational Risk Committee.

Auditing was performed directly for the Parent Company, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies having their own internal audit departments, steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks,

also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.
Any weaknesses detected during control activities have been systematically notified to the company functions involved for prompt improvement actions, which are monitored by follow-up activities to verify their effectiveness.
Summary internal control system assessments from the checks have been periodically submitted to the Management Control Committee and the Board of Directors. The findings of the audits completed with a negative opinion or with the identification of major shortcomings were sent in full to the Board of Directors, the Managing Director and CEO and the Management Control Committee, as well as the Boards of Directors and Boards of Statutory Auditors of the subsidiaries concerned.
The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB), with details of the mitigation actions underway, together with the related responsibilities and deadlines envisaged, so they can be systematically monitored. Lastly, the Chief Audit Officer ensured constant assessment of its own effectiveness and efficiency in line with the internal “quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice. In this context, during 2018, a function evolution plan was launched, also in line with the strategies of the 2018-2021 Business Plan, referred to as Future Audit Solutions and Transformation (FAST).

Manager responsible for preparing the Company's financial reports

Supervision on the reliability of the Company financial reports and on the financial reporting process is carried out by Intesa Sanpaolo's Manager responsible for preparing the Company’s financial reports, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions. This control is also ensured over the subsidiaries governed by the laws of non-EU countries, in accordance with the supervisory rules on management and accounting systems set by Article 15 of Consob Market Regulation 20249/2017 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).
In order to comply with the aforesaid provisions, the Manager responsible for preparing the Company’s financial reports:

- performs a steering and coordination role in Group companies with regard to administrative matters and in the monitoring of the internal control system functional to financial reporting;
- supervises the implementation of legal requirements according to a shared approach at Group level, set out in specific internal regulations.

In particular, the Manager responsible for preparing the Company's financial reports:

- issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Rules, which are subject to regular periodic updates;
- prepares appropriate administrative and accounting procedures for the preparation of the separate and the consolidated financial statements, and updates them to ensure compliance with the corporate disclosure requirements in force;
- verifies the adequacy of the administrative and accounting procedures and the effectiveness of the control system on the financial reporting process;
- oversees the correspondence between the corporate reporting to the market with the accounting records; to this end, it has the right to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors.

With specific regard to the financial reporting processes, the Manager responsible for preparing the Company’s financial reports:

- maintains a system of contact and information flows with the function of the Parent Company and of the Group Companies, in order to ensure the adequacy of balance sheet, income statement and financial positions and the descriptions of the main types of risks and uncertainties to which the Group may be exposed, monitoring the reliability of the of acquisition of relevant data and information;
- oversees the internal control system on the financial reporting process, drawing up audit plans to ensure the adequacy and effective application of administrative and accounting procedures over the period, also by subsidiaries subject to the laws of countries that are not part of the European Union, pursuant to art. 15 of Consob Market Regulation; periodically reports to the Board of Directors and the Management Control Committee on the scope and results of the audits;
- acquires, in relation to the effects on the financial reporting process and the reliability of the company information, the results of the activities carried out by the Corporate control functions and, in particular, by the Internal Audit Department, which is responsible for the overall assurance for the internal control system in accordance with the “Integrated Internal Control System Regulation”;
- acquires any recommendations formulated by the independent auditors at the end of the process of auditing the separate financial statements of the Parent Company and the consolidated financial statements, as well as the related feedback in terms of measures to improve the procedures that have an impact on accounting data, monitoring their implementation and effectiveness;
- shares with the Surveillance Body established pursuant to Legislative Decree 231/01, the findings of the audit plan carried out in implementation of the monitoring of the financial reporting process, focusing on preventing the criminal and administrative offences described in the “Organisation, Management and Control Model pursuant to Legislative Decree No. 231 of 8 June 2001”.

The Manager responsible for preparing the company's financial reports contributes to supervising the independence of the independent auditors, in accordance with the procedures governed by specific Company Regulations, in line with the provisions of law (Legislative Decree 39/2010 amended by Legislative Decree 135/2016, which transposed Directive 2014/56/EU into the Italian legal framework, and EU Regulation 537/2014). The above-mentioned Company Regulations assign to the Manager responsible for preparing the Company's financial reports the role of supervising, overseeing and

monitoring the accounting audit engagements and other services entrusted by the Parent Company departments and the Group companies to independent auditors, their networks and their affiliates, in addition to the task of regularly informing the Management Control Committee in this regard.
The Manager responsible for preparing the Company's financial reports also ensures periodic reporting to the Board of Directors regarding the legal and regulatory obligations assigned to the Board for the monitoring of the adequacy of powers and means granted to the Manager responsible for preparing the Company's financial reports and of the effective observance of administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

Attestations as required by Art. 154-bis of the Consolidated Law on Finance

In relation to the supervisory and monitoring functions assigned, the Manager responsible for preparing the Company's financial reports:

- signs, jointly with the Managing Director and CEO, the attestations of the separate and consolidated financial statements required by the Article 154-bis, paragraph 5, of the Consolidated Law on Finance on the adequacy and actual application of administrative and accounting procedures, the compliance with the international accounting standards, the agreement of the financial statements with the supporting documentation, accounting books and records and their suitability to give a true and fair view of the financial and economic position of the Group, as well as a reliable analysis of the performance, operating result and the main risks to which the Group is exposed;

- certifies the correspondence of the documents and announcements disclosed to the market with the records, books and accounting entries, pursuant to Article 154-bis, paragraph 2, of the Italian Consolidated Law on Finance.

The monitoring of the accounting and financial reporting process is based on the review of:

- completeness and consistency of the information provided to the market through a structured reporting system originated from the functions of the Parent Company and the Companies concerning the events deemed significant for accounting/financial disclosure purposes, especially with regard to the main risks and uncertainties to which they are exposed;
- suitability of the processes and procedures used for the preparation of accounting documents and other communication of a financial nature deemed relevant pursuant to Article 154-bis of the Consolidated Law on Finance. Special attention is paid to monitoring the adequacy of the auditing approach and the proper conduct of the activities required for the financial reporting process; the focus of the controls is represented by the work stages which, within business processes, entail the recording, processing, evaluation and presentation of data and information. In addition to the adequacy of the structure of procedures and the effective application of related controls, the IT architecture and applications, operating processes and development interventions on the summary systems instrumental to financial reporting are taken into consideration.

The organisational model for the supervision of the adequacy of the administration, accounting and financial reporting procedures and the related internal control system is governed by the Company "Guidelines for Administrative and Financial Governance". In particular, the Model prescribes assessment methodologies differentiated according to, on one hand, the risk of the processes deemed significant for accounting and financial reporting purposes and, on the other, the need to realise synergies with the control activities carried out by the Internal Auditing Department and the other Corporate Control Functions. To this end, the procedures may be verified by means of in-depth analyses, conducted according to specific methodologies used to verify the correctness of the accounting and financial information, carried out by the structures that support the Manager responsible for preparing the Company's financial reports (analytical approach) and, if present, of the information collected by the Corporate control functions or by external entities such as Independent Auditors, Supervisory Authorities, etc. (synthetic approach).

Accordingly, the Model provides for the following activities:

- definition and regular update of the plan of controls and the scope of application;
- ongoing monitoring of the processes deemed significant for accounting and financial reporting purposes and the related internal control system;
- regular summary assessment of the adequacy of the procedures and internal control system for accounting and financial reporting;
- management of the system of information flows from the corporate functions of the Parent Company and the Group Companies to the Manager responsible for preparing the Company's financial reports;
- management of the system of attestation on the validity of the administrative processes and completeness of the information flows, within the respective areas of competence issued to the Manager responsible for preparing the Company's financial reports by the Managers of the Business Units, the Governance Areas and the Group Central functions, and by the Delegated Bodies of Group Companies;
- preparation of the Report concerning the financial information process;
- management of the system of reporting by the Manager responsible for preparing the Company's financial reports to the Corporate Bodies;
- procedures for the steering and coordination of subsidiaries.

For the assessment of the adequacy of the relevant processes for the financial reporting, the Manager responsible for preparing the Company's financial reports uses the results of the controls carried out by the structures reporting directly to him, by the Internal Auditing Department and the other Corporate control functions. To this end, within the scope of the Control Coordination and Operational Risk Committee provided for by the Integrated Internal Control System, the Corporate

Control Functions and the Manager responsible for preparing the Company's financial reports share annual check plans and the related outcomes. The critical issues arising from inspections conducted by external bodies (Independent Auditors, Supervisory Authorities) are also collected and assessed from the perspective of financial reporting risk.

To conclude the preparation of the Company's financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting processes, according to the guidelines described herein, the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports sign the attestations required by Art. 154 bis, paragraph 5, of the Consolidated Law on Finance.
These attestations are included in the reporting packages for the separate financial statements of the Parent Company and the consolidated financial statements, and are provided to the public according to the model established by the Consob Regulation.

Report pursuant to Article 15 Consob Market Regulation 20249/2017 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).

With regard to the protection of savings and the regulation of financial markets, the Italian Securities and Exchange Commission (Consob) has set certain conditions for the listing of parent companies incorporated and subject to the laws of non-EU member states (Article 15 of the Market Regulation cited). As a result, Intesa Sanpaolo has set up an action plan to ensure the existence of the conditions required for subsidiaries that are of material significance, identified in compliance with the criteria established in the rules of the cited Article 15:

- ensuring the public disclosure of the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements;
- obtaining details from its subsidiaries of their articles of association, membership and powers of the control bodies;
- determining that the subsidiaries: i) provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) enjoy access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance is confirmed with the conditions required by Article 15 of Consob Market Regulation 20249/2017 (effective from 3 January 2018, formerly Article 36 of Consob Market Regulation 16191/2007).
The Management Control Committee and Board of Directors have been informed of compliance with those regulatory provisions governing companies incorporated in and subject to the laws of non-EU Member States, in the aforementioned “Report on the internal control system of the financial reporting process” drafted in order to illustrate the overall governance and control activities performed in accordance with the various provisions of laws and Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company’s financial reports.

Scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

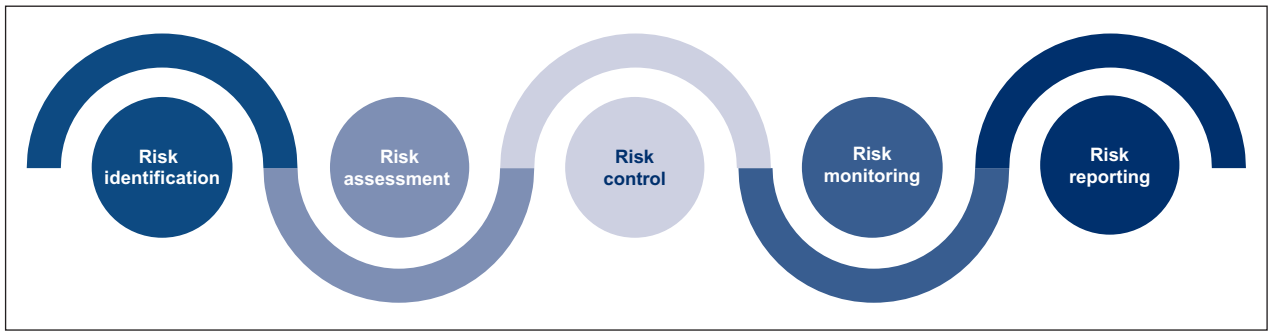
- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, compliance risk, ICT risk, model risk and financial reporting risk;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line-by-line consolidation;
- risks relating to defined-benefit pension funds.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.

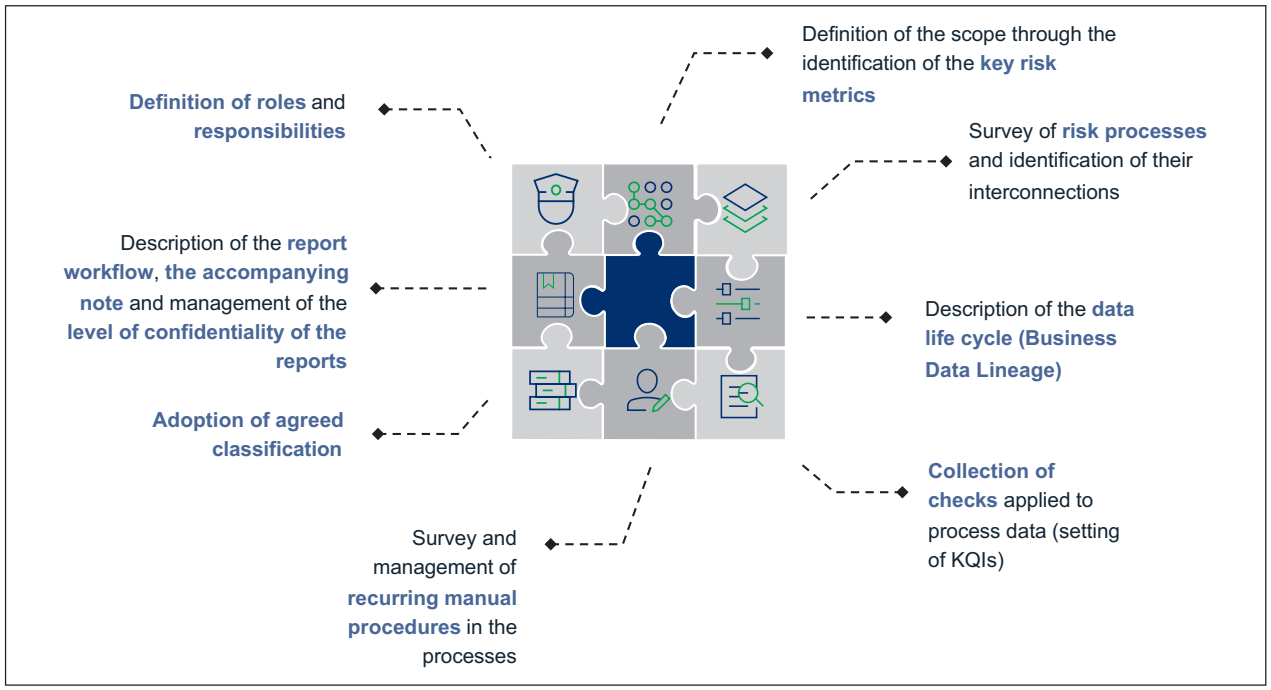
Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.

Over the years, the Group has developed and implemented the necessary structural and operational improvements to support senior management with integrated risk reporting that is as complete, accurate and regular as possible.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The Group has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. More generally, actions have been taken regarding the aspects shown in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.
The types of risk included in the scope of the Data & Reporting Governance are: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and risk integration.
Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risks Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.
In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements, with regard to the types of risk indicated below and in accordance with the procedures established for the qualitative disclosure in Bank of Italy Circular 262:

	FINANCIAL STATEMENTS		PILLAR 3
	Section/Chapter	**Paragraph**	**Section**
RISKS OF THE BANKING GROUP	PART E - SECTION 2		
- Credit risk	Chapter 1.1	*Paragraph A*	Sections 6-7-8-9-10
- Securitisations	Chapter 1.1	*Paragraph C*	Section 12
- Market risk	Chapter 1.2		Section 13
- Regulatory trading book:		*Paragraph 1.2.1*	
- Banking book		*Paragraph 1.2.2*	
- Counterparty risk	Chapter 1.3		Section 11
- Financial derivatives		*Paragraph 1.3.1*	
- Credit derivatives		*Paragraph 1.3.2*	
- Accounting hedges		*Paragraph 1.3.3*	
- Liquidity risk	Chapter 1.4		
- Operational risks	Chapter 1.5		
RISKS OF INSURANCE COMPANIES	PART E - SECTION 3		
- Insurance Risks	Chapter 3.1		
- Financial Risks	Chapter 3.2		
RISKS OF OTHER COMPANIES	PART E - SECTION 4		

The information provided in this part of the document is based on internal management data and may not necessarily coincide with that contained in Parts B and C of the Notes to the consolidated financial statements.
In addition to credit, market, trading book, banking book financial, liquidity, operational and insurance risks, discussed in detail in the following paragraphs, the Group has identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

– a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
– the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions 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:

– through compliance with standards of ethics and conduct by all employees. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation. The Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights;

- systematically and independently by the structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
- across the various corporate functions, through the Reputational Risk Management processes coordinated by the Chief Risk Officer Governance Area;
- through an integrated monitoring system for primary risks, to limit exposure to those risks, and compliance with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More specifically, the 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 abovementioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:

- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations.
The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on changes observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, applied to the market value of the real estate portfolio at the reporting date, with an appropriate granularity of geographical location and intended use.

Risk on equity investments not subject to line-by-line consolidation

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.
The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.
The model used to estimate the Economic Capital is a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, and to prospective baseline and stress scenarios.
Following the result of the offer of capitalisation of the supplementary benefits on a voluntary basis in the second half of 2018 (as described in detail in the Financial Statements – Notes to the consolidated financial statements – Part B – Information on the balance sheet - Liabilities) the guarantee to be provided on those benefits, and the associated risk of increase, have been significantly reduced.

Model risk

Model risk is defined as the risk arising from the improper use of the results of the internal models or from errors in the development and/or implementation of the internal models.
In 2018, the Internal Validation and Controls Head Office Department further developed the framework for the identification, assessment and mitigation of this risk. In particular, in order to set a specific economic capital buffer (under baseline conditions), included in the 2018-2021 ICAAP Report, the assessment was updated for the "inherent" model risk (expressed synthetically through a score) of several Pillar 1 and Pillar 2 methodologies that contribute to the aforementioned economic capital calculation.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are partly unknown but considered significant, even though their effects are uncertain and cannot yet be fully integrated into the more consolidated risk management frameworks. These risks could have a significant impact on the Group's financial position or business model in the medium term.
The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.
In this regard, Intesa Sanpaolo pays particular attention to cyber risks and risks associated with climate change.
Technological updating, the evolution of our information system and the numerous initiatives aimed at digital transformation are a fundamental part of the Group's development strategies, also in view of the evolution of the international competitive environment, which is seeing the entry of new types of competitors and deeply innovative solutions. Among the problems that have arisen with the digitisation and technological developments linked to the ever-increasing need to use and share data is cyber risk, which is particularly significant due to both the growth in the frequency and severity of attacks (against financial institutions or other components of their value chain) and the confidentiality of company and customer data. In view of the changes in the internal and external situation, the ISP Group has decided to make cyber risk management an integral part of its management strategy, in order to support the development and implementation of cutting-edge cybersecurity solutions, providing the tools needed to identify and deal with possible threats and risk scenarios in the various company areas (processes, technologies, personnel and organisational culture). To this end, the Group is committed to developing strategic intelligence and cyber-readiness solutions, as well as creating a resilient environment, capable of promptly restoring the normal course of processes and services and mitigating operational and reputational impacts. The Group is also establishing a framework dedicated to the management of cyber risk that enables it to implement and maintain effective control of this risk over time and to protect its business, reputation, customers and employees.
The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk, i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have concrete financial implications on the economy of certain sectors (e.g. reduction/abandonment of fossil fuels) with which the Group has business relations.
The Group is therefore interested in monitoring the effects of climate change and has decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. To this end, it has set up a cross-functional working group for the implementation of the TCFD recommendations and intends to assess the repercussions of this issue within the risk management framework, also looking at the impact on its lending activities.

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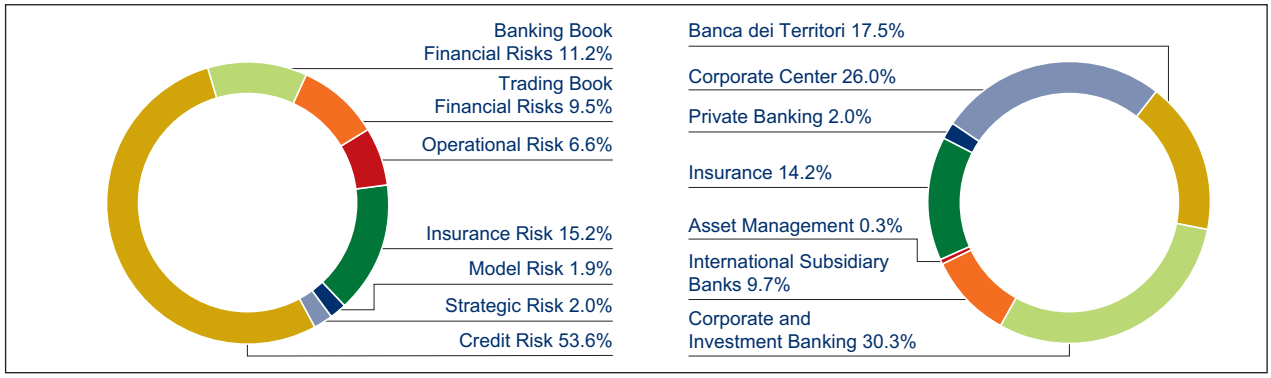
In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the risks that may arise from the United Kingdom's exit from the European Union, which are mainly linked to the regulatory and political uncertainties arising from Brexit. In order to best address these risks, the Intesa Sanpaolo Group has formulated its strategic and operational decisions, through a dedicated project, aimed at ensuring business continuity also in a Hard Brexit scenario. The Brexit plan has been defined in accordance with the external scenario and the relevant instructions from the competent Supervisory Authorities and the Regulators.
In particular, for the Corporate & Investment Banking Division, which has a presence in the United Kingdom with two branches, mitigation actions have been identified to guarantee business operations and customer coverage. In addition, particular focus has been placed on access to UK resident Central Counterparties (CCPs) for the centralised clearing of OTC derivatives.

Absorption of Economic Capital by type of risk and Business Unit

The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.

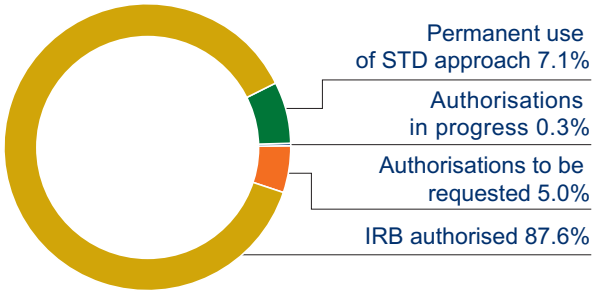


The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (30.3% of the total Economic Capital): this is attributable 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 (17.5% 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 (14.2% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 9.7% 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 FVTOCI portfolio, and the residual portion of insurance risk (26.0% of the total Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.0% and 0.3%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

The Basel 3 regulations

In view of compliance with the gradual reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group undertakes adequate initiatives in order to continuously improve the measurement systems and the related risk management systems.
With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report at 31 December 2008 on the Corporate portfolio for a scope including the Parent Company, the banks in the Banca dei Territori Division and the main Italian product companies.
Subsequently, the scope of application has been gradually extended to include the SME Retail and Retail Mortgage portfolios, as well as other Italian and international Group companies.
Compared to 31 December 2017, the authorisation was received from the ECB on 31 August 2018 for the use of the new internal rating model for the Retail segment consisting of Residential Mortgages (model change) and Other Retail (first adoption), with the extension of the model to the portfolio acquired from the former Banca Nuova. In addition, the use of the new Retail model has been extended to the former Banca Nuova portfolio and the SME Retail model has been extended to the portfolios acquired from the former Banca Popolare di Vicenza, Veneto Banca and Banca Nuova.
With regard to the progress of the roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 87.6% of the loan portfolio. The pending authorisations, concerning the extension of the internal models to Banca Apulia, represent 0.3% of the portfolio, while requests to be made for the remaining portfolios of the Group's Italian and international banks represent 5% of the portfolio. For the remainder, equal to 7.1%, the permanent use of the Standardised approach has been authorised.

Roll-out plan for internal models for credit risk(*)



(*) Percentages calculated based on the full standard RWA amounts as at 31/12/18. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.

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, the Banks of the Banca dei Territori Division 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 annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2018.
As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.
The document is published on the website (www.group.intesasanpaolo.com) each quarter.

SECTION 1 – RISKS OF THE CONSOLIDATED BOOK

In this Section, information is provided regarding the companies included in the consolidated book.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values) - *Excluding insurance companies*

(millions of euro)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost	7,138	9,043	350	5,820	454,152	476,503
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	57,308	57,308
3. Financial assets designated at fair value	-	-	-	-	208	208
4. Other financial assets mandatorily measured at fair value	-	73	2	4	1,145	1,224
5. Non-current financial assets held for sale	23	886	-	11	19	939
Total 31.12.2018	**7,161**	**10,002**	**352**	**5,835**	**512,832**	**536,182**
Total 31.12.2017	**12,626**	**12,725**	**392**	**8,191**	**510,901**	**544,835**

A.1.1. Bis. Breakdown of financial assets by portfolio classification and credit quality (book values) - *Insurance companies*

(millions of euros)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Performing exposures	TOTAL
1. Financial assets available for sale	-	-	-	-	62,304	62,304
2. Investments held to maturity	-	-	-	-	-	-
3. Due from banks	-	-	-	-	922	922
4. Loans to customers	-	-	-	-	30	30
5. Financial assets designated at fair value	-	-	-	-	4,888	4,888
6. Non-current financial assets held for sale	-	-	-	-	-	-
TOTAL 31.12.2018	**-**	**-**	**-**	**-**	**68,144**	**68,144**
TOTAL 31.12.2017	**-**	**-**	**-**	**-**	**71,194**	**71,194**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values) - Excluding insurance companies

(millions of euros)

Portfolios/quality	NON-PERFORMING ASSETS				PERFORMING ASSETS			TOTAL (net exposition)
	Gross exposure	Collective adjustments	Net exposure	Total partial write-offs	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets measured at amortised cost	36,396	-19,865	16,531	5,306	462,242	-2,270	459,972	476,503
2. Financial assets measured at fair value through other comprehensive income	35	-35	-	-	57,355	-47	57,308	57,308
3. Financial assets designated at fair value	-	-	-	-	X	X	208	208
4. Other financial assets mandatorily measured at fair value	94	-19	75	-	X	X	1,149	1,224
5. Non-current financial assets held for sale	1,210	-301	909	8	39	-9	30	939
Total 31.12.2018	**37,735**	**-20,220**	**17,515**	**5,314**	**519,636**	**-2,326**	**518,667**	**536,182**
Total 31.12.2017	**52,424**	**-26,681**	**25,743**	**n.a.**	**520,091**	**-1,448**	**519,092**	**544,835**

(millions of euros)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-38	46	37,117
2. Hedging derivatives	-	-	2,993
Total 31.12.2018	**-38**	**46**	**40,110**
Total 31.12.2017	**-46**	**309**	**41,225**

The tables above include purchased credit-impaired financial assets, mainly relating to positions included in securitisations following the integration of the former Venetian banks. The purchase price (to be understood as the initial recognition amount) of these assets was 569 million euro compared to an original gross value of 728 million euro.

A.1.2. Bis Breakdown of financial assets by portfolio classification and credit quality (gross and net values) – Insurance companies

(millions of euro)

Portfolios / (Figures must be filled in absolute values)	Quality	Impaired assets			Not impaired assets			Total (net exposure)
		Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
1. Financial assets available for sale		-	-	-	62,304	-	62,304	62,304
2. Investments held to maturity		-	-	-	-	-	-	-
3. Due from banks		-	-	-	922	-	922	922
4. Loans to customers		-	-	-	30	-	30	30
5. Financial assets designated at fair value		-	-	-	X	X	4,888	4,888
6. Non-current financial assets held for sale		-	-	-	-	-	-	-
Total	**31.12.2018**	**-**	**-**	**-**	**63,256**	**-**	**68,144**	**68,144**
Total	**31.12.2017**	**-**	**-**	**-**	**66,732**	**-**	**71,194**	**71,194**

(millions of euro)

Portfolios / Quality			Assets of evidently low credit quality		Other assets
			Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading			-	-	181
2. Hedging derivatives			-	-	-
	Total	**31.12.2018**	**-**	**-**	**181**
	Total	**31.12.2017**	**-**	**-**	**240**

B. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify. The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

B.1. Consolidated structured entities

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2. Structured entities not consolidated in the accounts

B.2.1. Prudential consolidation of structured entities

There are no structured entities consolidated for prudential purposes other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

B.2.2. Other structured entities

Qualitative information

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For that types of vehicle companies, reference should be made to section "C. Securitisations" and section “D. Sales" of Part E of the Notes to the consolidated financial statements.

In some cases the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the “entrepreneurial” idea. The financing of the initiative is based on the project’s capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

Asset Backed SPEs
These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally the assets are also the collateral for the financing disbursed to the vehicle.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

Leveraged & Acquisition Finance SPEs
This category includes exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy-Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.
The main cases include the Group's investments in several funds managed by IMI Fondi Chiusi SGR, which sponsors and manages closed-end private equity funds, in the form of UCIs reserved to qualified operators, specialised in investment in Small and Medium-Sized Enterprises, operating in two complementary business lines: Private Equity and Venture and Seed Capital.
In the area of Private Equity, there are several operating funds dedicated to investment in SMEs throughout the country and in specific geographical areas.
In the area of Venture and Seed Capital, the sponsored funds operate in the following areas:
- participation in new business initiatives characterised by sound technological profiles;
- participation in projects to introduce process or product innovation using digital technology;
- investments in businesses with high forecast growth rates and cutting-edge technological development, both through direct investments in Seed Capital (financing the assessment and development of a business idea prior to the start-up phase) and indirect investments in UCI units with an investment policy matching the Fund's objectives or in business incubators/accelerators.

Investments in these types of funds derive from the Group's willingness to subscribe unplaced units offered during the placement to qualified investors, to ensure that the initiatives are successful, in any event, while maintaining suitable separation of management in organisational terms.

The closed-end funds in question finance their activities exclusively using the capital that investors committed to paying in at the time of placement, without using any types of debt.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR, in line with the financial portfolio management policies issued by the company, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company has both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of Treasury management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by a subsidiary do not prejudice the operational autonomy and capacity of the asset management company to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group's real estate portfolio.

The investments in UCIs also include the units held in the Atlante Fund and the Italian Recovery Fund, alternative investment funds managed by the asset management company Quaestio Capital Management, involved in value enhancement of Non-Performing Loans of Italian banks.

The Intesa Sanpaolo Group also invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.

Quantitative information

(millions of euro)

Captions / Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilites	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1. Special purpose vehicle		**2,699**		**516**	**2,183**	**3,438**	**1,255**
	Financial assets held for trading	236	Due to customers	516			
	Other financial assets mandatorily measured at fair value	2		-			
	Assets measured at amortised cost_Loans to customers	2,461		-			
2. UCI		**3,081**		**42**	**3,039**	**3,180**	**141**
	Financial assets held for trading	962	Due to customers	39			
	Financial assets designated at fair value	1,601	Financial liabilities held for trading	3			
	Assets measured at amortised cost_Loans to customers	518		-			

The maximum exposure to risk, representing the maximum exposure of the Group to losses deriving from its interests in structured entities, is generally equal to the net book value, to which, where applicable, several types of off-balance sheet exposures are added (e.g. committed credit lines or guarantees given). The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years.
For UCIs, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.
The table below shows the amount and type of revenues earned over the year by structured entities. The main component of the revenues recognised consists of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service.

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	3	1,882	21	4	1,910
Special-purpose vehicles	196	24	-	79	299

SECTION 2 – RISKS OF THE PRUDENTIAL CONSOLIDATION

In this section the figures are shown gross of the transactions with the other companies included in the scope of the accounting consolidation. These figures usually also include the assets and liabilities, in proportion to the interest held, of the jointly-controlled banking, financial and operational companies consolidated proportionally for reporting purposes. Where the contribution of transactions between the companies included in the prudential consolidation and the other companies in the scope of the accounting consolidation is material, the details of those transactions are provided at the foot of the disclosure concerned.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

(millions of euro)

Assets		31.12.2018 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2018 Regulatory-scope balance sheet
10.	Cash and cash equivalents	10,350	-3	10,347
20.	Financial assets measured at fair value through profit or loss	42,115	555	42,670
	a) financial assets held for trading	38,806	164	38,970
	b) financial assets designated at fair value	208	-	208
	c) other financial assets mandatorily measured at fair value	3,101	391	3,492
30.	Financial assets measured at fair value through other comprehensive income	60,469	-17	60,452
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	-149,546	-
40.	Financial assets measured at amortised cost	476,503	3,142	479,645
	a) due from banks	69,307	-116	69,191
	b) loans to customers	407,196	3,258	410,454
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	-952	-
50.	Hedging derivatives	2,993	-	2,993
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-	124
70.	Investments in associates and companies subject to joint control	943	5,343	6,286
80.	Technical insurance reserves reassured with third parties	20	-20	-
90.	Property and equipment	7,372	-773	6,599
100.	Intangible assets	9,077	-1,743	7,334
	of which:	-	-	-
	- goodwill	4,163	-602	3,561
110.	Tax assets	17,253	-631	16,622
	a) current	3,320	-47	3,273
	b) deferred	13,933	-584	13,349
120.	Non-current assets held for sale and discontinued operations	1,297	-278	1,019
130.	Other assets	8,707	-3,731	4,976
Total Assets		**787,721**	**-148,654**	**639,067**

Liabilities and Shareholders' Equity		31.12.2018 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2018 Regulatory-scope balance sheet
10.	Financial liabilities measured at amortised cost	513,775	4,173	517,948
	a) due to banks	107,815	-1,352	106,463
	b) due to customers	323,900	3,197	327,097
	c) securities issued	82,060	2,328	84,388
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	-810	-
20.	Financial liabilities held for trading	41,895	156	42,051
30.	Financial liabilities designated at fair value	4	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	-67,800	-
40.	Hedging derivatives	7,221	-331	6,890
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	-	398
60.	Tax liabilities	2,433	-596	1,837
	a) current	163	-35	128
	b) deferred	2,270	-561	1,709
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	-258	-
80.	Other liabilities	11,645	-2,012	9,633
90.	Employee termination indemnities	1,190	-9	1,181
100.	Allowances for risks and charges	5,064	-192	4,872
	a) commitments and guarantees given	510	-63	447
	b) post-employment benefits	261	-1	260
	c) other allowances for risks and charges	4,293	-128	4,165
110.	Technical reserves	80,797	-80,797	-
120.	Valuation reserves	-913	-	-913
125.	Valuation reserves pertaining to insurance companies	9	-	9
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	13,006	-	13,006
160.	Share premium reserve	24,768	-	24,768
170.	Share capital	9,085	-	9,085
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	407	-178	229
200.	Net income (loss) (+/-)	4,050	-	4,050
Total Liabilities and Shareholders' Equity		**787,721**	**-148,654**	**639,067**

(*) The effects are attributable to :
- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

1.1. CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:
- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

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

The 2018-2021 Business Plan includes - among other things - the ambition to excel in asset quality and a pillar of "significant de-risking at no cost to shareholders" in which the effective management of non-performing loans is one of the first priorities. The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations.

2. CREDIT RISK MANAGEMENT POLICIES

2.1. Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:
- Chief Lending Officer Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Credit Head Office Department, CIB Credit Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Transformation Head Office Department and Capital Light Bank Head Office Department):
- assesses the creditworthiness of the credit proposals received and approves or issues a compliance opinion, where applicable;
- ensures the proactive management of credit and the management and the monitoring of non-performing loans, for its area of responsibility;
- innovatively manages the corporate crisis situations of its customers, through business and financial restructuring instruments;
- analyses the loan portfolio and the evolution of the cost of credit within the Group;
- sets the rules for credit granting and for non-performing loans;
- ensures the correct valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- assigns ratings to positions requiring specialist valuations and assesses proposals for improvement overrides made by the competent structures;
- defines the operational processes for credit, also on proposal from the various functions/structures of the Group, in collaboration with the Transformation Center;
- optimises the non-core assets for the bank in line with the Group's objectives, with a view to progressive reduction and disposal, also in collaboration with the other functions involved;
- performs a contact and monitoring role with respect to the external servicer Intrum Italy, and ensures the overall coordination of the subsidiaries Intesa Sanpaolo RE.O.CO. and Intesa Sanpaolo Provis.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:
- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;

- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the allocation of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- performs level 2 controls for credit risk oversight.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area

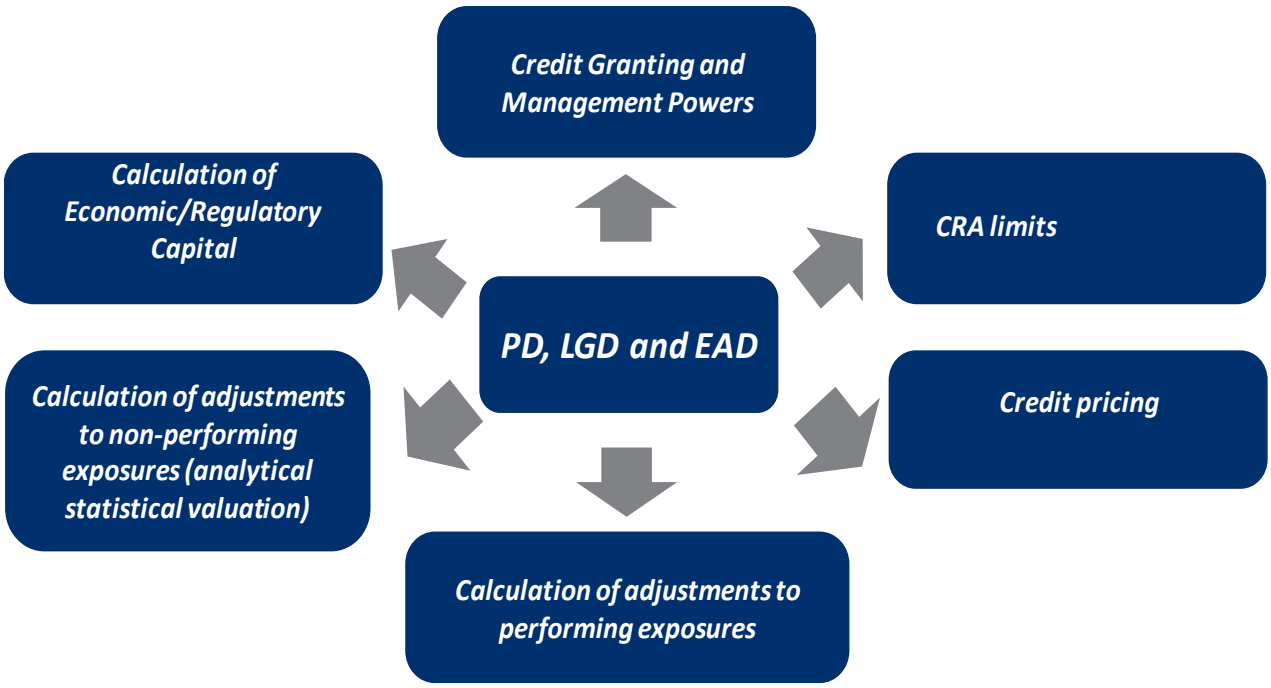
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies and participation in market operations on performing and non-performing loan portfolios.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group's Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

Lastly, as is the case for all the risk areas and above all for credit risk, the Internal Auditing Head Office Department performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

2.2. Management, measurement and control systems

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the presumption of loss where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity), as detailed in paragraph 2.3.
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting and Management Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group.

The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.

The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[19] is based on methods consistent with IFRS 9 and are described in detail in Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets*".*

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in case of default of the counterparty, 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.).
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for operational and regulatory purposes.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the measurement of counterparty risk. The Financial and Market Risks Head Office Department (FMRD) performs daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for both OTC derivatives and SFTs for the Parent Company, Banca IMI and the banks belonging to Banca dei Territori division. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

[19] The analytical statistical valuation of the non-performing exposures applies to positions below 2 million euro

– definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
– aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
– aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks" and to credit lines subject to country risk;
– aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.

The Group's lending activity is focused on Italian customers (82% of the total) and is primarily aimed at households and small and medium enterprises.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
In 2018, the preparation was completed of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016. Since September 2018, the new reporting system has therefore been operational in compliance with the regulatory provisions established by the ECB and put in place by the competent National Central Banks.

2.3. Methods for measuring expected losses

The expected loss is the product of exposure at default, probability of default and Loss Given Default.
In Intesa Sanpaolo, probability of default is measured by means of different rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.
A number of rating models are used for the Corporate segment, which use all available information sources and incorporate the opinions of credit analysts and relationship managers:
– models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
– specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

The Corporate model is also used to calculate the resulting RWAs for the Equity portfolio of the Banking Book.

The models applied to the Retail portfolio are as follows:
– for the Retail SME segment, a highly-decentralised rating model by counterparty is used, in which the quantitative-objective elements are supplemented by qualitative subjective elements
– for the Retail segment, a new rating model by counterparty has been in use since September 2018. This model has replaced the previous model for residential mortgages to private individuals, as well as the Other Retail exceptions management model that covered all the other products aimed at private individuals.

With regard to the Institutions portfolio:
– the models for banks (banks in mature economies and banks in emerging countries) are composed of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, and a component relating to specific country risk, for banks most closely correlated with country risk;
– the models used for Municipalities and Provinces are default models, whereas shadow rating models based on agency ratings are used for the Regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching).

For the Sovereign portfolio, the structure of the rating model includes a quantitative module that takes into account the structural rating assigned by the main international agencies, the implicit risk in the market prices of sovereign debt, the macroeconomic assessment estimated with an econometric model of regression, and a qualitative opinion component, which supplements the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of the individual sovereign countries. The Sovereign rating model is used solely for management purposes.

PD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company with adaptations to the local situation and partly developed entirely by the subsidiaries concerned in order to capture the specific features of the risk of the local counterparties. Some of these models are used for reporting purposes and others only for management purposes, as detailed in the table below.

The LGD models are based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks are partly derived from the Parent Company, with adaptations to the local situation.
For the banks, the Loss Given Default (LGD) calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The Sovereign LGD is estimated by analysing the historical recovery rates on sovereign defaults, differentiated into five categories according to the risk factors of each country. The country risk component associated with exposures to non-sovereign counterparties allocates different LGDs to the countries based on their geographical area. These LGDs are estimated based on an analysis of changes in the exchange rate of the local currency against the US dollar and any support received by countries hit by crises from the International Monetary Fund..
The LGD Sovereign and transfer models are used solely for management purposes.

The calculation of the Exposure at Default (EAD) uses differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). Specifically, the methodology is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date. In any case, corrective factors are applied in compliance with the regulatory requirements and in order to introduce a margin of conservatism on the estimates.

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Sovereign	Shadow model based on agency rating	Model based on recovery rates estimated by rating agencies	Regulatory parameters	Used for management purposes only; Standardised approach for reporting purposes
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2009, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	AIRB Retail since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) Banca dei Territori: FIRB authorised since December 2008, LGD AIRB since December 2010 and AIRB since 2017 (EAD model authorisation). Banca Prossima since December 2013 and Mediocredito Italiano since December 2009. Banca Imi (2012), ISP Ireland (2010), VUB (2010), Banka Intesa dd (2017), and ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the banking book equity portfolio with LGD 65%/90%
2) The authorisation for the IRB Retail model received in 2018 represented a model change for the Retail Mortgage component, already authorised in 2010, and a new validation for the Other Retail component. VUB has been authorised since June 2012 for the PD and LGD Retail Mortgage models.
3) Banca Prossima has been authorised since December 2013. VUB has been authorised since June 2014.
4) Banca dei Territori, Banca Prossima, Mediocredito Italiano and Banca Imi authorised since 2017.

The methodology for the estimation of the Expected Credit Loss (ECL), adopted for the determination of the impairment on loans in accordance with IFRS 9, is implemented at individual transaction or securities tranche level, based on the IRB modelling of the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate adjustments are made to ensure compliance with the specific requirements of the standard. A detailed description of the methods adopted by the Group is provided in Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets", to which reference is made.

More specifically, the measurement of the financial assets reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank's Research Department using forecast models, also taking into account the forecasts of the main national and international bodies and institutions. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

The macroeconomic scenario is described in Part B of the Notes to the financial statements with regard to the impairment testing of intangible assets with an indefinite useful life. In the period 2018-21, the most significant macroeconomic variables for the determination of the ECL and used for the most likely scenario indicate compound annual growth rates (CAGR) of +0.95% for Italy's Real GDP and -0.18% for Italy's Real Estate Prices. Italy's unemployment rate is expected to be 9.7% on average over the period. The forecasts for the financial markets indicate compound annual growth rates for the period of

+3.38% for the DJ Eurostoxx and +3.37% for the S&P500, while the BTP-Bund Spread is expected to be 270 bps on average for the period.

The table below shows these variables together with the estimates according to the best- and worst-case scenarios described above:

Macroeconomic variable	Most likely scenario	Upside scenario	Downside scenario
Italian real GDP growth rate (CAGR 2018-2021)	0.95%	1.19%	0.75%
Italian real estate property prices growth rate (CAGR 2018-2021)	-0.18%	3.91%	-1.32%
DJ Eurostoxx 50 growth rate (CAGR 2018-2021)	3.38%	5.68%	-7.92%
S&P 500 growth rate (CAGR 2018-2021)	3.37%	6.81%	-4.77%
Average unemployment rate in Italy (Average 2018-2021)	9.7%	9.5%	9.9%
Average Spread vs. Bund (Average 2018-2021)	270	255	281

The estimates of the future best- and worst-case scenarios compared to the most-likely scenario indicate the following differences: Italy's Real GDP +24 bps for the best-case scenario and -20 bps for the worst-case scenario, Italy's Real Estate Prices +409 bps for the best-case scenario and -114 bps for the worst-case scenario, Italy's Unemployment Rate -26 bps for the best-case scenario and +16 bps for the worst-case scenario, DJ Eurostoxx 50 stock index +230 bps for the best-case scenario and -1130 bps for the worst-case scenario, S&P 500 stock index +344 bps for the best-case scenario and -814 bps for the worst-case scenario, and BTP-Bund Spread -15 bps for the best-case scenario and +10 bps for the worst-case scenario.

For the Group companies included in the roll out plan, the internal rating models and the EAD and LGD components are subject to independent validation by the Validation function and a level three control by the Internal Audit Department. At the end of these activities, a report is produced for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies the actual deviation between the ex-ante forecast estimates and the actual ex-post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.

2.4. Credit risk mitigation techniques

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the LGD described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.
During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of 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 real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.

Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation rules for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate guarantees, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2018 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.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).
The transactions completed during the year included the tranched cover synthetic securitisation, supported by the Central Guarantee Fund, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. In particular, admission to the Fund's guarantee was obtained for 4 portfolios of 300 million euro of new loans, for which the disbursements to SMEs and Mid-Caps were initiated in 2018 and will be completed by the second half of 2019.
For details of the transactions carried out in 2018 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.
In order to optimise capital absorption, a transaction was also completed with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia, Serbia and Egypt.

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).
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. For five of these, an action plan was drawn up and is now being implemented. With regard to the Covenant project in particular, the management through a dedicated application is now fully operational.

3. NON-PERFORMING CREDIT EXPOSURES

3.1 Management strategies and policies

On 20 March 2018, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidelines on non-performing loans, which was sent to the ECB at the end of March 2018. The 2018-2021 NPL Plan is consistent with both the 2018-2021 Business Plan, approved by the Board of Directors in February 2018, and the Risk Appetite Framework, and takes into account the observations and recommendations of the Supervisory Authority.
The assumptions underlying the NPL Plan, and in particular the sales of non-performing loans envisaged, were used for the purposes of the FTA in accordance with IFRS 9 as described in the section "Transition to IFRS 9".
The Group NPL Plan is made up of a main document (2018-2021 Group NPL Plan) which includes a summary of the initiatives detailed in the "Operational Plans" (drawn up at divisional level, which include the targets for reducing the stock of non-performing loans, the detailed measures and the enablers, as well as the related costs and investments required to achieve the targets set) and the projections underlying the NPL Plan, with the granular level and in accordance with the requirements established by the ECB.
In the 2018-2021 Business Plan, de-risking is the first pillar through which the Group aims to reduce the level of gross non-performing loans as a proportion of total loans, at no cost to Shareholders. Over the Plan period, a 49% reduction in the stock of gross non-performing loans is envisaged with respect to the figure at the beginning of 2018, as well as a 50% reduction in the cost of credit with a target of 41 basis points in 2021 and the achievement of a gross NPL ratio of 6.0% (from 11.9% at the beginning of 2018 after the IFRS 9 FTA and including the two former Venetian banks). With the finalisation of the agreement with Intrum at the end of 2018, more than 60% of the objective of reducing the non-performing loans set in the Business Plan for the entire four-year period 2018-21 has been achieved. Non-performing loans before adjustments decreased by 29.9% year-on-year, bringing the ratio of non-performing loans (before adjustments) to total loans to 8.8%, and the cost of credit fell to 61 basis points at the end of 2018.

Non-performing financial assets include loans classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and the EU Supervisory Regulations.
The definition of non-performing loans as established by the Bank of Italy in Circular 272 of 2008 (and subsequent amendments) also coincides with the definition of "impaired" financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.
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 therefore 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 a sub-set 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.
The Intesa Sanpaolo Group adopts a "per borrower" approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.
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), which results in the allocation of the value adjustment for each position.

Non-performing loans are measured using two methods:
- analytical-statistical measurement: for exposures equal to or lower than given thresholds, based on the use of specific LGD grids;
- analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through analytical-statistical measurement models or through individual expert evaluation, an add-on component is used to take into account the future macroeconomic scenarios, the incremental risk of the counterparty as long as it remains in the specific risk status (vintage) and any sale prospect, where present.

The measurement methods for non-performing loans are described in detail in Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets", to which reference is made.

The measurements are carried out upon classification of the exposures as non-performing loans or upon the occurrence of significant events and are reviewed periodically.
With reference to non-performing past-due loans and unlikely to pay loans, the local organisational units (at regional level) that perform specialist activities, or the Head Office Department structures which are responsible for the overall management and coordination of these matters, are identified as the structures responsible for their management, based on pre-determined

thresholds of increasing materiality.
With regard to bad loans, during 2018 the Group adopted a new organisational configuration. Until November 2018, in continuity with previous years, the organisational model envisaged:

- 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 relied on its own specialist units throughout the country to manage the recovery 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.

From December 2018, the organisational model envisages the outsourcing of recovery activities to a specialist external servicer, a leading international operator, with whom a partnership has been established with the aim of further improving recovery activities and achieving future value creation through the development of a best-in-class platform in Italy, which is one of the largest European markets for NPL servicing.
The positions classified by the ISP Group as sensitive are managed by an internal recovery unit. Within the CLO area, the Capital Light Bank Head Office Department has the task of liaising with the Servicer in the operational management and monitoring of performance levels.
The Servicer, for the positions assigned under its management, is required to comply with the valuation rules adopted by the ISP Group.

The valuation of the loans is also reviewed whenever new events capable of impacting on the recovery prospects of the Bank occur (e.g. change in the value of assets secured by a guarantee, developments regarding ongoing disputes, etc.). In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
The activity performed by the external servicers is monitored by the designated internal units of the Group.

The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their probation period, if the conditions apply for the reallocation of those exposures to non-performing loans.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Exposures classified amongst "past-due loans" automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area carries out the II level controls on signle positions to verify the proper classification and provisioning. Controls were carried out on doubtful with provisioning calculated using LGD grids too, also in accordance with the internal validation framework for backtesting of accounting LGD applied to doubtful positions (LGD defaulted assets).

3.2 Write-offs

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the - full or partial - write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) 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.

In addition, on a periodic basis (at least every six months) the Group has established the possibility of defining portfolios of bad loans to be subject to total or partial write-offs with the following macro-characteristics:

– percentage coverage > 95%
– vintage (understood as the period of time in “bad loan” status) > 5 years or > 8 years, respectively, for non-mortgage and mortgage loans

In 2018, the Group carried out write-offs on gross bad loans for around 3 billion euro, for the most part using the allowance already set aside. More than 60% of these write-offs related to derecognised positions that are still subject to enforcement procedures, for which any recoveries from collections after the write-off will be recognised in the income statement as recoveries.

3.3 Purchased or originated credit-impaired financial assets

According to IFRS 9, loans considered as impaired already upon initial recognition in the financial statements, due to the high credit risk associated with them, are defined as Purchased or Originated Credit Impaired Assets (POCI). If these loans fall within the scope of impairment in accordance with IFRS 9, they are valued by allocating allowances - from the date of initial recognition - to cover losses for the entire residual life of the loan (lifetime Expected Credit Loss). Since these are non-performing loans, they are initially recognised within Stage 3, subject to the possibility of being transferred, over the course of their lives, to Stage 2 if, based on the credit risk analysis, they are identified as no longer being impaired.

4. RENEGOTIATED FINANCIAL ASSETS AND FORBORNE EXPOSURES

Forbearance measures are concessions made to a borrower that is facing, or 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"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.

In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through revenues at normal market conditions.

The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated contract, rather than all the exposures to the same borrower.
More generally, the Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted:

- a significant deterioration in the borrower's rating during the period prior to the renegotiation (e.g. three months);
- the presence of exposures past due by thirty days or more in the three months prior to the renegotiation;
- the inclusion of exposures pertaining to the borrower in a watch list that indicates a particular level of risk.

The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets can therefore be included in both the stage 3 exposures (non-performing forborne loans or non-performing transactions subject to forbearance measures) and the stage 2 exposures. According to the Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).

Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan

At the end of 2018, the Group recognised gross on-balance sheet forborne exposures to customers, in its on-balance sheet credit exposures, amounting to 9,745 million euro for non-performing loans and 8,531 million euro for performing loans.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.
The term "on-balance sheet credit exposures" refers to all the on-balance sheet financial assets due from banks or customers, irrespective of the accounting portfolio they are allocated to (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, or discontinued financial assets).
The term "off-balance sheet exposures" refers to all the financial transactions that are not on the balance sheet (guarantees given, revocable and irrevocable commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of those transactions (trading, hedging, etc.). The off-balance sheet credit exposures also include the counterparty risk associated with any securities lending transactions. Where necessary, the counterparty risk associated with exposures relating to repurchase agreements, transactions involving the granting or assumption of goods on loan, and loans with margins falling within the notion of securities financing transactions defined by the prudential regulations, is also reported.
Non-performing credit exposures (on-balance sheet and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore normally recognised as performing credit exposures.
As previously indicated, the Group has exercised the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. As a result, in this chapter, certain information for comparison, referring to 31 December 2017, strictly correlated to the new IFRS 9 categories, such as those referring to the various credit risk stages, is not provided.
Starting from the 2018 Financial Statements, the tables below also include the revocable commitments in the off-balance sheet exposures.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

A.1.1. Prudential consolidation - Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	1,218	342	702	864	506	742	455	260	11,987
2. Financial assets measured at fair value through other comprehensive income	8	-	-	-	-	-	-	-	-
Total 31.12.2018	**1,226**	**342**	**702**	**864**	**506**	**742**	**455**	**260**	**11,987**

A.1.2. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS							
	Stage 1 assets				Stage 2 assets			
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	*of which: individual impairment losses*	*of which: collective impairment losses*
A. Initial amount	**955**	**41**	***679***	***317***	**1,667**	**18**	***1,169***	***516***
Increases in purchased or originated financial assets	287	9	*107*	*189*	121	-	*15*	*106*
Derecognition other than write-offs	-281	-1	*-107*	*-175*	-206	-	*-119*	*-87*
Net losses/recoveries for credit risk	-177	-2	*-146*	*-33*	-11	-5	*-45*	*29*
Changes in contracts without derecognition	-6	-	*1*	*-7*	-5	-	*1*	*-6*
Changes in the estimation methodology	1	-	-	*1*	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	106	-6	*129*	*-29*	-164	-7	*73*	*-244*
Final amount	**885**	**41**	***663***	***263***	**1,402**	**6**	***1,094***	***314***
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-20	-	*-20*	-

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS					TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets				Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	*of which: individual impairment losses*	*of which: collective impairment losses*		Stage 1	Stage 2	Stage 3	
A. Initial amount	**29,578**	**32**	***24,050***	***5,560***	**545**	**133**	**75**	**276**	**32,775**
Increases in purchased or originated financial assets	201	-	*65*	*136*	2	32	16	25	691
Derecognition other than write-offs	-8,639	-	*-8,519*	*-120*	-258	-27	-11	-17	-9,182
Net losses/recoveries for credit risk	2,447	-	*2,379*	*68*	5	-30	-4	7	2,225
Changes in contracts without derecognition	-29	-	*-30*	*1*	-	-1	-	-	-41
Changes in the estimation methodology	-	-	-	-	-	-	-	-	1
Write-offs	-3,158	-	*-3,043*	*-115*	-84	-	-	-21	-3,179
Other changes	-503	3	*4,521*	*-5,021*	-3	-21	2	15	-575
Final amount	**19,897**	**35**	***19,423***	***509***	**207**	**86**	**78**	**285**	**22,715**
Recoveries on collection of financial assets previously written off	74	-	*74*	-	-	-	-	-	74
Write-offs recognised directly through profit or loss	-250	-	*-238*	*-12*	-	-	-	-	-270

The Intesa Sanpaolo Group does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.3. Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	38,469	34,010	3,188	1,777	1,364	553
2. Financial assets measured at fair value through other comprehensive income	-	43	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	11,304	11,418	297	99	129	43
Total 31.12.2018	**49,773**	**45,471**	**3,485**	**1,876**	**1,493**	**596**

A.1.4. Prudential Consolidation – On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	-	*X*	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
d) Performing past due exposures	X	3	-	3	-
- of which: forborne exposures	*X*	-	-	-	-
e) Other performing exposures	X	74,536	-93	74,443	-
- of which: forborne exposures	*X*	*100*	*-1*	*99*	-
Total (A)	**4**	**74,539**	**-97**	**74,446**	**4**
B. Off-balance sheet exposures					-
a) Non-performing	-	X	-	-	-
b) Performing	X	58,120	-2	58,118	-
Total (B)	**-**	**58,120**	**-2**	**58,118**	**-**
Total (A+B)	**4**	**132,659**	**-99**	**132,564**	**4**

A.1.5. Prudential Consolidation – On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	21,827	X	-14,666	7,161	4,722
- of which: forborne exposures	*2,623*	*X*	*-1,616*	*1,007*	*125*
b) Unlikely to pay	15,687	X	-5,462	10,225	577
- of which: forborne exposures	*7,086*	*X*	*-2,238*	*4,848*	*442*
c) Non-performing past due exposures	473	X	-121	352	11
- of which: forborne exposures	*36*	*X*	*-8*	*28*	-
d) Performing past due exposures	X	6,062	-222	5,840	-
- of which: forborne exposures	*X*	*556*	*-51*	*505*	-
e) Other performing exposures	X	455,118	-2,026	453,092	-
- of which: forborne exposures	*X*	*7,975*	*-372*	*7,603*	-
Total (A)	**37,987**	**461,180**	**-22,497**	**476,670**	**5,310**
B. Off-balance sheet exposures					
a) Non-performing	2,556	X	-287	2,269	-
b) Performing	X	251,620	-187	251,433	-
Total (B)	**2,556**	**251,620**	**-474**	**253,702**	**-**
Total (A+B)	**40,543**	**712,800**	**-22,971**	**730,372**	**5,310**

The dealings between the Banking Group and other non-banking companies included within the scope of consolidation amounted to:

- 244 million euro, adjusted by 24 million euro, included among gross non-performing on-balance sheet exposures to customers;
- 6,990 million euro, adjusted by 35 million euro, included among gross performing on-balance sheet exposures to customers;
- 74 million euro, adjusted by 4 million euro, included among gross non-performing off-balance sheet exposures to customers;
- 6,418 million euro, adjusted by 12 million euro, included among gross performing off-balance sheet exposures to customers.

A.1.6. Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**1**	**-**
B.1 inflows from performing exposures	-	1	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
- of which: business combinations			
C. Decreases	**-**	**-1**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-1	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.6. Bis Prudential Consolidation – On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**-**	**-**
- of which: exposures sold not derecognised	-	-
B. Increases	**-**	**101**
B.1 inflows from non-forborne performing exposures	-	24
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 other increases	-	77
C. Decreases	**-**	**-1**
C.1 outflows towards non-forborne performing exposures	X	-
C.2 outflows towards forborne performing exposures	-	X
C.3 outflows towards non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**-**	**100**
- of which: exposures sold not derecognised	-	-

A.1.7. Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**34,224**	**17,912**	**475**
- of which: exposures sold not derecognised	*166*	*284*	*14*
B. Increases	**3,140**	**5,455**	**2,174**
B.1 inflows from performing exposures	95	2,540	2,041
B.2 inflows from purchased or originated credit-impaired financial assets	6	8	-
B.3 transfers from other non-performing exposures categories	2,628	1,670	45
B.4 changes in contracts without derecognition	-	1	-
B.5 other increases	411	1,236	88
C. Decreases	**-15,537**	**-7,680**	**-2,176**
C.1 outflows to performing exposures	-78	-1,802	-452
C.2 write-offs	-3,051	-383	-2
C.3 collections	-1,553	-2,157	-192
C.4 profits on disposal	-2,738	-226	-
C.5 losses on disposal	-21	-49	-1
C.6 transfers to other non-performing exposure categories	-219	-2,610	-1,514
C.7 changes in contracts without derecognition	-	-18	-
C.8 other decreases	-7,877	-435	-15
D. Final gross exposure	**21,827**	**15,687**	**473**
- of which: exposures sold not derecognised	*84*	*171*	*7*

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
The “other decreases” mainly include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans.

A.1.7. Bis Prudential Consolidation – On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**11,379**	**7,941**
- of which: exposures sold not derecognised	*45*	*23*
B. Increases	**2,334**	**5,432**
B.1 inflows from non-forborne performing exposures	175	3,375
B.2 inflows from forborne performing exposures	716	X
B.3 inflows from non-performing forborne exposures	X	1,337
B.4 other increases	1,443	720
C. Decreases	**-3,968**	**-4,842**
C.1 outflows towards non-forborne performing exposures	X	-2,101
C.2 outflows towards forborne performing exposures	-1,337	X
C.3 outflows towards non-performing forborne exposures	X	-716
C.4 write-offs	-293	-2
C.5 collections	-1,127	-1,676
C.6 profits on disposal	-319	-
C.7 losses on disposal	-	-
C.8 other decreases	-892	-347
D. Final gross exposure	**9,745**	**8,531**
- of which: exposures sold not derecognised	*80*	*282*

For the non-performing forborne exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The “other decreases” mainly include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans.

A.1.8 Prudential Consolidation – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**2**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	1	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	-	-	-	-	-
B.6 other increases	1	-	-	-	-	-
C. Decreases	**-2**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-2	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.9 Prudential Consolidation – On-balance sheet non-performing credit exposures to customers: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**23,661**	**1,887**	**5,900**	**2,546**	**104**	**41**
- of which: exposures sold not derecognised	*82*	*2*	*52*	*5*	*2*	-
B. Increases	**4,397**	***636***	**2,756**	***1,082***	**436**	***46***
B.1 adjustments to purchased or originated credit-impaired assets	88	*X*	102	*X*	12	*X*
C.2 other adjustments	3,002	*267*	1,985	*692*	380	*44*
B.3 losses on disposal	13	*10*	42	16	-	-
B.4 transfers from other non-performing exposures categories	1,095	*251*	493	121	13	1
B.5 changes in contracts without derecognition	-	*X*	10	*X*	-	*X*
B.6 other increases	199	*108*	124	253	31	1
C. Decreases	**-13,392**	**-907**	**-3,194**	**-1,390**	**-419**	**-79**
C.1 recoveries on impairment losses	-1,537	*-149*	-822	-557	-16	-
C.2 recoveries on repayments	-375	*-30*	-130	-53	-4	-
C.3 profits on disposal	-43	*-14*	-49	-18	-	-
C.4 write-offs	-3,051	*-134*	-383	-159	-2	-
C.5 transfers to other non-performing exposure categories	-139	*-65*	-1,093	-250	-369	-68
C.6 changes in contracts without derecognition	-	*X*	-35	*X*	-1	*X*
C.7 other decreases	-8,247	*-515*	-682	-353	-27	-11
D. Final total adjustments	**14,666**	**1,616**	**5,462**	**2,238**	**121**	**8**
- of which: exposures sold not derecognised	*25*	*2*	*49*	*39*	-	-

The “other increases” mainly include the collections of loans derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
The “other decreases” include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance and the decrease in the balances of allowances in foreign currency due to changes in the exchange rate.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings.
These agencies are valid for all Group banks. In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortized cost	**15,911**	**13,359**	**84,789**	**10,857**	**6,708**	**2,024**	**368,181**	**501,829**
- Stage 1	15,770	11,244	80,686	9,319	6,402	1,556	290,549	415,526
- Stage 2	141	2,115	4,103	1,538	306	119	41,342	49,664
- Stage 3	-	-	-	-	-	349	36,290	36,639
B: Financial assets measured at fair value through other comprehensive income	**14,320**	**14,744**	**23,615**	**2,491**	**134**	**14**	**2,079**	**57,397**
- Stage 1	14,320	14,716	23,594	2,352	72	-	2,055	57,109
- Stage 2	-	28	21	139	62	-	3	253
- Stage 3	-	-	-	-	-	14	21	35
Total (A+B)	**30,231**	**28,103**	**108,404**	**13,348**	**6,842**	**2,038**	**370,260**	**559,226**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*693*	*693*
C. Commitments to disburse funds and financial guarantees given								
- Stage 1	9,876	22,432	36,750	12,455	3,224	57	129,646	214,440
- Stage 2	20	181	284	553	442	19	13,166	14,665
- Stage 3	-	-	-	-	-	289	2,283	2,572
Total (C)	**9,896**	**22,613**	**37,034**	**13,008**	**3,666**	**365**	**145,095**	**231,677**
Total (A+B+C)	**40,127**	**50,716**	**145,438**	**26,356**	**10,508**	**2,403**	**515,355**	**790,903**

The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

	ECAI	
	Moody's	Fitch Standard & Poor's DBRS
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-
5	from B1 to B3	from B+ to B-
6	Caa1 and lower	CCC+ and lower

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	Fitch	Standard & Poor's	DBRS
Credit quality step				
1	P -1	F1 +, F1	A -1 + , A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5

Ratings for exposures to UCI

	ECAI		
	Moody's	Fitch	Standard & Poor's
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	Fitch Standard & Poor's
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Baa1 to Ba3	from BB+ to BB-
5	B1 and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	Fitch	Standard & Poor's
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
from 4 to 6	NP	lower than F3	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	**Fitch Standard & Poor's**
Credit quality step		
1	Aaa	AAA
2	Aa	AA
3	A1	A+
4	A2	A
5	A3	A-
6	Baa1	BBB+
7	Baa2	BBB
8	Baa3	BBB-
9	Ba1	BB+
10	Ba2	BB
11	Ba3	BB-
12	lower than Ba3	lower than BB-

IRB approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
All other credit quality steps	lower than P-3	lower than F3	lower than A -3

A.2.2. Prudential Consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

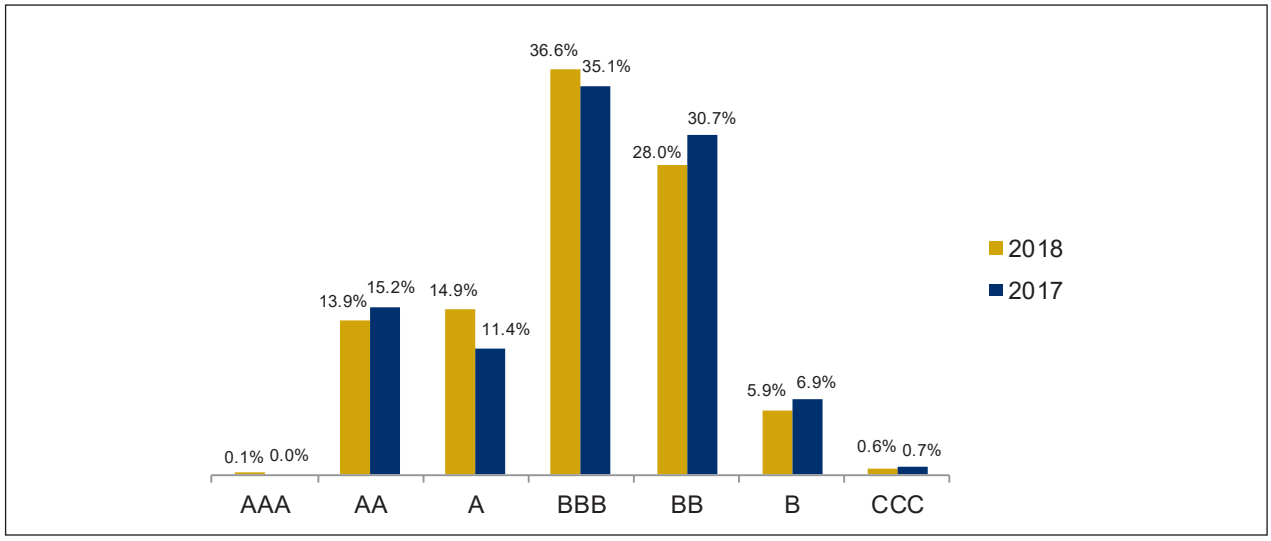
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.
Unrated exposures account for 10.6% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not yet available, to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries which have yet to be fully integrated into the credit risk management system.

When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 76% of the total, whilst 19.7% fall within the BB+/BB- range (class 4) and 4.3% fall under higher risk classes (of which around 0.4% are below B-).

(millions of euro)

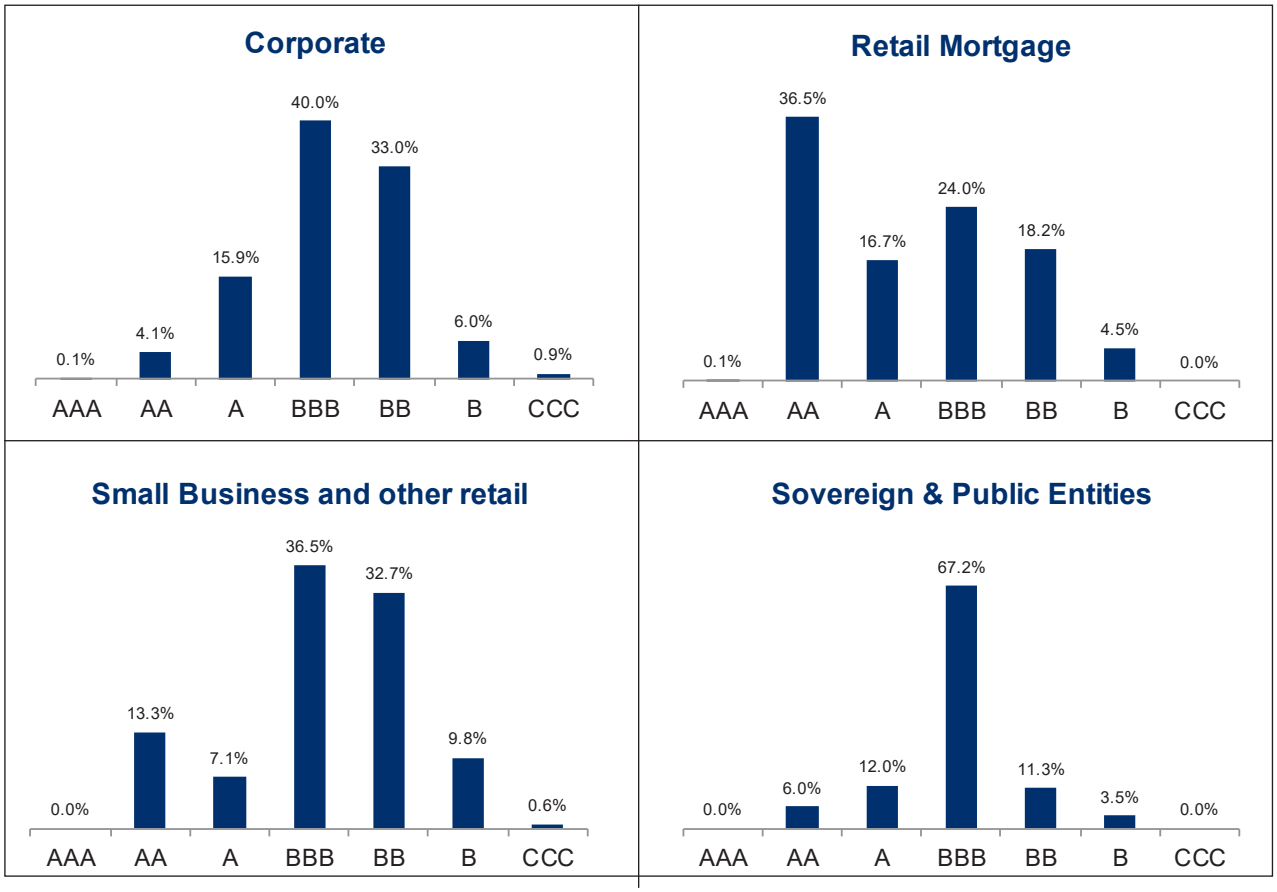
Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortized cost	**72,560**	**49,606**	**176,147**	**88,954**	**20,751**	**3,569**	**90,242**	**501,829**
- Stage 1	71,524	47,471	168,372	72,215	10,897	296	44,751	415,526
- Stage 2	1,036	2,135	7,775	16,739	9,854	1,664	10,461	49,664
- Stage 3	-	-	-	-	-	1,609	35,030	36,639
B. Financial assets measured at fair value through other comprehensive income	**8,747**	**16,324**	**24,351**	**2,617**	**135**	**3**	**5,220**	**57,397**
- Stage 1	8,747	16,296	24,330	2,478	73	-	5,185	57,109
- Stage 2	-	28	21	139	62	-	3	253
- Stage 3	-	-	-	-	-	3	32	35
Total (A+B)	**81,307**	**65,930**	**200,498**	**91,571**	**20,886**	**3,572**	**95,462**	**559,226**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*693*	*693*
C.Commitments to disburse funds and financial guarantees given								
- Stage 1	25,120	44,905	91,618	33,730	3,865	106	15,096	214,440
- Stage 2	13	90	1,020	7,268	1,872	385	4,017	14,665
- Stage 3	-	-	-	-	-	423	2,149	2,572
Total (C)	**25,133**	**44,995**	**92,638**	**40,998**	**5,737**	**914**	**21,262**	**231,677**
Total (A+B+C)	**106,440**	**110,925**	**293,136**	**132,569**	**26,623**	**4,486**	**116,724**	**790,903**

In addition to the tables required by the financial reporting regulations, the rating allocation for performing credit exposures to customers attributable to banks with internal models is shown below.
As at 31 December 2018, performing loans to customers assigned an individual rating internally or by an external agency accounted for 95% of the loans of banks with internal models and for 78% of the entire aggregate at the Group level.



The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 65.5%, up compared to the previous year (61.7%).
Movements between rating classes are mainly caused by changes in risk parameters as a result of the update of the models and an improvement in the credit quality.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail and Sovereign & Public Entities.



Investment grade positions account for 60.1%, 77.3%, 56.9% and 85.2% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Prudential Consolidation – Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives: Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**9,925**	**9,902**	**-**	**6**	**9,013**	**52**	**-**	**-**
1.1 totally guaranteed	9,832	9,810	-	6	9,013	52	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	93	92	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**4,197**	**4,197**	**-**	**-**	**1,146**	**2,315**	**-**	**-**
2.1 totally guaranteed	2,377	2,377	-	-	1,146	741	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,820	1,820	-	-	-	1,574	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total (1)+(2)
	Credit derivatives			Commitments				
	Other derivatives							
	Banks	Other financial companies	Other counterparties	Public Administration	Banks	Other financial companies	Other counterparties	
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**16**	**623**	**70**	**40**	**9,820**
1.1 totally guaranteed	-	-	-	16	591	67	8	9,753
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	32	3	32	67
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**112**	**368**	**-**	**92**	**4,033**
2.1 totally guaranteed	-	-	-	83	360	-	46	2,376
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	29	8	-	46	1,657
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Prudential Consolidation - Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposure	Collateral (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**272,258**	**258,348**	**137,489**	**9,132**	**41,020**	**11,235**	**-**	**32**
1.1 totally guaranteed	244,940	233,857	134,260	9,122	40,290	9,897	-	32
- of which non-performing	*21,873*	*12,058*	*7,342*	*1,990*	*44*	*481*	-	-
1.2 partly guaranteed	27,318	24,491	3,229	10	730	1,338	-	-
- of which non-performing	*4,335*	*1,684*	*878*	*2*	*9*	*66*	-	-
2. Guaranteed off-balance sheet credit exposures:	**33,614**	**33,483**	**2,813**	**61**	**4,397**	**1,709**	**-**	**-**
2.1 totally guaranteed	27,491	27,400	2,206	30	3,899	1,272	-	-
- of which non-performing	*655*	*591*	*232*	-	*2*	*12*	-	-
2.2. partly guaranteed	6,123	6,083	607	31	498	437	-	-
- of which non-performing	*245*	*223*	*59*	-	*1*	*12*	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives							(1)+(2)
	Banks	Other financial companies	Other counterparties	Public administration	Banks	Other financial companies	Other counterparties	
1. Guaranteed on-balance sheet credit exposures	**-**	**19**	**-**	**14,161**	**444**	**2,166**	**26,354**	**242,052**
1.1 totally guaranteed	-	2	-	11,456	334	1,892	22,315	229,600
- of which non-performing	-	-	-	*129*	*4*	*486*	*1,509*	*11,985*
1.2 partly guaranteed	-	17	-	2,705	110	274	4,039	12,452
- of which non-performing	-	-	-	*31*	-	*132*	*256*	*1,374*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**1,322**	**186**	**520**	**19,924**	**30,932**
2.1 totally guaranteed	-	-	-	1,197	164	374	18,163	27,305
- of which non-performing	-	-	-	*63*	-	*38*	*241*	*588*
2.2. partly guaranteed	-	-	-	125	22	146	1,761	3,627
- of which non-performing	-	-	-	-	*26*	*20*	*35*	*153*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Prudential consolidation – Financial assets and non-financial assets resulting from the enforcement of guarantees

(millions of euro)

	Derecognised credit exposure	Gross amount	Total adjustments	Book value	of which obtained during the year
A. Property and equipment	**258**	**275**	**-52**	**223**	**51**
A.1 Used in operations	-	-	-	-	-
A.2. Investment	64	63	-1	62	12
A.3 Inventories	194	212	-51	161	39
B. Equities and debt securities	**3**	**3**	**-1**	**2**	**-**
C. Other assets	**2**	**3**	**-1**	**2**	**2**
D. Non-current assets held for sale and discontinued operations	**34**	**34**	**-2**	**32**	**-**
D.1 Property and equipment	34	34	-2	32	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2018	**297**	**315**	**-56**	**259**	**53**

For the purpose of completing this table, in line with the indications of Circular 262 and the ECB “Guidance to banks on non-performing loans (NPL)” - March 2017, guarantees enforced are defined as assets held in the financial statements that may have been obtained through legal proceedings (enforced in the strict sense), bilateral agreements with the borrower (for example, converting the debt into shares or other assets, so-called swaps) or other types of transfer from the borrower to the creditor.

For the Group, repossessed assets (book value) are mainly represented by:
- Investment property: buildings (62 million euro);
- Property and equipment – Inventories: land (3 million euro), buildings (158 million euro);
- Non-current assets held for sale and discontinued operations: buildings (32 million euro).

In addition to the assets described above, it is noted that the FVTOCI accounting portfolio includes 27 million euro (book value) in equities and equity instruments deriving from the recovery of impaired financial assets.
An additional 77 million euro (prudential consolidated book value) refers, instead, to the investment in Risanamento consolidated on a line-by-line basis in the accounting consolidation and at equity in the prudential consolidation.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

The significant increase in off-balance sheet credit exposures compared to 31 December 2017 is mainly attributable to the inclusion in the off-balance sheet credit exposures (starting from the 2018 Financial Statements) of revocable commitments.

B.1. Prudential Consolidation - Breakdown by sector of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	173	-93	100	-278	-	-
- of which: forborne exposures	*-*	*-21*	*14*	*-56*	-	-
A.2 Unlikely to pay	114	-49	296	-225	-	-
- of wich: forborne exposures	*41*	*-32*	*195*	*-179*	-	-
A.3 Non-performing past due exposures	-	-	6	-3	-	-
- of which: forborne exposures	*-*	*-*	*-*	*-*	-	-
A.4 Performing exposures	85,405	-138	74,338	-118	1,562	-
- of which: forborne exposures	*475*	*-11*	*208*	*-5*	-	-
Total (A)	**85,692**	**-280**	**74,740**	**-624**	**1,562**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	3	-5	71	-2	-	-
B.2 Performing exposures	27,642	-2	36,019	-22	8,863	-
Total (B)	**27,645**	**-7**	**36,090**	**-24**	**8,863**	**-**
Total (A+B) 31.12.2018	**113,337**	**-287**	**110,830**	**-648**	**10,425**	**-**
Total (A+B) 31.12.2017	**98,018**	**-138**	**95,445**	**-653**	**6,707**	**-**

(millions of euro)

Exposures/Counterparts	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	5,279	-11,585	1,609	-2,710
- of which: forborne exposures	*813*	*-1,383*	*180*	*-156*
A.2 Unlikely to pay	8,013	-4,473	1,802	-715
- of which: forborne exposures	*3,928*	*-1,859*	*684*	*-168*
A.3 Non-performing past due exposures	156	-49	190	-69
- of which: forborne exposures	*20*	*-6*	*8*	*-2*
A.4 Performing exposures	163,414	-1,266	135,775	-726
- of which: forborne exposures	*5,896*	*-346*	*1,529*	*-61*
Total (A)	**176,862**	**-17,373**	**139,376**	**-4,220**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,104	-271	91	-9
B.2 Performing exposures	176,193	-136	11,383	-27
Total (B)	**178,297**	**-407**	**11,474**	**-36**
Total (A+B) 31.12.2018	**355,159**	**-17,780**	**150,850**	**-4,256**
Total (A+B) 31.12.2017	**279,759**	**-21,993**	**147,694**	**-5,541**

B.2. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	6,891	-13,854	231	-688
A.2 Unlikely to pay	9,549	-4,935	506	-380
A.3 Non-performing past due exposures	322	-103	26	-16
A.4 Performing exposures	335,430	-1,658	87,310	-457
Total (A)	**352,192**	**-20,550**	**88,073**	**-1,541**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,142	-238	111	-42
B.2 Performing exposures	138,349	-94	79,591	-80
Total (B)	**140,491**	**-332**	**79,702**	**-122**
Total (A+B) 31.12.2018	**492,683**	**-20,882**	**167,775**	**-1,663**
Total (A+B) 31.12.2017	**419,400**	**-26,320**	**155,111**	**-1,698**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	1	-22	1	-6	37	-96
A.2 Unlikely to pay	61	-89	25	-9	84	-49
A.3 Non-performing past due exposures	-	-	-	-	4	-2
A.4 Performing exposures	22,866	-35	6,545	-7	6,781	-91
Total (A)	**22,928**	**-146**	**6,571**	**-22**	**6,906**	**-238**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	11	-	3	-	2	-7
B.2 Performing exposures	23,883	-6	7,141	-3	2,273	-4
Total (B)	**23,894**	**-6**	**7,144**	**-3**	**2,275**	**-11**
Total (A+B) 31.12.2018	**46,822**	**-152**	**13,715**	**-25**	**9,181**	**-249**
Total (A+B) 31.12.2017	**32,917**	**-134**	**6,766**	**-22**	**6,722**	**-151**

B.2.Bis Prudential consolidation – Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	North West		North East		Centre		South and islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	2,120	-4,432	1,397	-2,888	1,682	-3,472	1,692	-3,062
A.2 Unlikely to pay	3,555	-1,763	1,901	-905	2,434	-1,377	1,659	-890
A.3 Non-performing past due exposures	97	-34	59	-17	58	-17	108	-35
A.4 Performing exposures	102,672	-646	62,774	-303	124,818	-401	45,166	-308
Total A	**108,444**	**-6,875**	**66,131**	**-4,113**	**128,992**	**-5,267**	**48,625**	**-4,295**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	616	-40	570	-75	785	-112	171	-11
B.2 Performing exposures	56,620	-31	28,691	-18	42,443	-32	10,595	-13
Total B	**57,236**	**-71**	**29,261**	**-93**	**43,228**	**-144**	**10,766**	**-24**
Total (A+B) 31.12.2018	**165,680**	**-6,946**	**95,392**	**-4,206**	**172,220**	**-5,411**	**59,391**	**-4,319**
Total (A+B) 31.12.2017	**133,506**	**-8,813**	**77,925**	**-5,626**	**155,473**	**-6,095**	**52,496**	**-5,786**

B.3. Prudential Consolidation - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	-	-	-	-1
A.2 Unlikely to pay	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-
A.4 Performing exposures	41,932	-67	26,379	-18
Total (A)	**41,932**	**-67**	**26,379**	**-19**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	-	-	-	-
B.2 Performing exposures	5,672	-	30,563	-1
Total (B)	**5,672**	**-**	**30,563**	**-1**
Total (A+B) 31.12.2018	**47,604**	**-67**	**56,942**	**-20**
Total (A+B) 31.12.2017	**47,898**	**-56**	**42,411**	**-35**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	-	-	-	-3	-	-
A.2 Unlikely to pay	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
A.4 Performing exposures	2,295	-3	1,737	-1	2,103	-4
Total (A)	**2,295**	**-3**	**1,737**	**-4**	**2,103**	**-4**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	-	-	-	-	-	-
B.2 Performing exposures	6,230	-	10,609	-	2,772	-1
Total (B)	**6,230**	**-**	**10,609**	**-**	**2,772**	**-1**
Total (A+B) 31.12.2018	**8,525**	**-3**	**12,346**	**-4**	**4,875**	**-5**
Total (A+B) 31.12.2017	**3,497**	**-19**	**3,465**	**-14**	**2,153**	**-6**

B.3.Bis Prudential consolidation – Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	5,699	-16	470	-48	35,717	-3	46	-
Total A	**5,699**	**-16**	**470**	**-48**	**35,717**	**-3**	**46**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	4,353	-	361	-	947	-	11	-
Total B	**4,353**	**-**	**361**	**-**	**947**	**-**	**11**	**-**
Total (A+B) 31.12.2018	**10,052**	**-16**	**831**	**-48**	**36,664**	**-3**	**57**	**-**
Total (A+B) 31.12.2017	**6,722**	**-4**	**443**	**-49**	**40,680**	**-3**	**53**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	142,047
b) Weighted value (millions of euro)	10,927
b) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.

C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

Qualitative information

The securitisations carried out in 2018 are summarised below:

GARC Securitisations

In 2018 the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to Italian businesses, particularly 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 two synthetic securitisations, GARC SME-7 and GARC Corp-1, were completed through which the junior risk was sold to specialist investors relating respectively to (i) a total portfolio of 4 billion euro in loans to around 8,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) and (ii) a portfolio of around 4 billion euro in loans to around 215 companies in the Corporate regulatory segment. Both portfolios mainly consist of businesses operating in Northern Italy.

Central Guarantee Fund Tranched Cover Securitisation

In 2018, a tranched cover synthetic securitisation, supported by the Central Guarantee Fund, was initiated, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. This initiative is financed by the Ministry of Economic Development and provides for the issue of a personal guarantee by the Central Guarantee Fund through which the risk of first losses is covered in relation to four portfolios of newly disbursed loans, each amounting to around 300 million euro, whose disbursements were started in 2018 and will be completed by the second half of 2019.

Savoy Securitisation

With a view to the reduction of the Group's risk profile envisaged in the Business Plan, in 2018, a traditional securitisation was structured through the sale to the vehicle company Penelope SPV S.r.l. of a loan portfolio originated by Intesa Sanpaolo and by eight Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio in Bologna, Cassa dei Risparmi di Forlì e della Romagna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio del Veneto, and Mediocredito Italiano). The underlying consisted of loans classified as bad loans for a gross total value, at the cut-off date of 1 January 2018, of 10.8 billion euro (gross of adjustments) at a price of 3.1 billion euro, in line with the carrying amount already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario.
The securitised assets are mainly related to loans to businesses (including SMEs) with the following geographical distribution: 30% North West, 26% North East, 23% Central Italy and 21% South and Islands.

The transaction enabled the derecognition of the loans for each Selling Bank. The accounting and administrative management of the Vehicle is entrusted to Securitisation Services S.p.A.

The consideration for the sale of the portfolio was settled, also considering the net collections since the cut-off date of 1 January 2018, with the issue on 3 December 2018, by the SPV, of three tranches of unlisted securities that are currently unrated: a senior tranche, a mezzanine tranche and a junior tranche. The securities were issued and subscribed as follows:

- Senior tranche of 1,635.4 million euro, of which 364.5 million euro (22.3%) was subscribed by Banca IMI and the remainder by third-party investors;
- Mezzanine Tranche of 490.6 million euro, of which 240.4 million euro (49%) was subscribed by Intesa Sanpaolo and 51% by a third-party investor;
- Junior tranche of 599.6 million euro, of which 293.8 million euro was subscribed by Intesa Sanpaolo (49%) and 51% by a third-party investor.

Fuel 2 Securitisation

This transaction has been carried out in several tranches starting from 2018, on portfolios of trade receivables in the oil & gas 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 these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 60 million euro. To close the transactions, the Group used the vehicles Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

Quantitative information

C.1. Prudential consolidation - Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**389**	**-**	**244**	**-**	**303**	**1**
– Consumer credit	24	-	4	-	9	1
– Loans to businesses (including SMEs) (*)	365	-	240	-	294	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**11,067**	**-12**	**458**	**59**	**1,026**	**-9**
– Trade receivables	10	-	38	-	-	-
– Mortgages on residential properties	271	-2	216	-3	919	-9
– Loans to businesses (including SMEs) (**)	10,786	-10	204	62	107	-
TOTAL	**11,456**	**-12**	**702**	**59**	**1,329**	**-8**

(*) The entire amount refers to non-performing financial assets associated with the Savoy transaction.

(**) The amounts also include non-performing financial assets amounting to 79 million euro in Senior exposures, 203 million euro in Mezzanine exposures and 53 million euro in Junior exposures. "Loans to businesses (including SMEs)" also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

The securitisations in point A in the above table also include – in addition to the securitisations that meet the requirements of IFRS 9 for derecognition – those for which the Group has exercised the option of exemption from compliance with IAS/IFRS permitted by IFRS 1 on first-time adoption. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting standards and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**-**
– Consumer credit	-	-	-	-	-	-	19	-	-	-	-	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**2,528**	**-5**	**-**	**-**	**-**	**-**
– Trade receivables (*)	-	-	-	-	-	-	2,528	-5	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**2,547**	**-5**	**-**	**-**	**-**	**-**

(*) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IFRS 9

C.2. Prudential consolidation - Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (*)	5,628	10	30	-	3	-
Securitisations	53	3	-	-3	-	-
Consumer credit	49	-	8	-	-	-
Trade receivables	234	-3	-	-	1	-
Leases	14	-	22	-	-	-
Commercial mortgage loans	93	-	10	-	2	-
Residential mortgage loans	673	-3	210	-1	2	-
Loans to businesses (including SMEs) (**)	480	-1	184	6	61	-1
TOTAL	**7,224**	**6**	**464**	**2**	**69**	**-1**

(*) The amount also includes the Romulus securities for 5,094 million euro, held by the Banking Group, generally represented among third-party securitisation. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of this Part E.

(**) The exposures include non-performing financial assets amounting to 67 million euro in Senior exposures, 73 million euro in Mezzanine exposures and 56 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	*3,061*	*-6*	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**3,061**	**-6**	**-**	**-**	**-**	**-**

C.3. Prudential consolidation - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(f)	3,390	-	228	2,227	-	1,350
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	21	-	302	306	-	16
Intesa Sec 3 S.r.l.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Augusto S.r.l. (e)	Milano	(f)	1	-	2	13	-	-
Colombo S.r.l.	Milano	(f)	1	-	6	-	4	10
Diocleziano S.r.l. (e)	Milano	(f)	4	-	1	52	-	-
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (h)	Milano	Consolidated	32,447	-	5,618		37,791	
ISP CB Ipotecario S.r.l. (h)	Milano	Consolidated	19,872	-	4,907		22,975	
ISP CB Pubblico S.r.l. (h)	Milano	Consolidated	3,149	1,958	2,521		7,361	
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(f)	11,035	-	972	9,168	-	2,597
Claris Finance 2005 S.r.l (i)	Roma	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2007 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2008 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	118		7		39	55
Claris RMBS 2014 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris RMBS 2016 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	872	-	66	651	116	144
Claris SME 2015 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	629	-	66	-	249	403
Claris SME 2016 S.r.l. (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 3 S.r.l. (i)	Vicenza	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 4 S.r.l. (i)	Vicenza	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 5 S.r.l. (c) (i)	Vicenza	Not consolidated	493		38	383	60	52
Apulia Finance n. 4 S.r.l. (i)	Conegliano Veneto (TV)	(f)	(g)	(g)	(g)	(g)	(g)	(g)

(a) Consolidation method referring to the "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2.

(d) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of these Notes to the consolidated financial statements.

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2017).

(f) Vehicle consolidated at equity.

(g) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

(h) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of these Notes to the consolidated financial statements.

(i) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity and Savoy, in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

C.4 Prudential consolidation – Unconsolidated securitisation vehicles

The unconsolidated securitisation vehicles include the vehicles in which the Intesa Sanpaolo Group does not hold any stake in the capital and those in which it holds a residual stake. The table below shows the assets, liabilities, costs and revenues of each vehicle used for transactions in which the Group acts as originator.

(millions of euro)

	Trade Receivables Investment Vehicle Sarl (*)	CLARIS FINANCE 2007 S.r.l. (*) (**)	CLARIS RMBS 2014 S.r.l. (*) (**)	Berica ABS 4 S.r.l. (*) (**)	CLARIS SME 2016 S.r.l. (*) (**)	CLARIS FINANCE 2005 S.r.l. (*)	BERICA ABS 3 S.r.l. (*)	APULIA Finance n. 4 S.r.l. issues I and II (*)
A. Assets	**472**	**112**	**416**	**561**	**421**	**52**	**473**	**179**
A.1 Loans	472	112	416	561	421	50	473	177
A.2 Securities	-	-	-	-	-	-	-	-
A.3 Other assets	-	-	-	-	-	2	-	2
B. Use of cash and cash equivalents	**-**	**13**	**16**	**21**	**38**	**12**	**18**	**16**
B.1 Deposits with banks	-	13	16	-	38	12	-	15
B.2 Prepayments and accrued income	-	-	-	-	-	-	-	-
B.3 Other	-	-	-	21	-	-	18	1
B Liabilities	**472**	**125**	**432**	**548**	**489**	**64**	**453**	**195**
B.1 Class A Securities issued	416	66	219	304	72	4	216	51
B.2 Class B Securities issued	24	6	-	76	393	24	94	70
B.3 Class C Securities issued	-	13	-	47	-	10	-	19
B.4 Class J Securities issued	31	9	176	95	-	-	115	14
B.5 Other liabilities	1	31	37	26	24	26	28	41
C. Interest expense and other expenses	**11**	**4**	**12**	**11**	**25**	**1**	**12**	**22**
D. Interest income and other revenues	**11**	**4**	**12**	**14**	**15**	**-**	**13**	**5**

(*) The vehicles are used for securitisations involving residential mortgage loans except for TRIV, which deals with commercial mortgage loans. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards.

(**) Vehicle company which the Intesa Sanpaolo Group has not invested in.

With regard to the unconsolidated structured entities used for securitisations, the Group holds residual stakes in the vehicles Augusto, Colombo and Diocleziano, consolidated at equity. These vehicles are entities used in securitisations of assets, primarily land and public works financing, of a company subject to joint control sold in previous years.
The Group holds a residual stake in these vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.
The Intesa Sanpaolo Group controls the companies Romulus Funding Corporation and Duomo Funding Plc (included solely in the scope of consolidation pursuant to IFRS 10), which are used for transactions in which the Intesa Sanpaolo Group acts as sponsor and whose operations are described in Section 4 - Risks of other companies, of this Part E.

C.5. Prudential consolidation - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	Intesa Sec 3 S.r.l.	23	136	5	79	0%	100%	0%	97%	0%	0%
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	26	11,009	1	1,181	0%	10%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	18	32	1	10	0%	94%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2007 S.r.l.	14	98	3	13	0%	84%	0%	0%	0%	21%
Intesa Sanpaolo	CLARIS FINANCE 2008 S.r.l. (*)	19	99	1	16	0%	100%	0%	12%	0%	21%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l.	9	407	2	46	0%	93%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS SME 2015 S.r.l. (*)	105	520	19	174	0%	100%	0%	20%	0%	20%
Intesa Sanpaolo	CLARIS SME 2016 S.r.l.	34	386	10	109	0%	87%	0%	0%	0%	11%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	7	873	2	113	0%	33%	0%	0%	0%	21%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	8	466	3	77	0%	74%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	4	557	3	87	0%	58%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	1	492	-	74	0%	24%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. emissione I	10	59	-	14	0%	95%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. emissione II	19	89	-	13	0%	90%	0%	0%	0%	0%
Total		**297**	**15,223**	**50**	**2,006**						

(*) Vehicle used for self-securitisations

C.6 Prudential consolidation – Consolidated securitisation vehicles

Intesa SEC 3 S.r.l.
Securitisation of performing residential mortgage loans

(millions of euro)

A. Securitised assets	**160**
A.1 Loans	159
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loans management	**107**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	107
C. Securities issued	**153**
C.1 Class A1	-
C.2 Class A2	-
C.3 Class A3	7
C.4 Class B	73
C.5 Class C	73
D. Financing received	**49**
E. Other liabilities	**74**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Parent Company	38
E.4 Due to securitisation vehicle	-
E.5 "Additional return" allowance	36
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	2
H.2 Forecasted losses on loans	2
H.4 Additional return	-
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables D.1 and D.3 below, reference is made to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

D.1. Prudential consolidation - Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**2,478**	**-**	***2,478***	***X***	**2,474**	**-**	***2,474***
1. Debt securities	2,478	-	*2,478*	*X*	2,474	-	*2,474*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**28,064**	**-**	***28,064***	**-**	**27,712**	**-**	***27,712***
1. Debt securities	28,064	-	*28,064*	-	27,712	-	*27,712*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**4,426**	***1,577***	***2,849***	***188***	**3,824**	***1,032***	***2,792***
1. Debt securities	2,849	-	*2,849*	-	2,792	-	*2,792*
2. Loans	1,577	*1,577*	-	*188*	1,032	*1,032*	-
TOTAL 31.12.2018	**34,968**	***1,577***	***33,391***	***188***	**34,010**	***1,032***	***32,978***
TOTAL 31.12.2017	**27,681**	***4,579***	***23,102***	***329***	**26,554**	***3,763***	***22,791***

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

The operations shown in the table mainly relate to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the SEC3 and K-Equity securitisations, as well as securitisations resulting from the acquisition of the former Venetian banks.

D.2. Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value

These are not present in the Intesa Sanpaolo Group.

D.3. Prudential consolidation - Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2018	31.12.2017
A. Financial assets held for trading	**2,478**	**-**	**2,478**	**4,611**
1. Debt securities	2,478	-	2,478	4,611
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**28,064**	**-**	**28,064**	**18,094**
1. Debt securities	28,064	-	28,064	18,094
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**4,376**	**-**	**4,376**	**4,818**
1. Debt securities	2,794	-	2,794	366
2. Loans	1,582	-	1,582	4,452
Total financial assets	**34,918**	**-**	**34,918**	**27,523**
Total related financial liabilities	**34,014**	**-**	**34,014**	**26,545**
Net value 31.12.2018	**904**	**-**	**904**	**X**
Net value 31.12.2017	**978**	**-**	**X**	**978**

The table above does not include covered bond transactions in which the Intesa Sanpaolo Group is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2018.

D.4. Prudential consolidation - Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, the Intesa Sanpaolo Group has carried out three Covered Bond issue programmes.

The first programme, launched at the end of July 2009, reached an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold. The last sale (amounting to around 1 billion euro) took place in April 2013. As at 31 December 2018, loans and securities sold to the vehicle had a book value of 5 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12 billion euro relating to issues purchased by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012).
In 2018, the eleventh series of Covered Bonds reached maturity, with an original nominal value of 1.1 billion euro, already previously partly redeemed.

Therefore, as at 31 December 2018 a total nominal amount of 5.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 5.5 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2018, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 2.5 billion euro.
As at 31 December 2018, loans sold to the vehicle had a book value of 20 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 31.7 billion euro (of which 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).
During 2018:

- the fifteenth series of CB reached maturity, with a nominal value of 0.75 billion euro;
- in February, the twenty-third series of CB was issued in the form of a floating-rate bond (3-month Euribor +0.29%) for a nominal value of 2 billion euro, with a 12-year maturity, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely subscribed by Intesa Sanpaolo;
- in July, the twenty-fourth series of CB was issued in the form of a fixed-rate bond, with a 7-year maturity, for a nominal value of 1 billion euro, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely placed with institutional investors in the market.

As at 31 December 2018, a total nominal amount of 17.4 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 5.4 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages for a maximum amount of 40 billion euro (the original amount was 30 billion euro). The programme aims to achieve retained issues. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli (merged into Intesa Sanpaolo in November 2018), Cassa di Risparmio del Veneto (merged into Intesa Sanpaolo in July 2018), Cassa di Risparmio in Bologna and Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). The following sales were carried out in 2018: 0.8 billion euro in March, 4.1 billion euro in June, 2 billion euro in September and 1.9 billion euro in November.

As at 31 December 2018, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 28.3 billion euro. The other Group Banks sold assets to the vehicle for an amount of 4.3 billion euro.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 61.2 billion euro (of which 31.2 billion euro subject to early redemption and reimbursed). During 2018:

- in February, the eleventh series of CB reached maturity, with an original value of 1.5 billion euro and a residual nominal amount at maturity of 1.375 billion euro;
- in August, the twelfth series of CB reached maturity, with an original value of 2.35 billion euro and a residual nominal amount at maturity of 2.154 billion euro;
- in March, the twenty-fifth series of CB was issued with a nominal value of 1.75 billion euro. This is a 7-year, floating-rate bond;

- in March, the twenty-sixth series of CB was issued with a nominal value of 2.15 billion euro. This is a 10-year, floating-rate bond;
- in September, the twenty-seventh series of CB was issued with a nominal value of 1.6 billion euro. This is an 11-year, floating-rate bond;
- in September, the twenty-eighth series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rate bond;
- in November, the twenty-ninth series of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;
- in November, the thirtieth series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rate bond;
- in December, the thirty-first series of CB was issued with a nominal value of 1.275 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS. The characteristics of the issues make them eligible for Eurosystem refinancing operations.
As at 31 December 2018, a total nominal amount of 29.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2018 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN (1)	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2) (3)
ISP CB PUBBLICO	Performing public sector loans and securities	7,628	8	7,361	147	153
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	24,878	161	22,975	11,963	12,670
ISP OBG (4) (5)	Mortgages	38,065	368	37,791	-	-

(1) This caption includes the subordinated loan granted by Intesa Sanpaolo S.p.A. to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with institutional investors for almost the entire amount issued.

(4) The total assets amount to 32,630 million euro for Intesa Sanpaolo; of the remainder: 3,476 million euro is comprised of securitised assets of CR Firenze and 1,959 million euro is comprised of securitised assets of Cassa di Risparmio in Bologna.

(5) The write-downs to the securitised portfolio amount to 352 million euro for Intesa Sanpaolo; of the remainder: 7 million euro relates to assets of Cassa di Risparmio in Bologna and 9 million euro relates to assets of CR Firenze.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity, deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2018, the subsidiary VUB had issued 2.3 billion euro in this type of securities, booked in the financial statements at a value of approximately 2.3 billion euro.

E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2018, the expected loss on performing loans to customers was 0.45% of disbursed loans, essentially unchanged on the figure as at the end of 2017 (+0.01%). The total economic capital corresponded to 2.37% of disbursed loans, in line with the figure for 2017 (+0.02%).

The substantial stability of the risk indicators derived from the offsetting of several elements: the increase resulting from the updating of the time series of the risk parameters was offset by risk mitigation measures and by the improvement of the credit quality of the portfolio.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function and a third level of control by the Internal Auditing function. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the performances of the models. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

1.2. MARKET RISKS

As already mentioned in the Introduction, the Intesa Sanpaolo Group policies on financial risk taking are defined by the Parent Company's Management Bodies, with the support of specific Committees, including the Steering Committee, chaired by the Managing Director and CEO and composed of the heads of the main corporate departments, and the Group Financial Risks Committee.

The Steering Committee (formerly the Group Risk Governance Committee), a Group body with a decision-making, reporting and consulting role, is also assigned the functions of assisting the Managing Director and CEO in the performance of his duties, strengthening the coordination and cooperation mechanisms between the various business, governance and control areas of the Bank and the Group, with a view to sharing the main business choices, and helping ensure coordinated and integrated risk management and the safeguarding of business value at Group level, including the correct functioning of the internal control system.

The Group Financial Risks Committee, chaired by the Chief Risk Officer and the Chief Financial Officer, is responsible for setting out the methodological and measurement guidelines for financial risks, establishing the operational limits and assessing the risk profile of the Group and its main operational units. The Committee also sets out the strategies for the management of the banking book to be submitted to the competent Bodies and establishes the guidelines on liquidity, interest rate and foreign exchange risk. The Committee operates on the basis of the operating and functional powers delegated by the Corporate Bodies and coordination of the Steering Committee.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risks Committee.

The Parent Company's Financial and Market Risks Department is responsible for the development of corporate risk measurement and monitoring methodologies as well as for the proposals on the Bank's and the Group's system of operational limits. It is also responsible in outsourcing for the risk measurement for certain operating units on the basis of specific service contracts.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**592,046**	**97,398**	**494,648**	
Financial assets held for trading	38,970	38,066	904	Interest rate risk, credit spread, equity
Financial assets designated at fair value	208	198	10	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	3,492	1,997	1,495	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	60,452	57,129	3,323	Interest rate risk, equity
Due from banks	69,191	-	69,191	Interest rate risk
Loans to customers	410,454	-	410,454	Interest rate risk
Hedging derivatives	2,993	8	2,985	Interest rate risk
Investments in associates and companies subject to joint control	6,286	-	6,286	Equity risk
Liabilities subject to market risk	**566,893**	**42,556**	**524,337**	
Due to banks	106,463	-	106,463	Interest rate risk
Due to customers	327,097	-	327,097	Interest rate risk
Securities issued	84,388	-	84,388	Interest rate risk
Financial liabilities held for trading	42,051	41,987	64	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	4	4	-	-
Hedging derivatives	6,890	565	6,325	Interest rate risk

REGULATORY TRADING BOOK

1.2.1. INTEREST RATE RISK AND PRICE RISK

Consistent with the use of internal risk measurement models, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

Qualitative information

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

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

Managerial VaR

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

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Internal model validation

For some of the risk factors included in the VaR measurements, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI and the hedge fund portfolios of the Parent Company (look through approach), (iii) position risk on dividend derivatives and (iv) commodity risk for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.
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.

Stress VAR

Capital absorption includes the requirement for stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

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

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

As at the date of preparation of this document, the period relevant to the measurement of Stressed VaR was from 1 October 2011 to 30 September 2012 for both Intesa Sanpaolo and Banca IMI.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Quantitative information

Daily evolution managerial VaR

During the fourth quarter of 2018, the market risks originated by Intesa Sanpaolo declined slightly compared to the previous period, whereas those originated by Banca IMI increased: the average daily VaR for the fourth quarter of 2018 was 95.2 million euro, up on the third quarter.

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	13.9	11.1	19.4	14.4	11.8	7.8
Banca IMI	81.3	66.9	106.3	75.9	50.1	40.3
Total	**95.2**	**78.8**	**124.9**	**90.4**	**61.9**	**48.1**

(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.

With regard to the whole of 2018, the Group's average risk profile (74.1 million euro) increased compared to the average values in 2017 (69 million euro).

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2018 and 2017 [(a)]

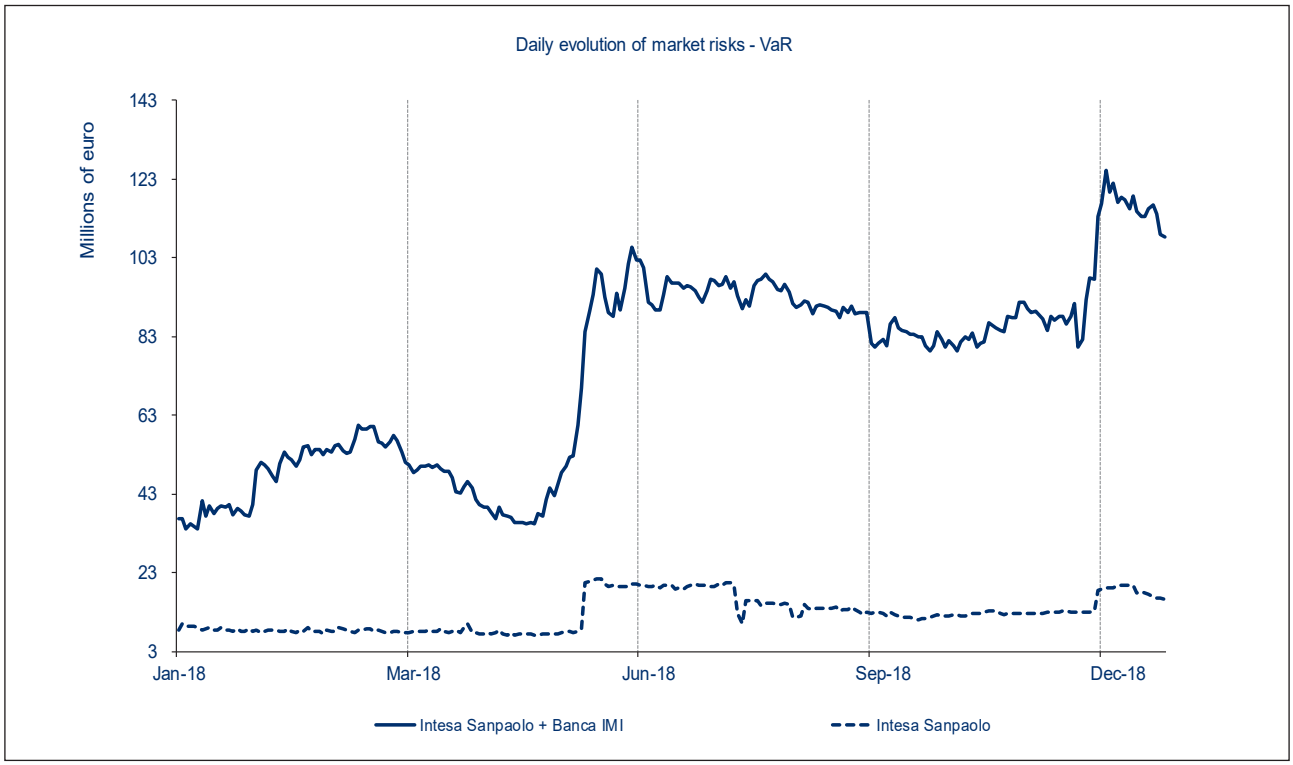
(millions of euro)

	2018				2017		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	12.0	6.7	20.9	14.3	10.0	6.3	12.5
Banca IMI	62.0	24.7	106.3	100.4	59.0	44.2	93.2
Total	**74.1**	**33.7**	**124.9**	**114.7**	**69.0**	**52.3**	**104.8**

(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 half of 2018 there was an increase in the risk measures as a result of the increase in the volatility of the financial markets, particularly in the Italian government segment in May. In the second half, the trend in VaR for Banca IMI was mainly due to portfolio movements and technical model effects (VaR scenarios) linked to the passage of time, which kept the risks stable on average up to mid-November. Subsequently, there was a further increase in VaR due to greater exposure of the government bond portfolio. For the Parent Company there was an increase in risks, although to a smaller extent, in the second and fourth quarter due to an increase in volatility of the credit spread (indices).



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

4th quarter 2018	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	2%	2%	22%	54%	19%	1%	0%
Banca IMI	3%	0%	15%	77%	0%	4%	1%
Total	**3%**	**0%**	**16%**	**74%**	**3%**	**3%**	**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 2018, 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 2018 with regard to the various factors shows the prevalence of the risk generated by the spread, which accounted for 54% of the total VaR for Intesa Sanpaolo and 77% for Banca IMI.

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table: The shocks applied to the portfolio were updated on an annual basis by the Financial and Market Risks Department.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-2	-7	-118	67	361	-351	37	-13	-1	0

Among these:
- for stock market positions, there would be a loss in both crash and bullish scenarios, given the portfolio non-linearity;
- for positions in interest rates, there would be a loss of 118 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 351 million euro;
- for positions in foreign exchange, there would be losses of 13 million euro in the event of a 10% increase in the EUR-USD exchange rate and reduction in volatility of 25%.
- finally, for positions in commodities, there would be a loss of 1 million euro in the event of a reduction in commodity prices of 20% accompanied by an increase in the price of gold of 15%.

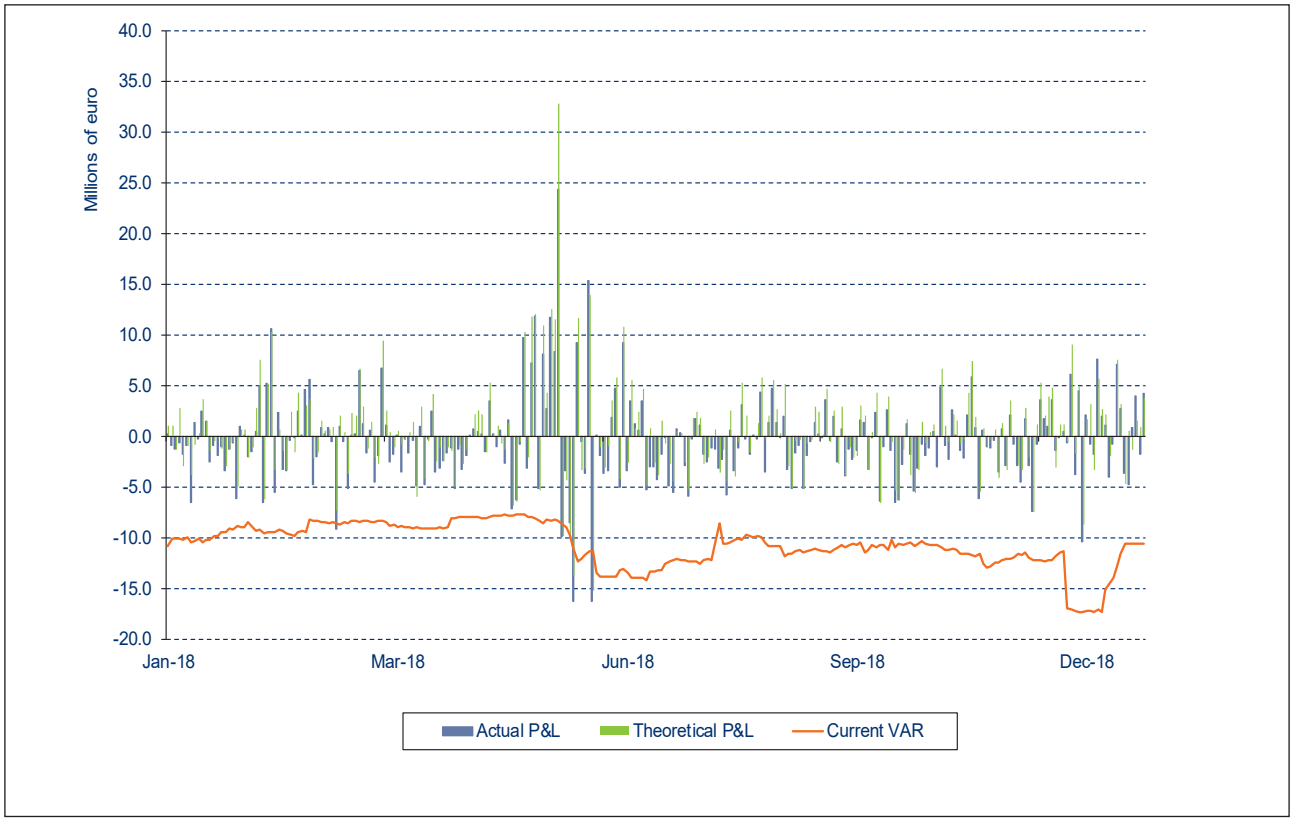
Backtesting

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

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

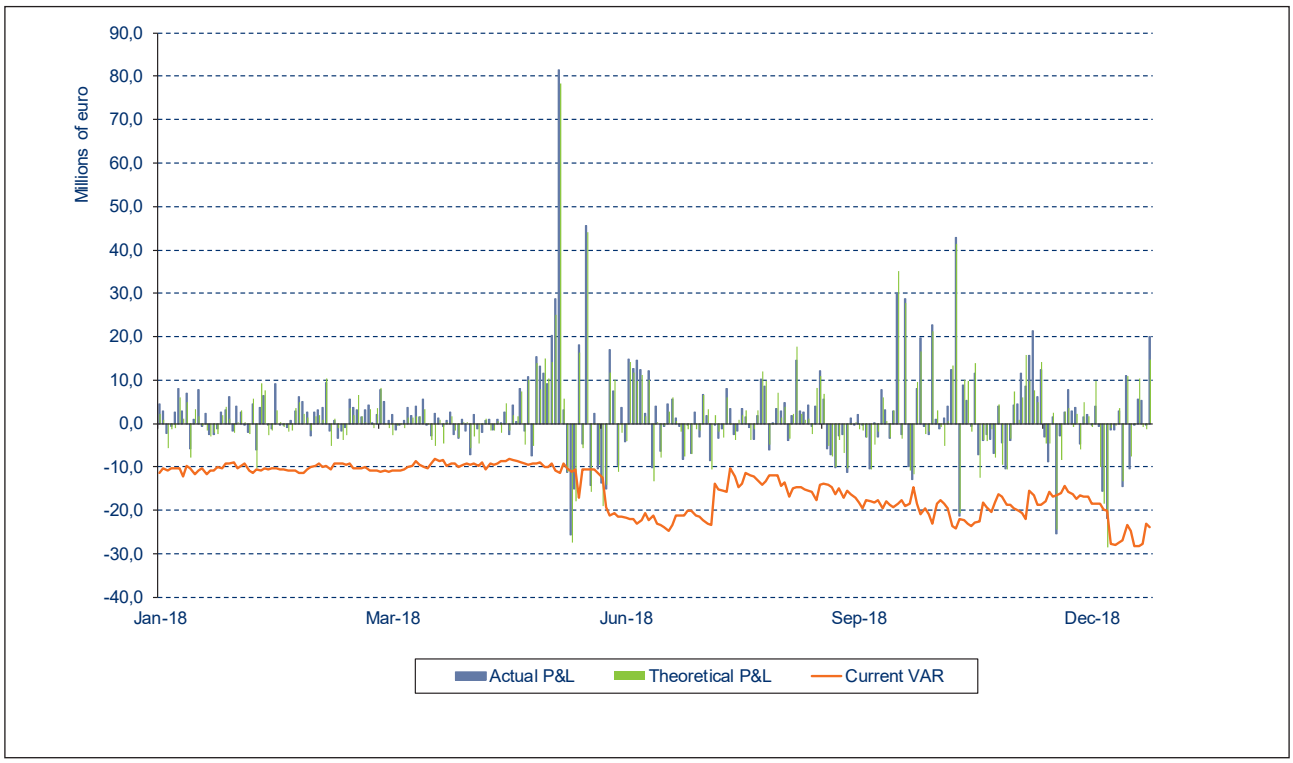
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been four backtesting exceptions. The breaches were caused by the credit component of the portfolio, which was particularly affected by the volatility in the second half of May 2018. The volatility was particularly high for buy protection positions on credit indices.



Backtesting in Banca IMI

The credit spread volatility was very high in 2018. This volatility led to seven backtesting breaches for both theoretical and actual P&L. The portfolio was particularly sensitive to the performance of the financial sector and to a lesser extent to the government sector.



Issuer risk

Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class, and 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	71%	5%	3%	0%	4%	79%	9%
Banca IMI	29%	1%	24%	13%	1%	4%	57%
Total	**100%**	**3%**	**11%**	**5%**	**3%**	**50%**	**28%**

(a) In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities) , including cds (absolute value).

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the securitisation segment for Banca IMI.

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risks Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. plafond for risk issuer operation with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.

With regard to the VaR limits, for the 2018 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 49% in 2018, with a maximum use of 88%. For Banca IMI, the average VaR limit came to 50%, with a maximum use of 83%. It should be specified that for Banca IMI the VaR limit also includes the HTCS component.

The use of VaR operating limits on the HTCS component (excluding Banca IMI) at year-end was 63%. For 2018, the limit for this component remained in line with 2017 at 260 million euro.

With regard to the use of the IRC limits, the occupation was at 99.9% at year-end for Intesa Sanpaolo (limit of 150 million euro) and 39.4% for Banca IMI (limit of 430 million euro).

BANKING BOOK

1.2.2 INTEREST RATE RISK AND PRICE RISK

Qualitative information

General aspects, interest rate risk and price risk management processes and measurement methods

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

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

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

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

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
- the cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP;

The models adopted for core deposits and for prepayment are subject to periodic backtesting. This backtesting is duly indicated in the Model Change documents and has been duly approved by the Group Financial Risks Committee.

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of 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.

The changes in net interest income and economic value are subject, at consolidated level and at individual Group company level, to monthly monitoring of compliance with the limits and sub-limits approved by the Group Financial Risks Committee (GFRC).
To this end, the measurements are presented taking into account the structuring for the verification, in terms of ceilings and sub-ceilings, time buckets (short, medium and long term), company and currency.
The scenarios used for the verification of the limits are:

- for the control of the exposure in terms of ΔEVE: instantaneous and parallel shock of +100 bps;
- for the control of the exposure in terms of ΔNII: instantaneous and parallel shock of ±50 bps.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Quantitative information

Banking book: internal models and other sensitivity analysis methodologies

In 2018, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 1,346 million euro, with a minimum value of 691 million euro and a maximum value of 1,713 million euro, reaching a figure of 1,143 million euro at the end of 2018 (1,615 million euro at the end of 2017), almost entirely concentrated on the euro currency.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 886 million euro, -928 million euro and 1,759 million euro, respectively, at the end of 2018. The last of these figures was up on the 1,563 million euro recorded at the end of 2017.

Interest rate risk, measured in terms of VaR, averaged 119 million euro in 2018, with a maximum value of 147 million euro and a minimum value of 91 million euro, with the latter coinciding with the value at the end of 2018 (153 million euro at the end of 2017).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2018 of 60 million euro (64 million euro at the end of 2017), with maximum and minimum values of 70 million euro and 52 million euro respectively, with the latter coinciding with the value at the end of 2018.

The table below shows the changes in the main risk measures

(millions of euro)

	2018			31.12.2018	31.12.2017
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	1,346	691	1,713	1,143	1,615
Shift Sensitivity of Net Interest Income -50bp	-914	-889	-931	-928	-872
Shift Sensitivity of Net Interest Income +50bp	858	831	886	886	794
Shift Sensitivity of Net Interest Income +100bp	1,702	1,625	1,759	1,759	1,563
Value at Risk - Interest Rate	119	91	147	91	153
Value at Risk - Equity investments in listed companies	60	52	70	52	64

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the abovementioned quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

(millions of euro)

		1st quarter 2018 impact on shareholders' equity at 31.03.2018	2nd quarter 2018 impact on shareholders' equity at 30.06.2018	3rd quarter 2018 impact on shareholders' equity at 30.09.2018	4th quarter 2018 impact on shareholders' equity at 31.12.2018	Impact on shareholders' equity at 31.12.2017
Price shock	10%	56	53	48	39	60
Price shock	-10%	-56	-53	-48	-39	-60

1.2.3. FOREIGN EXCHANGE RISK

Qualitative information

A. General aspects, foreign exchange risk management processes and measurement methods

"Foreign exchange risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Group's balance sheet aggregates. The key sources of exchange rate risk lie in:

- foreign currency loans and deposits held by corporate and/or retail customers;
- purchases of securities, equity investments and other financial instruments in foreign currencies;
- conversion into domestic currency of assets, liabilities and income of branches and subsidiaries abroad;
- trading of foreign currencies and banknotes;
- collection and/or payment of interest, commissions, dividends and administrative costs in foreign currencies.

More specifically, "structural" foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group.

Foreign exchange transactions, spot and forward, are carried out mostly by Banca IMI, which also operates in the name and on behalf of the Parent Company with the task of guaranteeing pricing throughout the Bank and the Group while optimizing the proprietary risk profile deriving from brokerage of foreign currencies traded by customers.

The main types of financial instruments traded include: spot and forward exchange transactions in foreign currencies, forex swaps, domestic currency swaps, and foreign exchange options.

B. Foreign exchange risk hedging activities

Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the funding activity in the same currency as assets.

Held for trading exposures are included in the trading book where foreign exchange risk is measured and subjected to daily VaR limits.

Quantitative information

1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

	CURRENCIES							
	US dollar	GB pound	Swiss franc	Hungarian forint	Egyptian pound	Croatian kuna	Yen	Other currencies
A. FINANCIAL ASSETS	**34,261**	**2,381**	**639**	**3,799**	**3,718**	**4,788**	**1,834**	**9,323**
A.1 Debt securities	12,324	653	16	1,105	1,002	825	772	2,230
A.2 Equities	210	11	12	-	24	1	-	558
A.3 Loans to banks	6,077	94	293	888	1,251	636	185	2,111
A.4 Loans to customers	15,641	1,623	315	1,772	1,441	3,287	877	4,382
A.5 Other financial assets	9	-	3	34	-	39	-	42
B. OTHER ASSETS	**5,020**	**38**	**37**	**62**	**56**	**16**	**464**	**125**
C. FINANCIAL LIABILITIES	**38,409**	**1,301**	**440**	**3,776**	**3,203**	**4,327**	**631**	**5,563**
C.1 Due to banks	13,939	397	69	344	12	258	10	878
C.2 Due to customers	8,937	518	367	3,376	1,538	3,975	151	3,617
C.3 Debt securities	15,523	386	-	-	1,653	-	470	1,018
C.4 Other financial liabilities	10	-	4	56	-	94	-	50
D. OTHER LIABILITIES	**587**	**18**	**8**	**-**	**116**	**166**	**16**	**82**
E. FINANCIAL DERIVATIVES								
- Options								
long positions	*3,415*	*153*	*15*	*2*	*-*	*-*	*105*	*216*
short positions	*3,878*	*71*	*18*	*9*	*-*	*-*	*76*	*240*
- Other derivatives								
long positions	*72,107*	*8,865*	*4,717*	*1,405*	*-*	*2*	*5,469*	*8,979*
short positions	*71,974*	*9,861*	*5,006*	*858*	*-*	*1*	*7,216*	*11,160*
TOTAL ASSETS	**114,803**	**11,437**	**5,408**	**5,268**	**3,774**	**4,806**	**7,872**	**18,643**
TOTAL LIABILITIES	**114,848**	**11,251**	**5,472**	**4,643**	**3,319**	**4,494**	**7,939**	**17,045**
DIFFERENCE (+/-)	**-45**	**186**	**-64**	**625**	**455**	**312**	**-67**	**1,598**

2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included in the operating procedures and in the estimation methodologies of the internal model based on VaR calculations, as already illustrated.
Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 42 million euro as at 31 December 2018. This potential impact would only be reflected in the Shareholders' Equity.

1.3. DERIVATIVES AND HEDGING POLICIES

Starting from 2014, the Parent Company and Banca IMI have been authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk. This authorisation was extended also to the banks belonging to the Banca dei Territori (BdT) Division starting from 31.12.2016.
This approach is applicable to almost the entire trading portfolio (as shown in the table below, as at 31 December 2018 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models). Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2018 accounting for approximately 2% of overall EAD) and refer to:

- residual contracts of Banca IMI, Intesa Sanpaolo and BdT to which EPE is not applied (in compliance with the immateriality of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

As envisaged by Basel 3, also CCPs generate a capital requirement and are thus included in the EPE scope and in the evidence stated below.

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

(millions of euro)

Transaction categories	31.12.2018		31.12.2017	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	404	16,950	695	15,465

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to approximately 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 with transactions with central counterparties).

1.3.1. Trading derivatives

A. FINANCIAL DERIVATIVES

A.1. Financial trading derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	**1,768,173**	**181,588**	**58,260**	**210,792**	**1,943,893**	**171,160**	**45,200**	**181,701**
a) Options	-	91,854	6,833	51,158	-	94,916	2,926	31,016
b) Swaps	1,768,173	89,734	48,737	-	1,943,893	76,244	41,044	-
c) Forwards	-	-	2,690	-	-	-	1,230	-
d) Futures	-	-	-	159,634	-	-	-	150,685
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**10,284**	**16,162**	**19,542**	**-**	**8,040**	**13,514**	**16,370**
a) Options	-	10,244	16,151	18,000	-	7,993	13,496	14,647
b) Swaps	-	40	9	-	-	47	17	-
c) Forwards	-	-	2	-	-	-	1	-
d) Futures	-	-	-	1,542	-	-	-	1,723
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**166,544**	**20,336**	**534**	**-**	**145,841**	**19,585**	**277**
a) Options	-	22,682	1,094	71	-	21,479	1,537	29
b) Swaps	-	56,215	6,118	-	-	48,100	2,257	-
c) Forwards	-	87,437	12,612	-	-	76,005	14,728	-
d) Futures	-	-	-	222	-	-	-	248
e) Other	-	210	512	241	-	257	1,063	-
4. Commodities	**-**	**11,405**	**1,904**	**1,838**	**-**	**6,460**	**-**	**2,031**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,768,173**	**369,821**	**96,662**	**232,706**	**1,943,893**	**331,501**	**78,299**	**200,379**

A.2. Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2018				31.12.2017			
	Over the counter			Mercati organizzati	Over the counter			Mercati organizzati
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	2,583	92	563	-	2,859	125	478
b) Interest rate swaps	-	10,536	6,010	-	-	14,814	2,711	-
c) Cross currency swaps	-	1,282	269	-	-	1,220	334	-
d) Equity swaps	-	3	2	-	-	5	-	-
e) Forwards	-	976	91	1	-	748	124	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	2,773	141	-	-	87	111	-
Total	**-**	**18,153**	**6,605**	**564**	**-**	**19,733**	**3,405**	**478**
2. Negative fair value								
a) Options	-	2,607	3,711	1,425	-	2,967	2,791	546
b) Interest rate swaps	4,298	11,418	656	-	4,141	17,082	630	-
c) Cross currency swaps	-	1,340	676	-	-	1,303	596	-
d) Equity swaps	-	-	-	-	-	2	-	-
e) Forwards	-	1,042	160	1	-	670	155	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	2,762	126	-	-	191	86	-
Total	**4,298**	**19,169**	**5,329**	**1,426**	**4,141**	**22,215**	**4,258**	**546**

A.3. Over the counter financial trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	9,800	6,922	41,538
- positive fair value	X	880	127	5,079
- negative fair value	X	-438	-13	-303
2) Equities and stock indices				
- notional amount	X	628	14,993	541
- positive fair value	X	3	1	2
- negative fair value	X	-84	-3,514	-39
3) Foreign exchange rates and gold				
- notional amount	X	2,055	6,914	11,367
- positive fair value	X	21	77	275
- negative fair value	X	-567	-48	-205
4) Commodities				
- notional amount	X	-	27	1,877
- positive fair value	X	-	1	139
- negative fair value	X	-	-1	-117
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	1,768,173	113,078	54,432	14,078
- positive fair value	-	10,056	1,901	704
- negative fair value	-4,298	-10,764	-2,452	-254
2) Equities and stock indices				
- notional amount	-	4,951	5,333	-
- positive fair value	-	115	57	-
- negative fair value	-	-178	-61	-
3) Foreign exchange rates and gold				
- notional amount	-	114,428	41,432	10,684
- positive fair value	-	1,122	1,010	363
- negative fair value	-	-1,728	-516	-385
4) Commodities				
- notional amount	-	6,595	3,460	1,350
- positive fair value	-	2,057	664	104
- negative fair value	-	-2,249	-490	-92
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4. Residual maturity of over the counter financial derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	433,609	837,934	736,478	2,008,021
A.2 Financial derivatives on equities and stock indices	2,893	16,017	7,536	26,446
A.3 Financial derivatives on foreign exchange rates and gold	121,469	42,592	22,819	186,880
A.4 Financial derivatives on commodities	11,215	2,094	-	13,309
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**569,186**	**898,637**	**766,833**	**2,234,656**
Total 31.12.2017	**686,078**	**914,479**	**753,136**	**2,353,693**

B. CREDIT DERIVATIVES

B.1. Credit trading derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	Trading derivatives	
	single counterparty	more counterparties (basket)
1. Protection purchases		
a) Credit default products	7,627	45,131
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**7,627**	**45,131**
Total 31.12.2017	**7,371**	**37,390**
2. Protection sales		
a) Credit default products	8,152	43,937
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**8,152**	**43,937**
Total 31.12.2017	**8,893**	**32,743**

As at 31 December 2018, none of the contracts shown in the table above have been included within the structured credit products.

B.2. Credit trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Total 31.12.2018	Total 31.12.2017
1. Positive fair value		
a) Credit default products	703	1,160
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**703**	**1,160**
2. Negative fair value		**-**
a) Credit default products	784	1,275
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**784**	**1,275**

As at 31 December 2018, none of the contracts shown in the table above have been included within the structured credit products.

B.3. Over the counter credit trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Protection purchases				
− notional amount	X	-	-	168
− positive fair value	X	-	-	54
− negative fair value	X	-	-	-
2) Protection sales				
− notional amount	X	-	60	-
− positive fair value	X	-	-	-
− negative fair value	X	-	-29	-
Contracts included under netting agreements				
1) Protection purchases				
− notional amount	20,978	22,015	9,597	-
− positive fair value	-	145	102	-
− negative fair value	-37	-249	-117	-
2) Protection sales				
− notional amount	21,150	20,605	10,274	-
− positive fair value	-	219	183	-
− negative fair value	-	-149	-203	-

As at 31 December 2018, none of the contracts shown in the table above have been included within the structured credit products.

B.4. Residual maturity of over the counter credit trading derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
1. Protection sales	2,944	48,053	1,092	52,089
2. Protection purchases	3,247	48,568	943	52,758
Total 31.12.2018	**6,191**	**96,621**	**2,035**	**104,847**
Total 31.12.2017	**15,255**	**69,633**	**1,509**	**86,397**

B.5. Credit derivatives associated with the fair value option: annual changes

The Intesa Sanpaolo Group does not hold credit derivatives associated with the fair value option.

1.3.2. Accounting hedges

Qualitative information

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Group uses both micro fair value hedges and macro fair value hedges.
The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.
The macro fair value hedges are used for:

- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans. For this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

B. Cash flow hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the Group from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.

The Group uses both micro cash flow hedges and macro cash flow hedges.
The micro cash flow hedges mainly hedge bonds issued.
The macro cash flow hedges are used for:

- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties or with other Group companies, which, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

C. Hedging of foreign investments

In 2018, foreign exchange hedges were implemented against the exchange risk on the cost of funding in foreign currency and on foreign currency gains generated by the Parent Company's international branches.

D. Hedging instruments

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of the hedges are attributable to the following:

- misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
- application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised, are discounted on the Eonia curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:

- the determination of the effect on the income statement;
- the assessment of the possibility of continuing to apply the hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. Hedged items

The main types of hedged items are:
- debt securities under assets;
- debt securities issued and non-securities funding;
- fixed-rate loans;
- floating-rate loans;
- optional embedded component of floating-rate mortgages;
- already fixed coupon of floating rate-loans;
- modelled on demand deposits.

E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

E.2 Debt securities issued and non-securities funding

The Group currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.
For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

E.3 Fixed-rate loans

The Group has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.
The interest rate risk is hedged throughout the life of the underlying.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.
For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.

E.4 Floating-rate loans

The Group currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments.
The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

E.5 Optional embedded component of floating-rate mortgages

The optional embedded components (interest rate options) of floating-rate mortgages are hedged by micro fair value hedges, using options (cap, floor, collar) as hedging instruments.
The underlying assets may be partially or totally hedged, over time and in terms of amount.

The Dollar Offset Method is used to verify the hedge effectiveness.

E.6 Already fixed coupon of floating-rate loans

This is hedged by macro fair value hedges, using OIS as hedging instruments.
The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.
The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

E.7 Modelled on demand deposits.

Modelled on demand deposits are hedged by macro fair value hedges, as required by the “carve out” of IAS 39, using IRS and OIS as hedging instruments.
The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by the bank’s core deposits.
The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary. The Dollar Offset Method is used to verify the hedge effectiveness.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivative	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**13,941**	**175,467**	**4,284**	**-**	**11,614**	**247,995**	**-**	**-**
a) Options	-	3,194	-	-	-	3,708	-	-
b) Swaps	13,941	172,253	4,284	-	11,614	244,287	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	20	-	-	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**3,192**	**52**	**26**	**-**	**3,198**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	3,192	52	26	-	3,162	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	36	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**13,941**	**178,659**	**4,336**	**26**	**11,614**	**251,193**	**-**	**-**

The average notional amount in the year of the financial hedging derivatives was 201,391 million euro

A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2018				Total 31.12.2017					
	Over the counter			Organised markets	Over the counter			Organised markets	Total 31.12.2018	Total 31.12.2017
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	53	-	-	-	75	-	-	-176	129
b) Interest rate swap	-	2,643	7	-	-	3,858	-	-	2,066	2,930
c) Cross currency swap	-	290	-	-	-	279	-	-	59	87
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	1	-	-	-	-
Total	**-**	**2,986**	**7**	**-**	**-**	**4,213**	**-**	**-**	**1,949**	**3,146**
Negative fair value										
a) Options	-	4	-	-	-	-	-	-	4	-
b) Interest rate swap	300	6,132	109	-	75	6,993	1	-	4,388	4,174
c) Cross currency swap	-	344	1	-	-	420	-	-	272	301
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**300**	**6,480**	**110**	**-**	**75**	**7,413**	**1**	**-**	**4,664**	**4,475**

A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

(millions of euro)

Underlying asset	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	4,232	-	52
- positive fair value	X	6	-	1
- negative fair value	X	-109	-	-
2) Equities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold				
- notional amount	X	13	-	39
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-1
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	13,941	173,805	1,662	-
- positive fair value	-	2,643	54	-
- negative fair value	-300	-5,610	-526	-
2) Equities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold				
- notional amount	-	2,914	278	-
- positive fair value	-	288	1	-
- negative fair value	-	-210	-134	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of over the counter hedging derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	37,433	81,781	74,478	193,692
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	896	1,737	611	3,244
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**38,329**	**83,518**	**75,089**	**196,936**
Total 31.12.2017	**70,445**	**121,304**	**71,058**	**262,807**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: period-end notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product

B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty

B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts

The Intesa Sanpaolo Group does not hold credit derivatives classified as hedges in its portfolio

C. Non-derivative hedging instruments

C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). As a result, it does not have any hedging instruments in its portfolio other than derivatives.

D. Hedged items

The Intesa Sanpaolo Group has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

D.1 Fair value hedges

(millions of euro)

	Micro-hedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Micro-hedges			Macro-hedges: book value
			Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	
A. Assets						
Financial assets designated at fair value through other comprehensive income – hedging of:	**37,058**	**-**	**333**	**76**	**160**	**-**
1.1 Debt securities and interest rates	36,944	-	329	76	155	X
1.2 Equities and stock indices	-	-	-	-	-	X
1.3 Foreign exchange rates and gold	114	-	4	-	5	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets measured at amortised cost - hedging of:	**18,662**	**-**	**3,339**	**28**	**2,564**	**46,720**
1.1 Debt securities and interest rates	18,065	-	3,075	28	2,300	X
1.2 Equities and stock indices	-	-	-	-	-	X
1.3 Foreign exchange rates and gold	134	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	463	-	264	-	264	X
Total 31.12.2018	**55,720**	**-**	**3,672**	**104**	**2,724**	**46,720**
Total 31.12.2017	**54,640**	**-**	**3,852**	**12**	**4,336**	**70,218**
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:	**88,772**	**-**	**1,014**	**102**	**1,487**	**7,225**
1.1 Debt securities and interest rates	85,864	-	962	102	1,427	X
1.2 Foreign exchange rates and gold	-	-	-	-	-	X
1.3 Other	2,908	-	52	-	60	X
Total 31.12.2018	**88,772**	**-**	**1,014**	**102**	**1,487**	**7,225**
Total 31.12.2017	**52,273**	**-**	**1,896**	**129**	**2,410**	**-**

D.2 Cash flow hedges and hedges of foreign investments

(millions of euro)

	Change in value used to assess hedge ineffectiveness	Hedging reserves	Termination of hedging: residual cumulative value of the hedging reserves
A. Cash flow hedge			
1. Assets	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-
1.2 Equities and stock indices	-	-	-
1.3 Foreign exchange rates and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-311**	**-354**	**-**
1.1 Debt securities and interest rates	-311	-310	-
1.2 Foreign exchange rates and gold	-	-	-
1.3 Other	-	-44	-
Total (A) 31.12.2018	**-311**	**-354**	**-**
Total (A) 31.12.2017	**-367**	**-365**	**-**
B. Hedges of foreign investments	X	-	-
Total (A+B) 31.12.2018	**-311**	**-354**	**-**
Total (A+B) 31.12.2017	**-367**	**-365**	**-**

E. Effects of hedging on shareholders' equity

E.1 Reconciliation of components of shareholders' equity

(millions of euro)

	Cash flow hedging reserve					Reserve for hedging of foreign investments				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
Initial amount	**-367**	**-**	**-**	**-**	**-51**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	57	-	-	-	9	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-2	-	-	-	-	-
of which: transfer to the initial book value of the hedged instruments)	-	-	-	-	-	X	X	X	X	X
Final amount	**-310**	**-**	**-**	**-**	**-44**	**-**	**-**	**-**	**-**	**-**

The table "Hedging instruments (undesignated items)" has not been included because these are not present. This table must be provided by banks that apply IFRS 9 for hedges. The above table (E1) is required by banks that apply IFRS 9 for hedges, but has been provided - because the IAS 39 figure is available - in order to provide further information.

1.3.3. Other information on derivative instruments (trading and hedging)

A. Credit and financial derivatives

A.1 Over the counter credit and financial derivatives: net fair values by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	1,782,114	300,915	63,016	55,668
- positive net fair value	-	1,944	226	5,346
- negative net fair value	-4,598	-791	-23	-321
2) Equities and stock indices				
- notional amount	-	5,579	20,326	541
- positive net fair value	-	99	9	2
- negative net fair value	-	-84	-3,566	-39
3) Foreign exchange rates and gold				
- notional amount	-	119,410	48,624	22,090
- positive net fair value	-	57	83	502
- negative net fair value	-	-592	-43	-227
4) Commodities				
- notional amount	-	6,595	3,487	3,227
- positive net fair value	-	-	1	139
- negative net fair value	-	-	-1	-117
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	1,237	365	174
- negative net fair value	-	-6,652	-947	-188
B. Credit derivatives				
1) Protection purchases				
- notional amount	20,978	22,015	9,597	168
- positive net fair value	-	-	-	54
- negative net fair value	-	-	-	-
2) Protection sales				
- notional amount	21,150	20,605	10,334	-
- positive net fair value	-	-	-	-
- negative net fair value	-37	-	-30	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, liquidity risk management processes and measurement methods

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

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

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the most recent applicable regulatory provisions.

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of 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 (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (100% from 1 January 2018).

Since March 2015, the Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected the above-mentioned additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted.

The Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

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

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including 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 Group Treasury and Finance Head Office Department, the Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping to improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.

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

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained largely within the risk limits set out in the current Group Liquidity Policy for 2018: 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 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 163%. 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 Delegated Regulation 2015/61 (Article 23).

At the end of December 2018, 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 175 billion euro (171 billion euro at December 2017), of which 89 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). At the end of 2018, the HQLA component represented 60% of the own portfolio and 95% of the unencumbered. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Proprietary		Unencumbered (net of haircut)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Cash and Deposits at Central Banks (HQLA)	40,156	43,343	40,156	43,343
Highly Liquid Securities (HQLA)	64,805	62,663	44,190	42,821
Other eligible and/or marketable reserves	69,843	65,215	4,251	11,710
Total Group Liquidity Reserves	**174,804**	**171,221**	**88,597**	**97,874**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing 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).

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**57,453**	**19,342**	**13,129**	**12,502**	**25,316**	**21,148**	**28,439**	**146,905**	**132,737**	**33,159**
A.1 Government bonds	14	50	13	93	883	2,638	4,359	22,968	19,236	-
A.2 Other debt securities	94	510	1,856	2,606	248	408	497	4,992	9,499	15
A.3 Quotas of UCI	2,244	-	-	-	-	-	-	-	-	5
A.4 Loans	55,101	18,782	11,260	9,803	24,185	18,102	23,583	118,945	104,002	33,139
- Banks	11,358	1,908	639	1,658	3,330	1,456	2,320	1,314	77	33,044
- Customers	43,743	16,874	10,621	8,145	20,855	16,646	21,263	117,631	103,925	95
B. Cash liabilities	**270,444**	**34,456**	**5,599**	**7,059**	**10,074**	**8,544**	**13,233**	**98,352**	**22,951**	**745**
B.1 Deposits and current accounts	257,965	888	900	1,486	5,466	2,639	3,381	5,353	1,059	3
- Banks	3,338	24	32	55	36	57	288	1,445	360	3
- Customers	254,627	864	868	1,431	5,430	2,582	3,093	3,908	699	-
B.2 Debt securities	20	380	656	3,458	3,823	5,101	8,991	30,152	17,437	742
B.3 Other liabilities	12,459	33,188	4,043	2,115	785	804	861	62,847	4,455	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	2,323	8,673	3,986	7,851	20,499	9,092	7,505	22,000	10,338	-
- Short positions	2,157	10,297	2,915	7,626	20,676	8,497	6,568	19,702	10,348	-
C.2 Financial derivatives without exchange of capital										
- Long positions	20,168	2	3	17	56	138	103	270	135	-
- Short positions	26,645	1	1	23	63	152	162	270	135	-
C.3 Deposits and loans to be settled										
- Long positions	42,862	-	-	-	-	-	-	-	-	-
- Short positions	-	42,741	-	-	50	-	-	72	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	3,711	22,539	14	214	509	543	5,539	21,976	3,073	-
- Short positions	57,854	47	14	206	44	169	203	52	2	-
C.5 Financial guarantees given	967	4	37	55	56	59	239	197	66	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	150	191	87	54	282	1,615	-
- Short positions	-	-	-	150	191	87	54	282	1,615	-
C.8 Credit derivatives without exchange of capital										
- Long positions	390	-	-	-	-	-	-	-	-	-
- Short positions	334	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Type/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**5,302**	**3,762**	**2,803**	**2,539**	**4,443**	**4,196**	**5,554**	**18,586**	**10,489**	**1,457**
A.1 Government bonds	1	81	54	202	947	685	1,452	5,541	4,689	1
A.2 Other debt securities	48	82	5	186	212	141	559	2,254	1,746	-
A.3 Quotas of UCI	95	-	-	-	-	-	-	-	-	2
A.4 Loans	5,158	3,599	2,744	2,151	3,284	3,370	3,543	10,791	4,054	1,454
- Banks	1,976	2,147	1,696	1,191	966	1,275	744	323	63	1,381
- Customers	3,182	1,452	1,048	960	2,318	2,095	2,799	10,468	3,991	73
B. Cash liabilities	**16,174**	**3,805**	**6,656**	**5,611**	**4,275**	**2,293**	**2,074**	**9,384**	**7,713**	**-**
B.1 Deposits and current accounts	15,490	1,193	916	1,621	1,560	835	949	1,792	329	-
- Banks	1,714	459	336	208	359	131	31	454	59	-
- Customers	13,776	734	580	1,413	1,201	704	918	1,338	270	-
B.2 Debt securities	24	586	1,619	371	599	1,207	1,121	6,909	7,112	-
B.3 Other liabilities	660	2,026	4,121	3,619	2,116	251	4	683	272	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	783	14,378	4,331	10,345	19,573	10,974	10,451	20,074	11,503	-
- Short positions	105	14,294	5,788	10,593	21,238	11,312	11,772	21,587	10,700	-
C.2 Financial derivatives without exchange of capital										
- Long positions	3,749	-	27	29	16	64	88	149	4	-
- Short positions	3,950	1	3	18	30	54	92	149	6	-
C.3 Deposits and loans to be settled										
- Long positions	15	-	-	-	-	-	-	-	-	-
- Short positions	-	8	4	1	2	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	1,420	26	34	138	237	270	1,012	9,365	408	-
- Short positions	12,049	55	3	82	75	408	142	137	352	-
C.5 Financial guarantees given	709	6	7	19	65	103	88	208	25	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	173	183	-	-
- Short positions	-	-	-	-	-	-	173	183	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	253	-	-	-	-	-	-	-	-	-
- Short positions	240	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
A brief description of the existing transactions as at 31 December 2018 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in November 2017, with the support of the vehicle Adriano Lease Sec S.r.l., which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts, for a total amount of approximately 4.2 billion euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the Parent Company for refinancing operations on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. issued two series of notes:

- a Senior tranche (Class A), with a nominal amount of 2.87 billion euro, listed and assigned an A1 rating by Moody's and A rating by DBRS;
- a Junior tranche (Class B), with a nominal amount of 1.35 billion euro, unlisted and unrated.

The securities were purchased in full by Mediocredito Italiano. As at 31 December 2018, the senior security, amounting to around 2.2 billion euro, had been sold in full to the Parent Company through a repurchase agreement.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC S.A., which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Brera Sec S.r.l.

In October 2017, a new self-securitisation was structured, implemented through the sale of five loan portfolios to the vehicle company Brera Sec S.r.l. and originated by the Parent Company and four of the Banks of the Banca dei Territori Division (Cassa di Risparmio di Bologna and the three banks merged into Intesa Sanpaolo in the second half of 2018: Banco di Napoli, Cassa di Risparmio di Forlì and Cassa di Risparmio Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual Selling Bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each Selling Bank without derecognition. Each Selling Bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
ISP has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). ISP will take care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A..

The total sale consideration was 7.1 billion euro and the sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro.

The securities, which are listed with an Aa2 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed in the table below:

- Intesa Sanpaolo had subscribed 54.30% of the senior (3,272 million euro) and junior securities (580 million euro);
- Banco di Napoli (now merged into Intesa Sanpaolo) had subscribed 11.25% of the senior (678 million euro) and junior securities (120 million euro);
- CR Bologna had subscribed 9.02% of the senior (543 million euro) and junior securities (96 million euro);
- CR Forlì e della Romagna (now merged into Intesa Sanpaolo) had subscribed 12.09% of the senior (728 million euro) and junior securities (129 million euro);
- CR Friuli Venezia Giulia (now merged into Intesa Sanpaolo) had subscribed 13.34% of the senior (804 million euro) and junior securities (142 million euro).

Following the merger by incorporation into Intesa Sanpaolo on 23 July 2018 (CR Friuli Venezia Giulia) and 26 November 2018 (Banco di Napoli and CR Forlì e della Romagna), the loans sold were transferred to the ISP portfolio.
As at 31 December 2018, the value of the outstanding subscribed securities was as follows:

- Intesa Sanpaolo
  - Senior securities: 4,929 million euro
  - Junior securities: 971 million euro
- CR Forlì e della Romagna
  - Senior securities: 489 million euro
  - Junior securities: 96 million euro

Brera Sec S.r.l. (SME)

In October 2018, a new self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec. Srl and originated by the Parent Company and two of the Banks of the Banca dei Territori Division (Banco di Napoli - now merged into Intesa Sanpaolo, Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro). This transaction is the Group's second Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual Selling Bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each Selling Bank without derecognition. Each Selling Bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).

On 26 November 2018, following the merger by incorporation of Banco di Napoli into Intesa Sanpaolo, the loans sold were transferred to the ISP portfolio.

The total sale consideration was 5.3 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 14 December 2018 for a total of 5.3 billion euro.

The securities, which are listed with an A1 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:

- Intesa Sanpaolo subscribed 76.47% of the senior (2,867 million euro) and junior securities (1,169 million euro);
- CR Firenze subscribed 12.68% of the senior (476 million euro) and junior securities (194 million euro);
- CR Bologna subscribed 10.85% of the senior (407 million euro) and junior securities (166 million euro).

Berica ABS 5 S.r.l

This is a self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:

- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA-") and Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2018, securities totalling 384 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), without rating and indexed to the 3-month Euribor.

Claris RMBS 2016 S.r.l.

In November 2016, Veneto Banca, now merged into Intesa Sanpaolo, arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:

- class A tranche of 929 million euro, which had a residual amount of 652 million euro as at 31 December 2018 and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class B tranche of 116 million euro, which had a residual amount of 116 million euro as at 31 December 2018 and an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, which had a residual amount of 144 million euro as at 31 December 2018 and without rating;
- class J2 tranche of 30 million euro, fully redeemed as at 31 December 2018 and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed proportionally by the parent company Veneto Banca, now merged into Intesa Sanpaolo, and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the residual loans is 880 million euro.

Claris SME 2015 S.r.l.
In October 2015, Veneto Banca arranged a securitisation of mortgage and other loans, together with Banca Apulia, for a total of 1,953 million euro (1,563 million euro and 390 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in October 2015, "Claris SME 2015 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,963 million euro, broken down as follows:
- class A tranche of 1,270 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA+") and by DBRS ("A High");
- class B tranche of 290 million euro, which had a residual amount of 248 million euro as at 31 December 2018 (190 million euro for Intesa Sanpaolo and 58 million euro for Banca Apulia, respectively) and an external rating assigned by Fitch ("A+");
- class J1 tranche of 321 million euro, which had a residual amount of 321 million euro as at 31 December 2018 (entirely subscribed by Intesa Sanpaolo) and without rating;
- class J2 tranche of 81 million euro, which had a residual amount of 81 million euro as at 31 December 2018 (entirely subscribed by Banca Apulia) and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Luxembourg Stock Exchange, were subscribed proportionally by the former parent company Veneto Banca and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.
The J1 and J2 securities, also denominated in euro and without rating, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 625 million euro.

Claris Finance 2008 S.r.l.
In 2008, Veneto Banca carried out a securitisation of mortgage loans for a total of 592 million euro. The transaction involved residential and commercial loans totalling 439 million euro and 153 million euro, respectively. The sale, which took place at a price equal to the value of the outstanding principal debt, was completed on 10 June 2008 with financial and legal effects from 1 May 2008.

With respect to the portfolio sold, "Claris Finance 2008 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 592 million euro, broken down as follows:
- Class A Tranche of 492 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA-") and by S&P ("AAA");
- Class B Tranche of 45 million euro, which had a residual amount of 45 million euro as at 31 December 2018 and an external rating assigned by Fitch ("AA");
- Class C1 Tranche of 41 million euro, which had a residual amount of 41 million euro as at 31 December 2018 and without rating;
- Class C2 Tranche of 14 million euro, which had a residual amount of 14 million euro as at 31 December 2018 and without rating.

The Class A and B securities are denominated in euro and provide for the payment of a half-yearly floating-rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio starting from December 2009. These bonds, listed on the Dublin Stock Exchange (Ireland), were initially subscribed by the parent company Veneto Banca and used for repurchase agreements with the European Central Bank. They were subsequently sold to institutional investors in the last quarter of 2013.
The Class C1 and C2 securities, respectively subscribed by Veneto Banca (therefore now in the ISP portfolio), are denominated in Euro and have not been rated. Their yield is calculated on a residual basis and is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 118 million euro.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2018
Adriano Lease SEC S.r.l.				**3,577**
of which issued in euro	Senior	Receivables from lease payments	Moody's A1	2,227
	Junior	Receivables from lease payments	no rating	1,350
Intesa Sanpaolo SEC SA				**323**
of which issued in euro				291
Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	276
Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD				32
Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	30
Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	2
BRERA SEC S.r.l.				**6,485**
Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa2	5,418
Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
BRERA SEC S.r.l. (SME)				**5,279**
Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's A1; DBRS A	3,750
Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,529
Berica ABS 5 S.r.l.				**496**
of which issued in euro	Senior	Mortgages	Moody's Aa2; Fitch AA-	384
	Mezzanine	Mortgages	Moody's A1; Fitch A	39
	Mezzanine	Mortgages	Moody's A3; Fitch BBB	21
	Junior	Mortgages	no rating	**52**
CLARIS FINANCE 2008 S.r.l.				**100**
of which issued in euro	Mezzanine	Mortgages	Fitch AA	45
	Junior	Mortgages	no rating	55
CLARIS SME 2015 S.r.l.				**650**
of which issued in euro	Mezzanine	Mortgages	Fitch A+	248
	Junior	Mortgages	no rating	402
CLARIS RMBS 2016 S.r.l.				**912**
of which issued in euro	Senior	Mortgages	Fitch AA+; DBRS AAA	652
	Mezzanine	Mortgages	Fitch A-; DBRS A	116
	Junior	Mortgages	no rating	144
TOTAL				**17,822**

The following securitisations were terminated in 2018: Intesa Sanpaolo Securitisation Vehicle S.r.l., Berica PMI 2 S.r.l., Berica Funding 2016 S.r.l, Claris Finance 2006 S.r.l., Apulia Finance n.2 S.r.l., Apulia Mortgages Finance n.3 S.r.l. and Apulia Finance n.4 S.r.l. – 3rd issue.

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value, based on internal management data, of the main exposures of the Intesa Sanpaolo Group to sovereign risk.

(millions of euro)

	DEBT SECURITIES					LOANS
	BANKING GROUP			INSURANCE COMPANIES	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity			
EU Countries	**9,582**	**40,039**	**2,418**	**48,568**	**100,607**	**13,130**
Austria	-	-	115	2	117	-
Belgium	-	502	51	4	557	-
Bulgaria	-	-	-	61	61	-
Croatia	-	1,046	113	93	1,252	1,073
Cyprus	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-
Denmark	-	-	-	-	-	-
Estonia	-	-	-	-	-	-
Finland	-	36	65	7	108	-
France	302	3,215	365	157	4,039	5
Germany	-	1,250	347	501	2,098	-
Greece	-	-	72	-	72	-
Hungary	-	1,027	86	32	1,145	33
Ireland	-	204	2	113	319	-
Italy	8,993	20,301	896	45,723	75,913	11,554
Latvia	-	9	-	-	9	40
Lithuania	-	5	5	-	10	-
Luxembourg	-	25	-	-	25	-
Malta	-	-	-	-	-	-
Netherlands	-	374	287	90	751	-
Poland	18	40	-10	30	78	-
Portugal	-	-	-5	-	-5	-
Romania	-	251	1	197	449	9
Slovakia	-	478	-	-	478	139
Slovenia	-	179	-	7	186	216
Spain	269	11,010	-66	1,449	12,662	61
Sweden	-	-	129	-	129	-
United Kingdom	-	87	-35	102	154	-
North African Countries	**-**	**1,050**	**-**	**14**	**1,064**	**-**
Algeria	-	-	-	-	-	-
Egypt	-	1,050	-	14	1,064	-
Libya	-	-	-	-	-	-
Morocco	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-
Japan	**-**	**-**	**838**	**-**	**838**	**-**

Operating data

As illustrated in the table, the exposure to Italian government securities totalled approximately 76 billion euro, in addition to around 12 billion euro represented by loans. The value of debt security exposures was in line with the figure recorded as at 31 December 2017.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,018 million euro as at 31 December 2018 with respect to funded and unfunded ABSs/CDOs, compared to 2,279 million euro as at 31 December 2017. There were no exposures in structured packages.

The strategy for this portfolio in 2018 focused on investments to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, on the other.

The exposure to funded and unfunded ABSs/CDOs measured at fair value went from 2,034 million euro in December 2017 to 1,818 million euro in December 2018, with decrease attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs by the Parent Company, only partially offset by investments in ABSs by Banca IMI (part of which were classified to the portfolio of financial assets measured at fair value through other comprehensive income) and in European ABSs purchased by the Parent Company and classified to the trading book.

Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.

The exposure represented by securities classified in the portfolio of assets measured at amortised cost showed a net decrease (from 245 million euro in December 2017 to 200 million euro in December 2018) due to greater investments made by Banca IMI, offset by sales by the Parent Company, and by reclassifications to the accounting categories measured at fair value through profit or loss, upon First-Time Adoption (FTA) of IFRS9, due to the failure to pass the SPPI Test on the contractual cash flow characteristics.

From the perspective of the income statement, a profit of +16 million euro was posted for 2018, against the +28 million euro for 2017.

As at 31 December 2018, the profits (losses) on trading – caption 80 of the income statement – for the exposures in funded and unfunded ABSs amounted to -10 million euro (+17 million euro in 2017), whereas the positions in multi-sector CDOs were at nil (+4 million euro in 2017).

The profits (losses) from financial assets mandatorily measured at fair value was +19 million euro and related to the funded and unfunded ABS positions in the Parent Company's loan portfolio, reclassified into the new accounting category upon First-Time Adoption (FTA) of IFRS 9. This result was made up of +15 million euro for the valuation components and +4 million euro for the realisation components.

The exposure to funded and unfunded ABSs in securities classified by the subsidiary Banca IMI in the portfolio of assets measured at fair value through other comprehensive income recorded a net decrease in fair value of 4 million euro in 2018, recognised in the specific Shareholders' Equity Reserve (from a positive reserve at the end of December 2017 of +4 million euro to a reserve of nil in December 2018) and an impact of +1 million euro from sales made in the period (nil impact in 2017).

Securities classified in the portfolio of assets measured at amortised cost recorded a net gain of +6 million euro as at 31 December 2018 (nil impact in 2017) consisting of +2 million euro due to valuation components and +4 million euro due to realisation components.

With regard to the monoline and non-monoline packages, there were no positions in 2018 because they had been disposed of in 2017, generating a contribution of +7 million euro to the profits (losses) on trading – caption 80 of the income statement – as at 31 December 2017.

INFORMATION ON LEVERAGED FINANCE AND LEVERAGED TRANSACTIONS

This section provides information not only on leveraged finance transactions, which have been reported for some time, but also on leveraged transactions, a new scope of operations defined in accordance with the specific provisions issued by the ECB.

Leveraged Finance transactions have in fact been the subject of detailed disclosure in the annual reports and interim reports of Intesa Sanpaolo since 2008. In the absence of a clear definition for these transactions, Intesa Sanpaolo decided to represent in this category the exposures that are connected to structured financing operations, normally medium/long-term, with legal entities in which the majority of the share capital is held by private equity funds. These are mainly positions in support of Leveraged Buy-Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor. None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December - based on the above definition - there were 122 transactions outstanding for a total amount granted of 3,941 million euro.

In May 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The declared purpose of the new regulations is to strengthen company controls over "leveraged" transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.
The scope identified in the ECB Guidance includes exposures in which the borrower's level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate, object financing and commodities financing) and certain other types of credit, such as trade finance operations, are also excluded.
Intesa Sanpaolo has initiated and completed a specific project within the deadline set for the implementation of the ECB's instructions on leveraged transactions, involving the identification and reporting of those transactions and the sending to the JST of the required assurance prepared by the Audit function.
In accordance with the requirements of the ECB Guidance, in 2018 a specific limit for the outstanding stock of leveraged transactions was introduced and submitted for approval to the Board of Directors, within the framework of the 2018 Credit Risk Appetite.
As at 31 December 2018, for the Intesa Sanpaolo Group, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to 22 billion euro, relating to approximately 2,900 credit lines.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 31 December 2018 amounted to 146 million euro in the trading book and approximately 88 million euro in the banking book, compared to 214 million euro and 90 million euro respectively at the end of June and 416 million euro and 19 million euro in December 2017. The investments allocated to the banking book are recognised under financial assets mandatorily measured at fair value and relate to investments made in the last year in funds that have medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During 2018, the reduction of the trading book continued through distributions and redemptions, with a consequent reduction in the risk level of the exposure. In particular, the most significant redemptions in 2018 involved the MAP 1A fund for 46 million euro, the MAP 17A fund for 36 million euro and the MAP 4A fund for almost 33 million euro in the first quarter; the MAP 19A fund for 40 million euro in the second quarter; and the Algebris fund for 28 million euro in the fourth quarter. By contrast, the sales and reductions in the third quarter were more fragmented.

The income statement effect for the profits (losses) on trading - caption 80 of the income statement - at the end of December 2018 was a loss of 16 million euro, compared to a profit of 16 million euro recorded in this caption in December 2017. This result mainly reflected the write-down of the Matrix Pve Map 6A fund by almost 6 million euro, due to particularly prudent policies (worst case scenario) used by the servicer to value the underlying assets and of the Harbinger Distressed Credit fund by over 3 million euro, in relation to the write-down of the investment in the Ligado fund.

The income statement recognised in the net profit (loss) on financial assets mandatorily measured at fair value - income statement caption 110 - at the end of December 2018 was a loss of almost 5 million euro.

As a whole, the current strategy of the portfolio remains prudent, while waiting for any market opportunities to arise.

As at 31 December 2018, the portfolio was mainly concentrated on credit-related strategies (43% of the total value).

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2018, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 6,602 million euro (7,011 million euro as at 31 December 2017). The notional value of these derivatives totalled 57,047 million euro (50,488 million euro as at 31 December 2017). Of these, the notional value of plain vanilla contracts was 53,501 million euro (46,764 million euro as at 31 December 2017), while that of structured contracts was 3,546 million euro (3,724 million euro as at 31 December 2017).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,452 million euro (4,901 million euro as at 31 December 2017), of which 311 million euro (480 million euro as at 31 December 2017) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,412 million euro as at 31 December 2018 (1,082 million euro as at 31 December 2017). The notional value of these derivatives totalled 24,649 million euro (22,846 million euro as at 31 December 2017). Of these, the notional value of plain vanilla contracts was 21,822 million euro (20,304 million euro as at 31 December 2017), while that of structured contracts was 2,827 million euro (2,542 million euro as at 31 December 2017).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2018, this led to a positive effect of 28 million euro being recorded under “Profits (Losses) on trading” in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in Part A of the Notes to the consolidated financial statements.

Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

1.5. OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, operational risk management processes and measurement methods

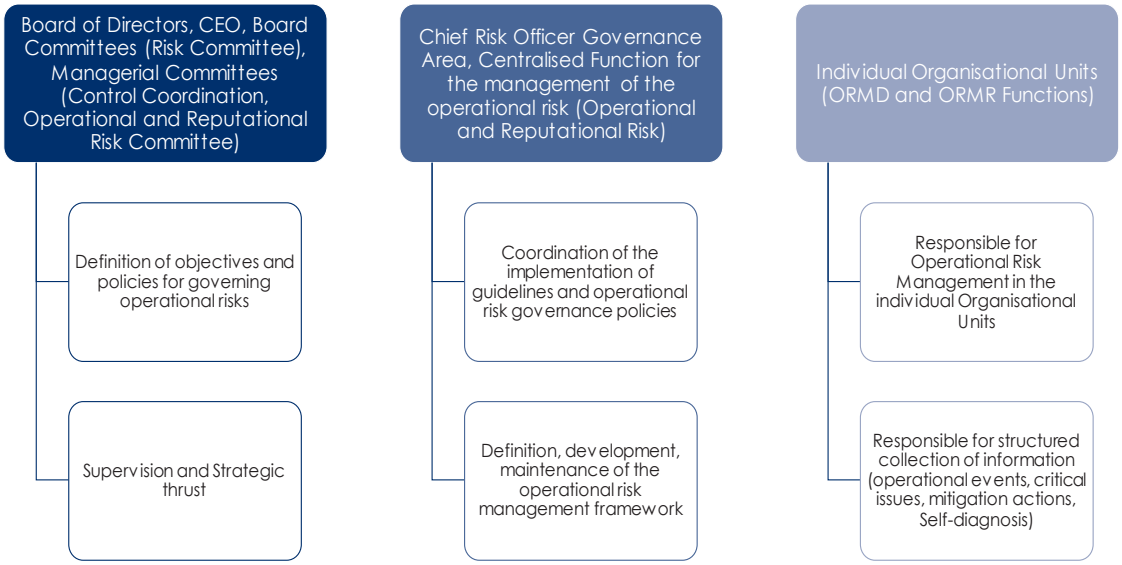
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.
In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement. The AMA approach is adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by Intesa Sanpaolo Group Services, VUB Banka and PBZ Banka.

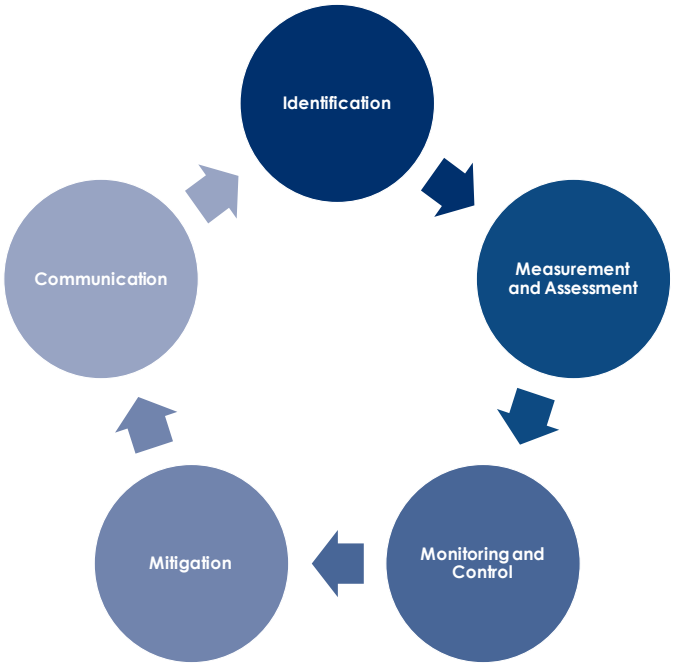
Governance Model

The monitoring of the Intesa Sanpaolo Group's Operational Risk Management involves Bodies, Committees and structures that interact with different responsibilities and roles in order to create an effective operational risk management system that is closely integrated into the decision-making processes and the management of company operations.



Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



Identification

The identification phase involves:

- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of critical issues;
- the performance of the annual Self-diagnosis process;
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

Measurement and assessment

Measurement is the transformation, using a dedicated model, of the elementary information (internal and external operational loss data, Scenario Analyses and Business Environment Evaluations) into synthetic risk measures. These measures present an adequate detail to allow complete knowledge of the Group's overall risk profile and to allow the quantification of capital at risk for the Group's units.

Monitoring and control

The monitoring of operational risks consists of the analysis and structured organisation of the results obtained from the identification and/or measurement in order to verify and control the evolution over time of the exposure to operational risk (including ICT and cyber risk) and to prevent the occurrence of harmful events.

Mitigation

Management activities and mitigation actions, defined on the basis of the results of the identification, measurement and monitoring, consist of:

- the identification, definition and implementation of risk mitigation and transfer activities, in accordance with the established risk appetite;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation, from a cost/benefit perspective, of insurance coverage and any other forms of risk transfer adopted by the Group.

In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cybercrimes, fire and earthquake, and third-party liability), the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.

In addition, with respect to risks relating to real 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.

Communication

Communication consists of setting up adequate information flows related to the management of operational risks between the various actors involved, in order to enable the monitoring of the process and provide adequate knowledge of the exposure to those risks.

Self-diagnosis

The self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of managemnt of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA). The assessment takes into account the critical issues identified and the operational events occurred. This assessment does not replace the specific risk assessments carried out by the specialised and control functions within the scope of their responsibilities (e.g. assessments carried out by the Chief Audit Officer, by the Manager responsible for preparing the Company's financial reports and by the Chief Compliance Officer), but allows the assessments that emerge during the process to be brought to the attention of the functions concerned and to be discussed with the Head of the Organisational Unit concerned.

The detection of critical issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT Risk

Information Technology or ICT risk means the risk of incurring economic, reputational and market share losses, in relation to the use of information and communication technology. In the integrated representation of business risks for prudential purposes, this type of risk is considered, according to the specific aspects, under the operational, reputational and strategic risks and includes the risk of violation of the confidentiality, integrity or availability of the information.

In line with the methodological framework established for the governance of corporate risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.

Every year, the Technical Functions (e.g. ICT Head Office Department, IT functions of the main Italian and international subsidiaries) and the Cybersecurity Function identify the level of exposure to ICT risk (and to the Information Security risk included within it) of the information technology assets managed through the top-down assessment of the level of management of the relevant Risk Factors. In addition to this analysis, carried out for all the application assets and company processes, when there are situations that may modify the overall level of risk or in the case of innovation projects or changes to significant components of the ICT System, the Technical Functions and the Cybersecurity Function identify the level of exposure to ICT risk of the specific components of the ICT system.

This assessment is accompanied, as part of the Self-diagnosis process, by the bottom-up assessment carried out by the individual Group Organisational Units, which analyse their own exposure to ICT risk and provide an opinion on the level of management of the risk factors relevant for this purpose (e.g. relating to the adequacy of the software for the Unit's operations, etc.).

Internal model for the measurement of operational risk

The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: Scenario Analysis and Business Environment Evaluation).

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.

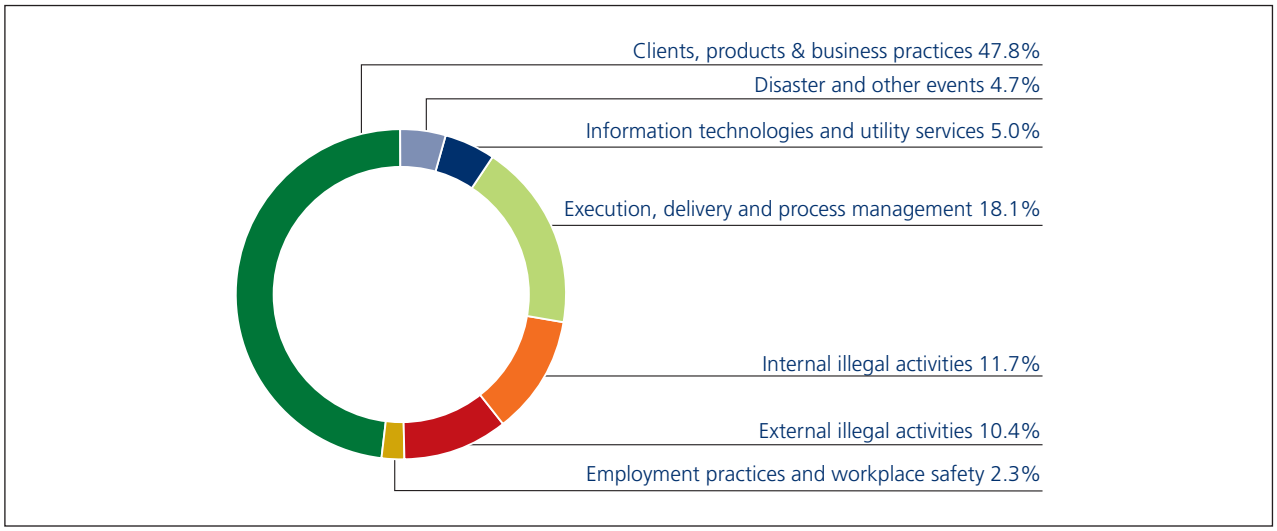
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounted to 1,414 million euro as at 31 December 2018.

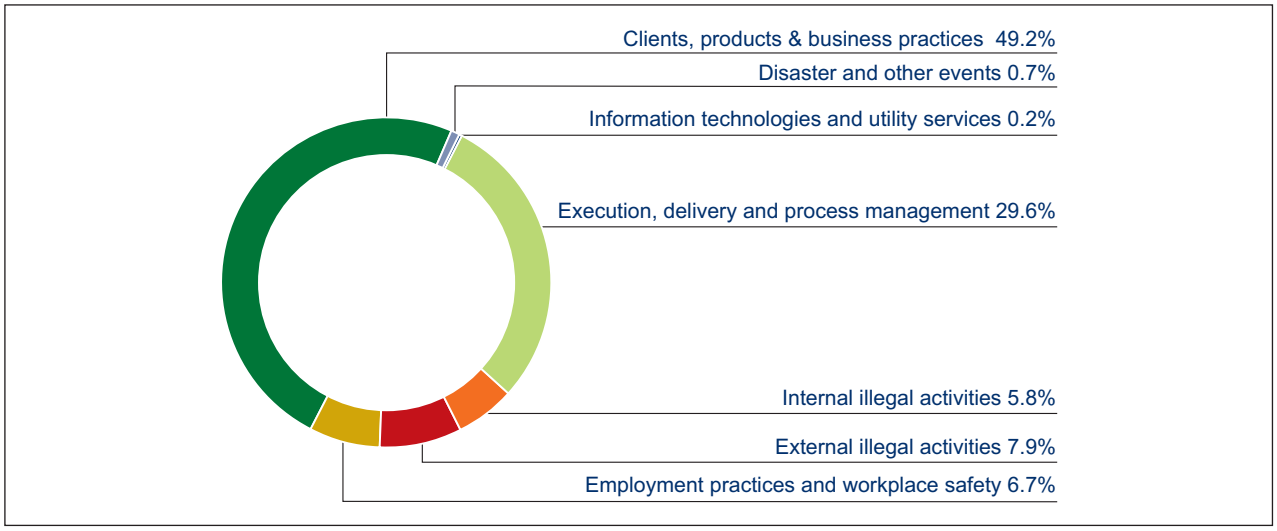
The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by event type.

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



With regard to the sources of operational risk, the chart below shows the impact of the operational losses accounted during the year, based on event type.
In 2018, the most significant event type was *Clients, Products and Business Practices*, which included losses related to defaults connected with professional obligations towards customers, suppliers or outsourcers and to the provision of services and products to customers performed improperly or negligently.
The *Execution, delivery and process management* category is also particularly significant, which reports the losses relating to unintentional errors in the management of operational and support activities, or to contractual disputes with counterparties that cannot be qualified as customers, suppliers or outsourcers.

Breakdown of operational losses recorded in 2018, by event type



LEGAL RISKS

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

As at 31 December 2018, there were a total of about 18,000 disputes were pending (excluding those involving Risanamento S.p.A. and Autostrade Lombarde S.p.A., which are not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 5,571 million euro and allowances of around 653 million euro.
In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 392 million euro and allowances of 58 million euro;
- insolvency compensation disputes, with remedy sought of 524 million euro and allowances of 8 million euro;
- disputes concerning investment services, with remedy sought of 374 million euro and allowances of 58 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 1.018 million euro and allowances of 138 million euro;
- disputes concerning bank products, with remedy sought of 347 million euro and allowances of 25 million euro;
- disputes concerning loan positions, with remedy sought of 1,322 million euro and allowances of 46 million euro;
- disputes concerning lease contracts, with remedy sought of 180 million euro and allowances of 17 million euro;
- credit recovery disputes, with remedy sought of 192 million euro and allowances of 91 million euro;
- other civil and administrative disputes, with remedy sought of 917 million euro and allowances of 82 million euro.

In addition to brief remarks on the disputes relating to anatocism and investment services, the following paragraphs provide concise information about the dispute connected to the transaction concerning the former Venetian banks, as well as the significant individual disputes (those with a remedy sought of more than 100 million euro and where the risk of an outlay is currently deemed probable or possible).

Disputes relating to anatocism and other current account and credit facility conditions - For many years, this type of dispute has been a significant part of the civil disputes brought against the Italian banking industry and therefore also the Group banks[20]. The overall economic impact of lawsuits in this area remains at insignificant level in absolute terms.

Disputes relating to investment services - In general, in 2018, the number of disputes relating to investment services decreased both in terms of number and in terms of the total value of the claims. There was only an increase in the number of disputes concerning OTC derivatives and equities, but the amounts involved were insignificant.

ENPAM lawsuit - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan.
ENPAM's allegations related to the trading (in 2005) of several complex financial products known as "JP Morgan 69.000.000" and "JP Morgan 5.000.000", and the subsequent "swap" (in 2006) of those products with other similar products known as "CLN Corsair 74.000.000"; the latter were credit-linked notes, i.e. securities whose repayment of principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses, for which compensation is sought.
In the writ of summons, ENPAM submitted several petitions for enquiries and rulings, in particular for contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance, asking for the repayment of an amount of around 222 million euro and compensation for damages on an equitable basis; the part relating to Cassa di Risparmio di Firenze's position should be around 103 million euro (plus interest and purported additional damages).
Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consors S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within which the above-mentioned securities had been subscribed.

[20] With specific regard to the subject of "anatocism", the disputes mainly concern relationships opened before 1999, when the amendment of Article 120 of the Consolidated Law on Banking legitimised the capitalisation of debtor and creditor interest, provided they were carried out with equal frequency. At the beginning of 2014, Article 120 of the Consolidated Law on Banking, which governs the compounding of interest in banking transactions, was amended with the establishment of the ban on anatocism and the delegation of the CICR (Interdepartmental Committee for Credit and Savings) to regulate this matter. In the absence of the CICR resolution, Intesa Sanpaolo considered this ban not to be applicable and that the 1999 provisions continued to apply, which allowed the compounding of debit and credit interest on debtors and creditors provided it was applied at the same frequency.
In 2016, Article 120 of the Consolidated Law on Banking was amended again. Without prejudice to the requirement of the same frequency of calculation of the interest, it was established that the frequency must not be "less than one year" (with calculation at 31 December of each year and, in any event, at the end of the relationship) and that debt interest accrued could not in general give rise to interest other than arrears interest. In addition, for current account credit facilities and overdrafts it was established that:

- the debt interest is calculated at 31 December and becomes due on 1 March of the year after the year when it accrued; if the account is closed, the interest becomes due immediately;
- the customer can provide authorisation, also beforehand, for the interest to be charged to their account (and therefore for its compounding) when it becomes due; this authorisation can be revoked at any time, provided it is before the charge has been made.

The implementing resolution by the CICR was published in August 2016. It establishes, among other things, that the new regulations apply to interest accrued from 1 October 2016.
In February 2017, the Italian Antitrust Authority initiated proceedings against Intesa Sanpaolo for alleged unfair business practices involving, among other things, the methods used to request the above-mentioned authorisation from customers for the charging of the interest to the account.
The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting the customers through various means of communications and without putting them in a position to consider the consequences of that choice in terms of the interest calculation on the compounded debt interest. As a result, the Authority issued a fine of 2 million euro against Intesa Sanpaolo. Intesa Sanpaolo has submitted an appeal with the Lazio Regional Administrative Court, on the grounds that the ruling was unfounded. The proceedings are still pending.
No significant disputes have yet emerged specifically regarding the 2014-2016 legislation.

At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (including a lack of standing to be sued and the time bar). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance cited were not applicable and that there was no evidence of the damages. It also disputed their calculation and, in the alternative, that ENPAM had contributed to causing the damages. If an unfavourable judgement is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to hold it harmless.
During the proceedings, it emerged from the analysis of the 2016 financial statements of ENPAM that the securities subject of the allegations against Cassa di Risparmio di Firenze had been "sold back" to JP Morgan at a price of around 206 million euro and this circumstance was emphasised in further defence pleadings by Cassa di Risparmio di Firenze, highlighting the resulting lack of the alleged damages and perhaps even the presence of a capital gain.
In February 2018, the judge ordered a court-appointed expert's review aimed at determining, among other matters:

- whether during the pre-contractual phase the structure, value and costs of the securities at issue were properly represented to ENPAM;
- whether the securities were fit for the purpose indicated in the entity's Charter and Investment Guidelines;
- the performance achieved by ENPAM as at the date of conclusion of the individual transactions;
- the difference, if any, between the performance achieved by ENPAM and the performance that would have resulted if other investments consistent with the entity's Charter and Investment Guidelines had been undertaken (also considering the need for diversification of the risk).

The case was deferred until April 2019 for a review of the expert report, which is currently being prepared. Once the expert report has been filed, it should be possible to provide an assessment of the risk inherent in the proceedings.

Disputes regarding tax-collection companies - In the context of the government's decision to re-assume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A., now the Italian Revenue Agency - Collections Division, full ownership of Gest Line and ETR/ESATRI, companies that managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity interests.
In particular, such expenses refer to liabilities for disputes (with tax authorities, taxpayers and employees) and out-of-period expenses and capital losses with respect to the financial situation at the time of the sale.
A technical roundtable has been formed with the Italian Revenue Agency - Collections Division in order to assess the parties' claims.

Administrative and judicial proceedings against Banca IMI Securities Corp. of New York – The SEC proceedings were concluded in 2017 through the payment of a total sum of approximately 35 million dollars – entirely covered by provision – levied on the basis of violations of Articles 15(b)(4)(E) of the Exchange Act and 17(a)(3) of the Securities Act.
With regard to the investigation started in October 2016 by the Antitrust Division of the Department of Justice (DoJ), after having submitted documents and information with a view to full co-operation, details are being awaited on the DoJ's position.

Offering of diamonds - In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by DPI to the customers of Intesa Sanpaolo and of the banks of the Banca dei Territori Division. The aim of this initiative was to provide customers with a diversification solution with the characteristics of a "safe haven asset" in which to allocate a marginal part of their assets over the long term. Diamonds had already been sold for several years by other leading national banking networks.
This activity primarily generated transactions in 2016, with a significant fall starting from the end of that year. A total of around 8,000 customers purchased diamonds, for a total of around 130 million euro. The marketing process was based on criteria of transparency, with safeguards progressively enhanced over time, including quality controls on the diamonds and the fairness of the prices applied by DPI.
In February 2017, the AGCM (the Italian Competition Authority) brought proceedings against companies that marketed diamonds, (DPI and other companies), for alleged conduct in breach of the provisions on unfair business practices. In April, those proceedings were extended to the banks that carried out the recommendation of the services of those companies.
At the end of those proceedings, on 30 October 2017, the AGCM notified the penalties imposed for the alleged breach of the of Consumer Code through the conduct of DPI and of the banks which the proceedings had been extended to, consisting - in short - of having provided partial, deceptive and misleading information on the characteristics of the diamond purchases, the methods used to calculate the price - presented as being the market price - and the performance of the market. The Authority issued a fine of 3 million euro against Intesa Sanpaolo, reduced from the initial fine of 3.5 million euro, after the Authority had recognised the value of the measures taken by the Bank from 2016 to strengthen the safeguards on the offering process aimed, in particular, at ensuring proper information to customers.
Following the order by the AGCM, the Bank paid the amount of the fine and filed an appeal with the Lazio Regional Administrative Court against the order. There were no developments regarding this appeal during 2018.
From November 2017, the Bank:

- terminated the partnership agreement with Diamond Private Investment (DPI) and ceased the activity, which had already been suspended in October 2017;
- started a process that provides for the payment to customers of the original cost incurred for the purchase of the diamonds and the withdrawal of the stones, in order to satisfy the customers' resale needs which, due to the illiquidity that had arisen in the market, are not met by DPI within the contractually-agreed period of 30 days;
- sent a communication in January 2018 to the diamond-holding customers reiterating the nature of the stones as durable goods, and also confirming the Bank's willingness to intervene directly in relation to any realisation needs expressed by the customers and not met by DPI.

As at 31st December 2018, a total of 4,430 repurchase requests had been received from customers and met by the Bank, for a total value of 77.4 million euro.

The risk of potential losses connected to the diamonds for which the Bank may be required to pay the original cost incurred for their purchase is covered by a prudential provision. The assessment of this risk is carried out and updated taking into account the current appraisal values of the diamonds sold (retail prices) and their estimated wholesale prices.
In February 2019 an order for preventive criminal seizure of 11.1 million euro was served, corresponding to the fee and commission income paid by DPI to the Bank.
The preliminary investigations initiated by the Public Prosecutor's Office of Milan also concern four other banks (more involved) and two companies that sell diamonds.
ISP is accused of an administrative offence pursuant to Legislative Decree 231/2001 in relation to the alleged offence of self-laundering.
In this regard, the Bank is confident that the correctness of its actions will emerge and that the aforementioned initiatives towards customers will be appreciated.

Disputes connected with the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation - With regard to the risks connected with the possible outcomes for the Intesa Sanpaolo Group of the lawsuits relating to Banca Popolare di Vicenza and Veneto Banca (and/or their directors and top management), the following is noted:

a) based on the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo (sale contract of 26 June 2017 and Second Acknowledgement Agreement of 17 January 2018), two distinct categories of disputes can be identified (also relating to the subsidiaries of the former Venetian banks included in the sale):
   - the Previous Disputes, included among the liabilities of the Aggregate Set transferred to Intesa Sanpaolo, which include civil disputes relating to judgements already pending at 26 June 2017, with some exceptions, and in any case different from those included under the Excluded Disputes (see the point below);
   - the Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation and which concern, among other things, disputes brought (also before 26 June 2017) by shareholders and convertible and/or subordinate bondholders of one of the two former Venetian banks, disputes relating to non-performing loans, disputes relating to relationships terminated at the date of the transfer, and all disputes (whatever their subject) arising after the sale and relating to acts or events occurring prior to the sale;

b) the relevant allowances were transferred to Intesa Sanpaolo along with the Previous Disputes; in any case, if and to the extent the allowances transferred prove insufficient, Intesa Sanpaolo will be entitled to be indemnified by the Banks in compulsory administrative liquidation, at the terms provided for in the sale contract of 26 June 2017. This indemnity is backed by a government guarantee, pursuant to Decree Law 99/2017;

c) after 26 June 2017, a number of lawsuits included within the Excluded Disputes were initiated or resumed against Intesa Sanpaolo. With regard to these lawsuits:
   - Intesa Sanpaolo is pleading and will plead its non-involvement and lack of capacity to be sued, both on the basis of the provisions of Decree Law 99/2017 (Article 3), the sale contract signed with the two Banks in compulsory administrative liquidation on 26 June 2017 (Articles 3.1.1, 3.1.4 and 3.2), the First Acknowledgement Agreement signed on 19 December 2017, and the Second Acknowledgement Agreement signed on 17 January 2018 (Article 3 and Attachment 1.1), and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the sale contract), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
   - even if there were to be a ruling against Intesa Sanpaolo (and in any event for the charges incurred by Intesa Sanpaolo for any reason in relation to its involvement in any Excluded Disputes), it would have the right to be fully reimbursed by the Banks in compulsory administrative liquidation;
   - it should be noted that the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that, with effect from 26 June 2017, they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and subordinate bondholders against Intesa Sanpaolo (or in any case included in the category of Excluded Disputes), asking for the declaration of their exclusive capacity to be sued and the consequent exclusion of Intesa Sanpaolo from those proceedings;

d) pursuant to the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo, the disputes regarding the marketing of shares/convertible and/or subordinated bonds initiated against Banca Nuova (subsequently merged by incorporation into Intesa Sanpaolo) and Banca Apulia are also included in the Excluded Disputes (and therefore have the same treatment as described above), as a result of the abovementioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented.
   In this regard, however, it should be noted that as at 31 December 2018, the Securities and Financial Ombudsman (*Arbitro per le Controversie Finanziarie*) upheld 88 complaints filed by customers of Banca Nuova regarding shares of Banca Popolare di Vicenza and 108 complaints filed by customers of Banca Apulia regarding shares of Veneto Banca. Banca Nuova (now Intesa Sanpaolo) and Banca Apulia did not implement the decisions because – for the reasons set out above and in accordance with the provisions of the European Commission Decision C(2017) 4501 final on State aid – any liability relating to the marketing of the shares of the former Venetian banks must be considered as being borne exclusively by the two Banks in compulsory administrative liquidation.

In January 2018, as part of a criminal proceeding before the Court of Rome for the alleged market rigging and obstructing the Supervisory Authorities in the performance of their functions with respect to officers and executives of Veneto Banca, the preliminary hearing judge decided that Intesa Sanpaolo could be charged with civil liability.
As a result of this decision, more than 3,800 civil plaintiffs joined the proceedings as shareholders or subordinated bondholders of Veneto Banca. Intesa Sanpaolo entered an appearance requesting its exclusion from the proceedings, in application of the provisions of Decree Law 99/2017, of the rules established for the compulsory administrative liquidation of banks and, before that, of the principles and rules contained in the bankruptcy law, in addition to the constitutional principles and decisions made at EU level. Veneto Banca in compulsory administrative liquidation intervened voluntarily affirming its exclusive, substantial and procedural capacity to be sued.

In March 2018, the preliminary hearing judge declared his lack of territorial jurisdiction, transferring the files to the Public Prosecutor's Office of Treviso. The charge of civil liability and the joinders of the civil parties were therefore removed.
On the other hand, in a criminal proceeding before the Court of Vicenza against the officers and executives of Banca Popolare di Vicenza, the preliminary hearing judge rejected the request for authorisation to charge Intesa Sanpaolo with civil liability, on the basis of the sale contract of 26 June 2017 and the special provisions contained in Decree Law 99/2017.

Potential assets
With regard to potential assets – given that there have been no substantial changes – please see the information provided in the 2016 Financial Statements regarding the IMI/SIR dispute.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2018.
In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 31 December 2018, Intesa Sanpaolo had 246 pending litigation proceedings (144 as at 31 December 2017) for a total amount of 222 million euro (214 million euro as at 31 December 2017), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 47 million euro (65 million euro as at 31 December 2017). The reduction was largely due to the so-called "tax amnesty" described below.
At the Group's other Italian companies, tax disputes totalled 139 million euro as at 31 December 2018 (unchanged compared to 31 December 2017), covered by specific provisions of 47 million euro (33 million euro in the 2017 financial statements).
Tax disputes involving international subsidiaries, totalling 5 million euro at year-end (11 million euro as at 31 December 2017), are covered by allowances of 4 million euro (unchanged from 31 December 2017).
The general tax audit on the Parent Company by the Piedmont Regional Office - Large Taxpayers Office, covering the 2014 tax period, was completed at the end of September. After having considered the results from both the audit and the subsequent discussions with the Agency to be very positive, it was agreed to settle all the claims, also with regard to the tax years 2013, 2015 and 2016 made in the tax audit report, with a total charge of about 1.5 million euro, of which around 70 thousand euro for penalties and around 150 thousand euro for interest.
With regard to the new disputes initiated, an appeal has been filed against the assessment notice served in August 2018 on ISP, as the consolidating entity of Intesa Sanpaolo Private Banking ("ISPB"), regarding IRES tax for the tax year 2013 for higher tax of 3.3 million euro, plus penalties of 3.2 million euro and interest. The notice contests the subsidiary's deduction of the amortisation of goodwill arising from two contributions of private banking business units from ISP and Cariromagna in 2009. ISP and ISPB have filed an appeal against the notice before the Milan Provincial Tax Commission. Identical claims have already been made by the Italian Revenue Agency, also for IRAP tax purposes, against ISPB and ISP for 2011 and 2012 and the related proceedings have been completed at first instance with decisions in favour of the Milan Provincial Tax Commission.
A dispute involving the former Banca Carime (now UBI S.p.A.) concerning two assessment notices for IRPEG tax for the years 1996 and 1997 (value of claim of 7.5 million euro), after an unfavourable first instance and a positive second instance outcome for the bank, completed its last instance of the proceedings with order no. 22973 of the Court of Cassation of 2018 which, on rather brief and cryptic grounds, would appear to have accepted the Agency's argument regarding the multi-year nature of the costs which, in contrast, the bank had deducted entirely in the year in which the costs were incurred, and deferred the case back to the appeal judge for a new assessment of the merits of the case.
The effects arising from the settlement of disputes through the new so-called tax amnesty deserve a separate and specific discussion. Article 6 of the tax decree linked to the 2019 Budget Act (Law Decree no. 119/2018) introduced the possibility for taxpayers of settling tax disputes, by May 2019, in which the Italian Revenue Agency is a party (but with the possibility of extending it to local authorities and their bodies), concerning tax claims pending at any instance and level of proceedings, including the proceedings before the Court of Cassation, also after deferral. An analysis was conducted on Intesa Sanpaolo, which identified significant benefits with regard to the settlement of disputes concerning the recovery of registration tax paid on the contributions of business units and the subsequent sales of the equity investments, which were reclassified by the tax authorities as sales of business units, with the consequent assessment of a higher value for the business units. Many of these disputes are pending before the Court of Cassation on appeal by the State Attorney General, and rulings in favour of the bank have been issued at both first and second instance proceedings.
Of the total disputes relating to this area, which totalled 129 million euro, 94.3 million euro will be settled, with taxes of around 6 million euro.
In view of the above, as at 31 December 2018, the allowances for risks in excess of the above amount due were released and the corresponding DTAs were derecognised.
With regard to the settlement of disputes, it should also be noted that Article 1, paragraph 1084, of the 2019 Budget Act (Law 145/2018) established that the amendments to Article 20 of Presidential Decree 131/1986 (Consolidated Law on Registration Tax) introduced by Law 205/2017 constitute an authentic interpretation of the aforementioned Article 20. In particular, the provision of the 2018 Budget Act (paragraph 87), which amended Article 20 of the Consolidated Law on Registration Tax limiting the reclassification by the tax authorities in relation to deeds subject to registration has been specifically classed as an authentic interpretation, thus giving it retroactive effect. The reclassification can now only be performed on the basis of the information contained in the deed subject to registration, without considering information outside the text of the deed or contained in the documents related to the deed. It is worth recalling that paragraph 87, letter a) of the 2018 Budget Act amended the rule that established that the registration tax must be charged according to the intrinsic nature and legal effects of the deeds submitted for registration, even if their title or apparent form does not correspond to them

(Article 20 of Presidential Decree no. 131 of 1986). This is without prejudice to the rules governing the abuse of rights contained in the charter of taxpayer's rights, within the scope of the powers and responsibilities of the offices in determining the tax base. As a result of the provision introduced in the 2019 Budget Act, the amendments made to Article 20 are expressly classed as rules of authentic interpretation and, consequently, the amendment is not only applicable from 1 January 2018, but also has retroactive effect for registrations prior to that date.
This amendment could have a positive impact on the Group's pending proceedings involving registration tax relating to the reclassification, but it has not been prudentially taken into account as at 31 December 2018, pending verification, within the deadline for the tax amnesty, of the position that will be adopted by the Italian Revenue Agency and the rulings of the Court of Cassation.
With regard to the Italian subsidiaries, a positive conclusion was reached in a dispute involving Intesa Sanpaolo Vita (-13 million euro) and Mediocredito Italiano - former Leasint (-1 million euro) and disputes involving Banca Apulia were settled (-9 million euro).
New disputes included Fideuram – Intesa Sanpaolo Private Banking. On 11 October 2018, the Tax Police (*Guardia di Finanza*) served a tax audit report on the company for the 2013 tax year - as a partial result of the audit initiated on 26 January 2017 and still in progress - regarding the:

– the recalculation of the transfer prices for transactions involving the French subsidiary Euro-Trésorérie, based on the application of the profit split method, attributing part of it to the parent company Fideuram, with the consequent claim of higher taxable income not declared for IRES/IRAP tax purposes of 47.2 million euro, determined on the basis of the French accounting standards;
– the non-deductibility for IRES and IRAP tax purposes of the cost incurred by the company for the organisation of conventions for its financial advisors, due to the lack of the requirement of pertinence envisaged in Article 109, paragraph 5, of the Italian Income Tax Legislation (value of 1.9 million euro) and for failure to comply with the requirement of pertinence envisaged in Article 107, paragraph 4, of the Italian Income Tax Legislation (value of 1.5 million euro);
– the failure to apply withholding taxes on the proceeds of long-standing Luxembourg mutual funds amounting to less than 2 thousand euro.

This matter has been the subject of analysis and long discussions with the competent Large Taxpayers Office of the Lazio Region Italian Revenue Agency, following which the Italian Revenue Agency has made a settlement proposal with the following terms:

– with regard to the first dispute, through the adjustment of the transfer prices of the transactions with Euro-Trésorérie by around 14.4 million euro (instead of the 47.2 million euro claimed in the tax audit report), corresponding to higher taxes (IRES tax at 27.5%, additional IRES tax at 8.5% - applicable only in 2013 - and IRAP tax at 5.55%) of around 6 million euro, plus interest of around 1 million euro, without application of any penalties;
– with regard to the two disputes relating to the conventions, through the acceptance of the amounts claimed with the payment of around 1.2 million euro of taxes, penalties and interest. In view of the uncertainty underlying a possible dispute in terms of the possibility of obtaining a favourable ruling or the difficulties of settling the dispute by arbitration, the Agency's settlement proposal was assessed positively, also taking into account the developments in the dispute in relation to the continuation of the audits for the following years, from 2014 to 2016.

The situation for 2013 was therefore settled, with a total charge of 8.5 million euro determined on a higher taxable income of 17.7 million euro. For the years 2014-2017, the total charge was estimated at 16.8 million euro and has been allocated to the allowance for tax litigation. In total, an overall amount of 25.3 million euro was recognised in the 2018 income statement.
The company was also served an assessment for IRES tax and the related additional tax and IRAP tax for 2013, contesting the deduction of the annual amortisation charge of 11.9 million euro for goodwill arising from the contribution of private banking business units in 2010 by Intesa Sanpaolo and other Group companies (value of claim of 10 million euro). The risk of liabilities is considered to be remote, also taking into account the favourable first instance rulings for the years 2011 and 2012, already mentioned above in relation to the Parent Company.
At the end of the year, Intesa Sanpaolo Vita was served an assessment, for the former Eurizon Vita S.p.A., in relation to VAT for 2013 for a total amount of 0.24 million euro for failure to invoice the agency fees received, in its capacity as an agent under the co-insurance agreements.
The dispute - the latest in a series which also covers previous tax periods - relates to a long-debated matter that has affected the insurance sector for years, regarding which the courts have had difficulty in taking a definitive position. In particular, the disputed transactions relate to contracts entered into between insurance companies falling within the category of co-insurance contracts. According to the agreements on the new insurance relationships shared in co-insurance, the principal company assigned the management of the contract to the agent company, through the so-called agency clause. The services that the agent provides in the common interest include, for example, the search for the customer, with the associated management of the negotiation phases; the signing and conclusion of the contract; the receipt of communications from the policyholders; the collection of insurance premiums; and the management, assessment and determination of damages. In return for these services, the principal pays the agent a fee commonly referred to as the "agency fee" or "liquidation fee". According to the insurance companies and based on the rules of conduct laid down by ANIA (Italian insurance businesses association), the activities carried out by the agent co-insurer should be considered exempt from VAT, in accordance with the combined provisions of nos. 9) and 2) of Article 10, first paragraph, of Presidential Decree no. 633 of 26 October 1972, because, in addition to managing the performance of those contracts, it also looks for potential customers, puts them in contact with the principal co-insurers and enters into the contracts in their name and on their behalf, thereby providing an intermediation service relating to insurance operations.
According to the Italian Revenue Agency, the services provided by the agent to the principal are to be considered independent from the co-insurance contract and subject to VAT at the ordinary rate as they are not related to the assumption of the risk of the policyholder by the insurer, instead they concern the joint organisation of several insurers for the expansion of the market and the management of the contracts.
The trial courts' case-law and Court of Cassation rulings up to 2017 were mainly oriented towards considering the activities carried out by the agent co-insurer as being exempt from VAT. However, in the last year the Court of Cassation has reversed its stance. In particular, in July 2018, the Court of Cassation handed down rulings in favour of the tax authorities against Intesa Sanpaolo Vita in relation to the VAT disputes of 2003 and 2004 (value of 15 million euro). At present, the company has

9 pending disputes for a total remedy sought of around 19 million euro for VAT and penalties (plus interest) with risk considered to be remote.
Also for Intesa Sanpaolo Vita, the IRES tax dispute for 2010, in which the write-downs of two unlisted bonds (value of 13 million euro) were contested, was concluded with a favourable outcome. The risk of a negative outcome had been considered remote.
For the international subsidiaries, the following tax audits are currently being carried out: on the Croatian company Privredna Banka Zagreb - PBZ, with regard to direct taxes and VAT for the year 2015, with the possibility of extending them to other years; on the US company IMI SEC, for the years 2015 and 2016; and on the Hungarian company CIB Bank Ltd, for the tax years 2015 and 2016. None of these audits have so far resulted in significant claims.
The disputes of CIB Bank concerning VAT for the year 2007 (-3.6 million euro) and Pravex concerning direct taxes for the years 2011-2017 (-2.8 million euro) have been settled, with no impact on the allowance for risks and on the 2018 income statement.

* * * * *

In connection with all the tax disputes outstanding as at 31 December 2018, for a total value of 366 million euro, of which 222 million euro relating to Intesa Sanpaolo (364 million euro as at 31 December 2017, of which 214 million euro for Intesa Sanpaolo), the Group has recognised receivables of 69 million euro in its balance sheet assets (75 million euro as at 31 December 2017) to account for amounts paid on a provisional basis due to tax assessments, of which 37 million euro (45 million euro as at 31 December 2017) related to the Parent Company.
The portion of the allowance for risks, which relates to provisional tax assessments, amounts to 73 million euro (48 million euro at 31 December 2017), of which 26 million euro (in line with 31 December 2017) for Intesa Sanpaolo.
The provisional payments in question were made in compliance with specific legal provisions, which provide for the mandatory payment based on an automatic mechanism totally independent of whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely because of the enforceable nature of the administrative acts that set forth the related tax claim, which does not lose its effectiveness even in the event of an appeal (no suspensive effect) and has no impact on the assessment of the actual risk of a negative outcome, which must be measured using the criterion set forth in IAS 37 for liabilities.

SECTION 3 – RISKS OF INSURANCE COMPANIES

3.1 INSURANCE RISKS

QUALITATIVE AND QUANTITATIVE INFORMATION

Life business

The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita) may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities). When defining a product, profit testing is used, aimed at measuring profitability and identifying any weaknesses beforehand, by means of specific sensitivity analyses.

Actuarial and demographic risks arise when an unfavourable trend is recorded in the actual loss ratio compared with the trend estimated when the rate was calculated, and these risks are reflected in the level of "reserves". The loss ratio refers not only to actuarial loss, but also to financial loss (guaranteed interest rate risk). The Company guards against these risks by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is guarded against through the exact calculation of mathematical reserves, with a series of detailed checks (for example, checking that all the variables required for the calculation such as yields, quotations, technical foundations, parameters for the supplementary reserves, and recalculation of the value of single contracts are correctly saved in the system) as well as overall verifications, by comparing results with the estimates produced on a monthly basis. Specific attention is paid to checking the correct assumption of contracts, by checking the relative portfolio against the reconstruction of movements during the period, divided by purpose, and checking the consistency of the amounts settled compared with the movements of reserves.

The tables below show the structure of the mathematical reserves by expiry date, excluding reserves for amounts to be paid and before intercompany netting, and the structure of the guaranteed minimum yield as at 31 December 2018.

(millions of euro)

Breakdown of mathematical reserves of life branch: maturity	Mathematical reserve	%
up to 1 year	242	0.31
1 to 5 years	5,039	6.55
6 to 10 years	1,451	1.89
11 to 20 years	2,821	3.67
over 20 years	67,333	87.58
TOTAL	**76,886**	**100.00**

(millions of euro)

Breakdown of risk concentration by type of guarantee	Total Reserves	%
Insurance and investment products with guaranteed annual yield		
0% - 1%	20,634	26.14
from 1% to 3%	44,065	55.82
from 3% to 5%	6,092	7.72
Insurance products	**6,095**	**7.72**
Shadow reserve	**2,053**	**2.60**
TOTAL	**78,939**	**100.00**

The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

The following table shows a breakdown by maturity of financial liabilities, before intercompany netting, represented by assets covering commitments arising under unit- and index-linked policies and subordinated liabilities.

(millions of euro)

Breakdown of financial liabilities by maturity	Within 12 months	Over 12 months	Total as at 31.12.2018	Total as at 31.12.2017
Unit linked	144	67,846	67,990	68,398
Index linked	-	-	-	1
Subordinated liabilities	-	1,535	1,535	2,072
Total	**144**	**69,381**	**69,525**	**70,471**

Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura and Intesa Sanpaolo Vita) mainly relate to premium and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).

Reserve risk is monitored through the exact calculation of technical reserves. More specifically, for companies with non-life business the technical reserves may be broken down into: premium reserves, claims reserves, profit sharing and reversal reserves, other technical reserves and the equalisation reserve.

With regard to risk assumption, policies are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable tariff. The check is thus not only formal, but also substantive, and in particular allows the identification of exposures in terms of capital and limits of liability, in order to verify that the portfolio matches the technical and tariff scheme agreed upon with the sales network.

Subsequently, statistical checks are carried out to verify potentially anomalous situations (such as concentration by area or by type of risk) and to keep under control accumulation at the level of individual persons (with particular reference to policies that provide cover in the accident and health branches). This is also carried out in order to provide the Financial Reporting Actuarial Analysis and Reinsurance Unit with suitable indications of the portfolio characteristics in order to prepare the annual reinsurance plan.

The following table presents the development of claims by year of generation, broken down into the major business lines of operation, as at 31 December 2018.

(millions of euro)

Development of Claims Reserves	YEAR OF GENERATION/EVENT					TOTAL
	2014	2015	2016	2017	2018	
Reserve amount:						
as at 31/12 generation year N	124	122	128	132	151	
as at 31/12 year N+1	102	99	108	111		
as at 31/12 year N+2	99	97	107			
as at 31/12 year N+3	97	94				
as at 31/12 year N+4	94					
Total claims paid	**85**	**86**	**89**	**77**	**49**	**386**
Claims reserve booked as at 31.12.2017	**9**	**8**	**17**	**34**	**102**	**170**
Final claims reserve for previous years						**24**
Total claims reserve booked as at 31.12.2018						**194**

3.2 FINANCIAL RISKS

Financial Risks

These risks derive from the level or volatility of market prices of financial instruments that impact the book value of both assets and liabilities.

The risk factors identified by the company are as follows:

- Interest rate risk: impacts assets and liabilities whose value is sensitive to changes in the forward structure of interest rates or the volatility of interest rates;
- Equity price risk: derives from the level or volatility of market prices of equities and impacts assets and liabilities whose value is sensitive to changes in equity prices;
- Property risk: derives from the level or volatility of market prices of real estate property and impacts assets and liabilities sensitive to said changes;
- Foreign exchange risk: derives from changes in the level or volatility of foreign exchange rates;
- Spread risk: impacts assets and liabilities whose value is sensitive to adverse changes in credit spreads;
- Concentration risk: reflects the risk of holding high percentages of financial assets of the same counterparty.

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 31 December 2018, the investment portfolios of Group companies, recorded at book value, amounted to 152,437 million euro. Of these, a part amounting to 78,368 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 74,069 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.

Financial assets under segregated funds and free capital

In terms of breakdown by asset class, net of derivative financial instruments, 83.29% of assets, i.e. approximately 65,254 million euro, were bonds, whereas assets subject to equity risk represented 1.25% of the total and amounted to 981 million euro. The remainder (12,113 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (15.46%).
The carrying value of derivatives came to approximately 20 million euro, almost entirely relating to hedging derivatives while the portion of effective management derivatives[21] is negative for approximately -0.4 million euro.
At the end of 2018, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,081 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 28 million euro.

Interest rate risk exposure

The breakdown by maturity of bonds showed 9.56% short-term (under 1 year), 39.82% medium-term and 50.62% long-term (over five years).

(millions of euro)

Financial assets	Book value	%	Duration
Fixed-rate bonds	**60,610**	**77.36**	**5.65**
up to 1 year	5,609	7.16	
1 to 5 years	24,034	30.68	
over 5 years	30,967	39.52	
Floating rate/indexed bonds	**4,644**	**5.93**	**3.20**
up to 1 year	628	0.80	
1 to 5 years	1,953	2.49	
over 5 years	2,063	2.64	
TOTAL	**65,254**	**83.29**	**-**
Equities or similar capital securities	**981**	**1.25**	
UCI, Private Equity, Hedge Fund	**12,113**	**15.46**	
TOTAL AS AT 31.12.2018	**78,348**	**100.00**	

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

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights the exposure of the portfolio: for example, a parallel shift in the yield curve of +100 basis points leads to a negative fair value change in the bond portfolios of -3,359 million euro.

(millions of euro)

	Book value	%	Fair value changes due to interest rate fluctuations	
			+100 bps	-100 bps
Fixed-rate bonds	60,610	92.88	-3,223	3,573
Floating rate/indexed bonds	4,644	7.12	-136	149
Interest rate risk hedging effect	-	-	-	-
TOTAL	**65,254**	**100.00**	**-3,359**	**3,722**

Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 3.47% of total investments and A bonds approximately 8.57%. Low investment grade securities (BBB) were 85.56% of the total, while the portion of speculative grade or unrated was minimal (2.40%).
With regard to exposure to BBB rated securities, the majority of the exposure related to bonds issued by the Republic of Italy.

(millions of euro)

Breakdown of financial assets by issuer rating	Book value	%
Bonds	**65,254**	**83.29**
AAA	1,261	1.61
AA	1,003	1.28
A	5,593	7.14
BBB	55,831	71.26
Speculative grade	1,536	1.96
Unrated	30	0.04
Equities or similar capital securities	**981**	**1.25**
UCI, Private Equity, Hedge Fund	**12,113**	**15.46**
TOTAL	**78,348**	**100.00**

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by governments, central banks and other public entities made up 76.12% of the total investments, whereas the securities of corporate issuers contributed around 23.88%.
The sensitivity values of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of ±100 basis points, as at end of 2018, are shown in the table below.

(millions of euro)

	Book value	%	Fair value changes due to credit spread fluctuations	
			+100 bps	-100 bps
Government bonds	49,670	76.12	-2,708	3,028
Corporate bonds	15,584	23.88	-730	750
TOTAL	**65,254**	**100.00**	**-3,438**	**3,778**

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to 99 million euro, as shown in the table below.

(millions of euro)

	Book value	%	Fair value changes due to stock price fluctuations -10%
Equities - Financial institutions	85	8.66	-9
Equities - Non-financial companies and other counterparties	896	91.34	-90
TOTAL	**981**	**100.00**	**-99**

Exchange risk exposure

Approximately 98% of investments is made up of assets denominated in the EU currency. The residual exposure to exchange risk was hedged by positions in derivative financial instruments, particularly domestic currency swaps, in the same currency.

Derivative financial instruments

Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management. The table below shows the book values of the financial derivative instruments as at 31 December 2018.

(millions of euro)

Type of underlying	DEBT SECURITIES / INTEREST RATES		EQUITIES, EQUITY INDICES, COMMODITIES, EXCHANGE RATES		TOTAL	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
Hedging derivatives	-	21	-	-	-	21
Effective management derivatives	-	-35	46	-12	46	-47
TOTAL	**-**	**-14**	**46**	**-12**	**46**	**-26**

SECTION 4 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the vehicle companies Romulus Funding Corporation and Duomo Funding Plc, subsidiaries included within the scope of consolidation pursuant to IFRS 10, and the companies Risanamento and Autostrade Lombarde and their subsidiaries, which are consolidated but not subject to management and coordination.

THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers. As at 31 December 2018, approximately 5 billion euro of the securities issued by Romulus, amounting to 5.5 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo.
The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2018, the investment portfolio of Romulus consisted of 5.3 billion euro in loans to the vehicle Duomo.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 5.3 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 2018 – in addition to receivables from Intesa Sanpaolo Group banks of 2.2 billion euro – this portfolio mainly consisted of loans to customers of 3.3 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2018.

(millions of euro)

		Vehicle data		Liquidity lines		Guarantees given		Securities issued	Securities issued		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset backed commercial paper conduit	5,370	(1)	-	-		-	5,368	5,013	Loans	Amortised cost
DUOMO FUNDING PLC	Asset backed commercial paper conduit	5,553	-	5,608	(2)	-	-	-			

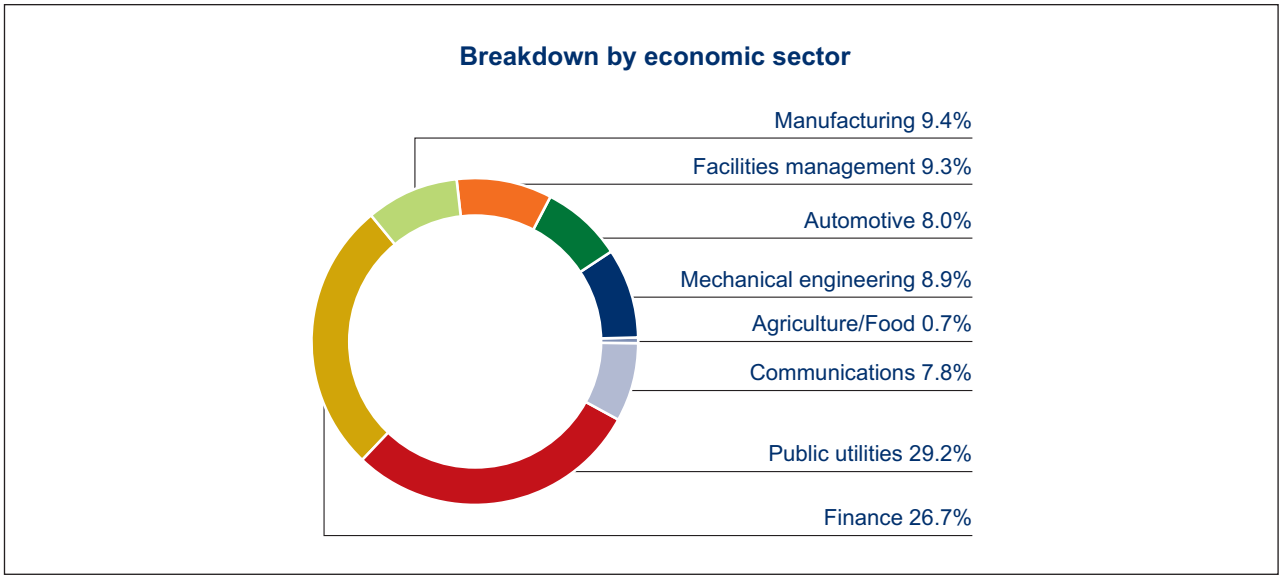
(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

(2) of which 2.528 million euro referring to credit lines granted to cover loans of Intesa Sanpaolo Group for which did not meet the criteria for derecognition pursuant to IAS 39.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.4% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 61% accounted for by trade receivables and the remainder by consumer loans (7%), loans deriving from lease contracts (8%), inventory-backed loans (9%), factoring contracts (6%), mortgage loans (2%) and loans/lease contracts to pharmaceutical companies (7%). Almost all of the eligible assets held by the vehicles are expressed in euro (97.4% of the total portfolio). The remainder is denominated primarily in British pounds (2.01%), US dollars (0.5%), Australian dollars (0.04%) and Canadian dollars (0.05%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, around 97.7% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 99.95% of the debtors are located in Italy.

RISANAMENTO GROUP

Qualitative and quantitative information

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

Expectations for the real-estate sector are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real-estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario.
The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:

- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards.
The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections
This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.
The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives.
In the leasing business, the Group’s primary asset (which generates lease revenue of over 16 million euro and is held for sale) is a long-term lease contract entered into with a tenant of high standing.

Risks associated with project execution
The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.
This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.

The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.
In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.
In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of good character, integrity, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

Subject to the risks indicated above, the observation, already made in the 2017 Annual Report, still applies, regarding the signing of an important agreement with a leading international operator for the implementation in partnership of the Milano Santa Giulia real estate project, which represents the Group's main asset.
Although it is currently conditional upon the approval of the modification of the Master Plan for the Milano Santa Giulia Project, this agreement is of considerable importance for the Risanamento Group because it (i) confirms the soundness and feasibility of the project and (ii) can generate benefits and synergies both during the development and marketing phases.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 968 million euro.

In further detail, the portfolio may be broken down as follows:
- owner-occupied properties: 37 million euro (registered office and place of business);
- properties held for sale: 271 million euro;
- real-estate development areas and projects: 624 million euro (Milano Santa Giulia);
- trading properties: 36 million euro.

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

AUTOSTRADE LOMBARDE GROUP

The Autostrade Lombarde Group has identified both the risks linked to specific business factors and the financial risks. With regard to the management of financial risks, it has identified and defined the objectives and policies for managing them.

In the ordinary course of its business, the Group is potentially exposed to the following financial risks:
- "interest rate risk", mainly deriving from exposure to fluctuations in interest rates associated with the financial assets disbursed and financial liabilities assumed;
- "liquidity risk", deriving from the possible lack of sufficient financial resources to cover operating activities and the repayment of the liabilities assumed;
- "credit risk", consisting of both the risk of default by the counterparty and the risk associated with normal business dealings.

The abovementioned risks are analysed in detail below:

Interest rate risk

With regard to the risks associated with interest rate fluctuations, the Group's strategy is to contain them mainly by carefully monitoring interest rate changes, identifying the optimal combination of floating and fixed rates and also entering into specific hedging contracts.
With regard to the Group's financial debt as at 31 December 2018, it consists almost entirely of drawdowns on the project loan against which there are hedges on the change in interest rates.

Liquidity risk

"Liquidity risk" represents the risk that available financial resources may be insufficient to cover maturing obligations. Despite the temporary reduction in revenues compared to the initial forecasts when the infrastructure went into operation, the Group believes that the measures adopted in the new rebalancing plan, approved with the Additional Deed no. 3 to the Standard Agreement, together with the generation of cash flows and the refinancing of current debt, will ensure that the planned financial requirements are met.

Credit risk

To minimise "credit risk", the Group pursues a policy of prudent use of liquidity and there are currently no critical positions with individual counterparties. With regard to trade receivables, the Group constantly monitors them and writes down positions that have been identified as partially or totally uncollectable.

With regard to the specific activity carried out by the subsidiary Società di Progetto Brebemi S.p.A., the following risks are also identified:

Legislative and regulatory risk

The Group provides a public service and operates in a regulated sector subject to legislative measures that may affect the setting of the tariffs applied to users and the imposition of unforeseen obligations and charges. The tariffs are subject to control and application by the Concession Grantor and the Ministry of Infrastructure and Transport and are updated annually, as provided for in the current Agreement. The Group constantly monitors possible new legislation, using both internal and external expertise.

Risks of revocation of the concession in the public interest

With regard to the risks connected with a possible revocation/nationalisation of the motorway concessions, if the concession agreement is terminated for reasons of public interest or due to breach by the Concession Grantor, it envisages appropriate safeguards for the Concession Holder. In particular, it is established that the Concession Holder will be entitled to a refund equal to: (i) the value of the works carried out plus ancillary costs, net of depreciation, (ii) the penalties and other costs incurred or to be incurred as a result of the termination and (iii) an indemnity, as compensation for loss of earnings, equal to 10 percent of the value of the works still to be carried out or of the part of the service to be managed valued on the basis of the business and financial plan.

Price risk

With regard to the Group's main investment, the existing procurement and service agreements exclude the revision of prices, unless these are recognised by the Concession Grantor, because the agreements are structured with back-to-back commitments and rights deriving from the relationship between the Concession Grantor and the Concession Holder.
The above also applies for the higher construction and expropriation costs increased following the rebalancing of the Business and Financial Plan.

Market risk

In view of the nature of the business conducted, the main market risk is attributable to "traffic risk", i.e. the risk that the traffic estimates underlying the agreed business and financial plan may be incorrect. This risk is covered by the contractual instruments that allow the Concession Holder to re-establish the business and financial balance when updating or revising the Business and Financial Plan.

As mentioned above, Intesa Sanpaolo does not exercise management and coordination over Autostrade Lombarde S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

Part F – Information on consolidated capital

SECTION 1 – CONSOLIDATED CAPITAL

A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.
The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.
Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.
The capital at risk considered is twofold:

- regulatory capital covering Pillar 1 risks;
- overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.
Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications ("Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decree 180 and 181 on 16 November 2015), with international practice and in compliance with both the Group Risk Appetite Framework and the crisis management model adopted by the Bank.

As part of the process of defining budget targets, a projection compatibility analysis is conducted annually at Group level and at the level of individual entities in the Group. Depending on the expected performance of balance sheet and income statement aggregates, the appropriate capital management measures to ensure the required financial resources for the individual business units are already identified in this phase, if necessary.
Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate action when necessary.
Compliance with capital adequacy is sought via various levers, such as the dividend distribution policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly loans, on the basis of counterparty risk.
Further analyses for preliminary assessment of capital adequacy are performed during extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the scope of consolidation of the Group.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

Starting from 1 January 2018 (ECB decision of 22 December 2017) the Common Equity Tier 1 ratio to be met was set at 8.065% under the transitional arrangements for 2018, 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 1.875% 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, based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.125% under the transitional arrangements in force for 2018 and 9.33% on a fully loaded basis.

On 31 August 2018, the Group received the authorisation to use the new Retail model, applied to the Retail Mortgages sub-segment (Model Change) and the Other Retail sub-segment (First Adoption). The new model adopts a counterparty approach instead of the previous product approach. During the first disbursement phase, an on-line rating is calculated, also including social and income information. A mass calculation is then used for the entire Retail portfolio (Retail and Other Retail Mortgages).

On 8 February 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 March 2019. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.88% under the transitional arrangements for 2019 and 9.25% on a fully loaded basis.
This is the result of: a) 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 2.5% on a fully

loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.38% under the transitional arrangements for 2019 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer equal to 0.08%[22], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.33% on a fully loaded basis.

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in EU Regulation 2395/2017 of adopting the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component relating to impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any shortfall – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022.

B. Quantitative information

B.1. Consolidated book shareholders' equity: breakdown by type of company

(millions of euro)

Balance sheet captions	Prudential consolidation	Insurance companies	Other companies	Netting and adjustments on consolidation	TOTAL	*of which minority interests*
1. Share capital	**9,473**	**-**	**328**	**-328**	**9,473**	***388***
2. Share premium reserves	**24,789**	**-**	**1**	**-1**	**24,789**	***21***
3. Reserves	**13,049**	**-382**	**-597**	**979**	**13,049**	***43***
4. Equity instruments	**4,103**	**-**	**-**	**-**	**4,103**	-
5. (Treasury shares)	**-84**	**-2**	**-**	**2**	**-84**	-
6. Valuation reserves:	**-971**	**9**	**15**	**-24**	**-971**	***-67***
- Equities designated at fair value through other comprehensive income	193	-	-	-	193	*4*
- Hedges of equities designated at fair value through other comprehensive income	-	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	-489	-	-	-	-489	-
- Property and equipment	1,271	-	-	-	1,271	*16*
- Intangible assets	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-
- Cash flow hedges	-816	-	-	-	-816	-
- Hedging instruments (non-designated items)	-	-	-	-	-	-
- Foreign exchange differences	-1,110	-	15	-15	-1,110	*-84*
- Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	-378	-	-	-	-378	*-4*
- Share of valuation reserves connected with investments carried at equity	49	-	-	-	49	-
- Legally-required revaluations	309	-	-	-	309	*1*
- Share of valuation reserves pertaining to insurance companies	-	9	-	-9	-	-
7. Parent company's net income (loss) and minority interest (+/-)	**4,072**	**627**	**-36**	**-591**	**4,072**	***22***
Shareholders' equity	**54,431**	**252**	**-289**	**37**	**54,431**	**407**

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

[22] Calculated taking into account the exposures as at 31 December 2018 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2019-2020, where available, or to the latest update of the reference period (requirement was set at zero per cent in Italy for the first quarter of 2019).

B.2. Valuation reserve of financial assets designated at fair value through other comprehensive income: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		TOTAL 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	146	-616	25	-10	-	-	-25	10	146	-616
- of which measured pursuant to IAS 39	*25*	*-10*	*25*	*-10*	-	-	*-25*	*10*	*25*	*-10*
2. Equities	220	-26	1	-	-	-	-1	-	220	-26
- of which measured pursuant to IAS 39	*1*	-	*1*	-	-	-	*-1*	-	*146*	*-616*
2bis. Quotas of UCI (pursuant to IAS 39)	1	-10	1	-10	-	-	-1	10	1	-10
4. Loans	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2018	**367**	**-652**	**27**	**-20**	**-**	**-**	**-27**	**20**	**367**	**-652**
Total as at 31.12.2017	**861**	**-572**	**439**	**-24**	**-**	**-**	**-439**	**24**	**861**	**-572**

The reserve on equities classified as level 1 is negative for about 10 million euro.

B.3. Valuation reserve of financial assets designated at fair value through other comprehensive income: annual changes

(millions of euro)

	Debt securities	*Debt securities: of which measured pursuant to IAS39*	Equities	*Equities: of which measured pursuant to IAS39*	Quotas of UCI (pursuant to IAS39)	TOTAL
1. Opening balance	**479**	**365**	**114**	**30**	**20**	**613**
2. Increases	*333*	*35*	*158*	*22*	*16*	*507*
2.1. Fair value increases	245	*15*	121	*4*	11	377
2.2. Adjustments for credit risk	*10*	-	-	-	-	*10*
2.3. Reversal to the income statement of negative reserves from disposal	*24*	-	-	-	-	24
2.3bis Reversal to the income statement of negative reserves from impairment (pursuant to IAS39)	-	-	-	-	*1*	1
2.4. Transfer to other shareholders' equity items (equities)	-	-	*2*	-	-	2
2.5. Other increases	*54*	*20*	*35*	*18*	*4*	93
3. Decreases	**-1,282**	***-385***	**-78**	***-51***	**-45**	**-1,405**
3.1. Fair value decreases	*-953*	*-307*	*-45*	*-25*	*-27*	-1,025
3.2. Recoveries for credit risk	*-6*	-	-	-	-	-6
3.2bis Impairment losses (pursuant to IAS39)	-	-	-	-	-	-
3.3. Reversal to the income statement of positive reserves from disposal	*-244*	*-52*	-	-	*-12*	-256
3.4. Transfer to other shareholders' equity items (equities)	-	-	*-1*	-	-	-1
3.5. Other decreases	*-79*	*-26*	*-32*	*-26*	*-6*	-117
4. Final balance	**-470**	***15***	**194**	***1***	**-9**	**-285**

Trading on treasury shares

During the year, Intesa Sanpaolo and Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

Ordinary shares:		
Initial number	no.	26,101,868
Purchases	no.	30,131,551
Sales	no.	-23,481,054
End-of-year number	no.	32,752,365

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year, the reserves at issue recorded an increase of 300 million euro, therefore as at 31 December 2018, there was an overall negative reserve equal to approximately -375 million euro for defined benefit plans.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

Reference is made to the disclosure on own funds and capital adequacy contained in the public disclosure ("Pillar 3").

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

1.1 Business combinations

(millions of euro)

Companies	Date of the transaction (a)	Cost of the transaction	Equity stake % (b)	Net interest and other banking income (c)	Net income/ loss for the year (d)	Net income/ loss recorded as of acquisition date (e)
1. Gruppo Morval	10-Apr-18	174	100.00	21	-6	-6
2. Ramo Nexi	01-Aug-18	17	n.a.	n.a.	n.a.	n.a.
3. Gruppo Autostrade Lombarde	31-Dec-18	207	55.78	n.a.	-37	-

(a) Date of acquisition of control.

(b) Percentage of voting rights at the Ordinary Shareholders' Meeting plus possible options on minorities' stakes.

(c) Net interest and other banking income (Caption 120 of the income statement) referred to full year 2018.

(d) Net income/loss recorded by the subsidiary/business for full year 2018.

(e) Net income/loss recorded by the subsidiary/business after acquisition date and included in the consolidated result of the Intesa Sanpaolo Group.

In addition to business combinations accounted for by IFRS 3, summarised in the previous table, several extraordinary intragroup transactions were carried out during the year, which had no effects on the consolidated financial statements. Such transactions, which are scoped out of IFRS 3, involved the transfer of business lines or legal entities between companies within the Intesa Sanpaolo Group or business combinations between entities under common control.
Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved.
The intragroup transactions completed during the year concerned:

- the merger by incorporation of IMI Investimenti into Intesa Sanpaolo;
- the merger by incorporation of Veneto Banka Sh.A. into Intesa Sanpaolo Bank Albania;
- the merger by incorporation of Veneto Banka D.D. into PBZ;
- the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo;
- the merger by incorporation of Banco di Napoli into Intesa Sanpaolo;
- the partial demergers of ISGS, Provis and Reoco into Tersia;
- the merger by incorporation of VUB Factoring into VUB;
- the total demerger of Consumer Finance Holding into VUB and VUB Leasing;
- the transfer of a business unit (including the equity investment in Neva Finventures) from Intesa Sanpaolo to Servizi Bancari Scpa;
- the merger by incorporation of Banca Nuova into Intesa Sanpaolo;
- the merger by incorporation of Fideuram Fiduciaria into Società italiana di revisione e fiduciaria S.I.R.E.F.;
- the transfer of the investment in VUB AM from Eurizon Capital SA to Eurizon Capital SGR;
- the transfer of minority interests in ISP Innovation Center from ISP to Banca IMI and ISP Vita;
- the transfer of the investment in Veneto Banka d.d. (Croatia) from Intesa Sanpaolo to PBZ;
- the merger by incorporation of Cassa di Risparmio del Veneto into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo;
- the partial demerger of Intesa Sanpaolo Innovation Center into Intesa Sanpaolo Group Services.

Annual changes in goodwill

(millions of euro)

	31.12.2018
Initial goodwill	**4,056**
Increases	**107**
- Goodwill recorded in the year	107
- Positive foreign exchange differences and other changes	-
Decreases	**-**
- Impairment recorded in the year	-
- Disinvestments	-
- Negative foreign exchange differences and other changes	-
Final Goodwill	**4,163**

Goodwill

(millions of euro)

CGUs/Goodwill	31.12.2018	31.12.2017
Banca dei Territori	1,211	1,211
Corporate and Investment Banking	-	-
Insurance	494	494
Asset Management	1,060	1,060
Private Banking	1,291	1,291
International Subsidiary Banks	-	-
Bank of Alexandria (Egypt)	-	-
Pravex Bank (Ukraine)	-	-
Autostrade Lombarde	107	n.a.
Total	**4,163**	**4,056**

1.2 Other information

The acquisition of Morval Vonwiller Holding

On 23 August 2017, Intesa Sanpaolo and the shareholders of Morval Vonwiller Holding SA (Morval) reached an agreement for the sale of the Morval Group, operating in private banking and wealth management, with head office in Switzerland and international presence and customers. The Group has assets under management (AuM) of approximately CHF 3.3 billion, of which approximately 2.8 billion of direct private banking assets and approximately 0.5 billion of customer assets invested in house-brand funds.

Following the initial agreements, Fideuram assumed Intesa Sanpaolo's rights and obligations in respect of the sale agreement. The execution of the sale agreement, conditional on obtaining the necessary authorisations from the Supervisory Authorities, was finalised on 10 April 2018 through the acquisition by Fideuram of 94.58% of the shares of the holding company that controls the Morval Group.

The equity investment was purchased for consideration of 165 million euro.

The acquisition qualifies as a business combination, to be accounted for in accordance with IFRS 3, which requires that business combinations be reported according to the "acquisition method", divided into three main steps:

- identifying the acquirer and determining the acquisition date;
- determining the purchase price (or the consideration transferred);
- allocating the purchase price (Purchase Price Allocation - PPA).

Without prejudice to the identification of Fideuram as the acquirer, the accounting acquisition date was considered to be 1 April 2018, since no balance sheet situation as at the closing date was available for the acquiree. Accordingly, the closing balances as at 31 March 2018 have been adopted for the purposes of the balance sheet subject to initial consolidation, and for the purposes of determining the fair value of the assets acquired and liabilities assumed, considering that no extraordinary events occurred between 31 March 2018 and 10 April 2018, the closing date.

With respect to the determination of the purchase price, the final consideration transferred to acquire the Morval Group was 165 million euro, to which the fair value of any contingent consideration associated with the transaction must be added in accordance with IFRS 3. The following elements matching the definition of contingent consideration provided in IFRS 3 were identified from an analysis of the contractual provisions: the said provisions provide for put and call options on the interest in Morval held by the company's managers as minority shareholders. The above options may be exercised beginning in 2020 (without prejudice to various cases of early exercise) at an exercise price equal to the fair market value of the underlying interests. The analyses conducted indicate that the put and call arrangements with Morval's managers/minority shareholders qualify as contingent consideration pursuant to IFRS 3. Accordingly, a payable to the minority shareholders in respect of the commitment underlying the options was recognised on the basis of the presumed outlay in the event of exercise, estimated at approximately 9 million euro as at the acquisition date, on the basis of the price paid by Fideuram for the 94.58% interest, as

a balancing entry to a reduction in the corresponding minority interest share, and, in respect of the residual portion, to an increase in goodwill.
Taking due account of the contingent consideration described above, the total purchase price therefore amounted to 174 million euro, i.e. the price paid by ISP to acquire 94.58% of the shares in Morval (165 million euro), in addition to the contingent consideration of 9 million euro representing the amount due to the minority shareholders in respect of the commitment underlying the put option.

After the purchase price was determined, it was allocated to the equity acquired (100%, considering that the purchase price also includes the interest held by the minority shareholders subject to the put and call agreements), after adjusting it to reflect the fair value of the assets acquired and liabilities assumed. An IAS-compliant balance sheet as at the acquisition date was used to determine the fair values of the assets acquired and liabilities assumed. The accounting balances of the said balance sheet were then modified to take account of the fair value measurement of the Morval Group's assets and liabilities at their acquisition date.
In particular, the fair value adjustment entailed the recognition of a total gain of approximately 55 million euro, gross of the tax effect, primarily attributable to the revaluation of the Morval Group's real-estate portfolio and the recognition of a specific intangible asset – not previously reported in Morval's financial statements – relating to asset under management (AuM) relationships. In accordance with IFRS 13, it was assumed that the fair values of financial assets measured at amortised cost, consisting of amounts due from banks of 90 million euro and loans to customers of the "Lombard" variety (loans secured by liquid securities deposited with the lender) of 82 million euro, correspond to their carrying amount, adjusted to take account of the Expected Credit Loss pursuant to IFRS 9, since amounts due from banks consist solely of positions due on demand or with notice of 48 hours, whereas loans to customers consist primarily of on demand positions, with the remainder made up of exposures due within one year. The same may be said for amounts due to customers, most of which are on demand positions.
Conversely, with regard to the real-estate portfolio, specific appraisals were obtained from an independent third party, indicating a fair value exceeding the carrying amount by approximately 21 million euro.
With regard to the treatment of intangible assets, IFRS 3 provides that, in each business combination, the acquirer identifies any intangible assets not previously recognised by the acquiree and verifies that such assets meet the conditions to be recognised by the acquirer. In accordance with the standard, the acquirer shall recognise, at the acquisition date, an intangible asset that was not previously recognised in the financial statements of the acquiree, only if:

- the asset is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract), or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations;
- the entity has control over the asset, meaning that it has the power to obtain the future economic benefits flowing from the underlying resource and can restrict the access of others to those benefits;
- the fair value of the asset can be reliably measured irrespective of whether the asset was recognised by the acquiree prior to the acquisition.

Given the above, in relation to intangible assets linked to client relationships, specific analyses were conducted to identify and measure the intangible associated with assets under administration and management (AUM) in terms of the capacity of the existing client relationships to generate income flows throughout the residual life of the said relationships. The valuation technique used to measure the economic value of client relationships is based on net future cash flows from indirect customer deposits. The cash flows in question were estimated on the basis of the trend in assets and net interest and other banking income, net of operating costs and taxes. The resulting flows were projected over a 15-year period, representative of the average life of the assets according to historical and statistical analyses, as also supported by market research. To determine fair value, they were then discounted at a discount rate identified as the cost of capital of the CGU in question in order to appropriately capture the level of risk inherent in the estimated cash flows. In accordance with the guidelines provided in IFRS 3, the client relationships considered in the measurement consist only of those relationships existing as at the acquisition date; the capacity to generate new relationships was not taken into account.
In application of the method described above, the measurement entailed the recognition of new intangible assets linked to asset management relationships, for a total of 34 million euro, gross of the related tax effect. With regard to the amortisation period, according to IAS 38 the useful life of an intangible asset must reflect the period within which the asset is expected to generate net cash inflows for the entity and the performance on the basis of which it is supposed that the asset's future economic benefits will be consumed by the entity. Based on the assumption adopted for the purposes of determining the value of the intangible in reference to the useful lives of the underlying assets, the amortisation period was set at 15 years from the acquisition date. Furthermore, according to IAS 36, from the acquisition date goodwill and intangibles acquired in a business combination must be allocated to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. Within the Intesa Sanpaolo Group, the intangible resulting from the acquisition of the Morval Group was allocated to the Private Banking CGU.
As required by IAS 12, deferred tax liabilities were recognised on the resulting differences between the fair values of the assets mentioned above and their values for tax purposes, which did not change following the transaction.

The following table presents a summary of the purchase price allocation to the Morval Group's assets and liabilities.

(millions of euro)

Purchase price	**174**
IAS/IFRS-compliant shareholders' equity acquired	**132**
Difference to be allocated	**42**
Fair value differences of the assets acquired and liabilities assumed	
Real-estate portfolio	21
AUM intangible	34
Tax effect	-13
Total net gain on assets acquired and liabilities assumed	**42**
Goodwill recognised	**-**

According to the calculations performed, the total purchase price was found to be equal to the fair value of the net assets of the acquiree (174 million euro). As a consequence, no entry for goodwill was recorded in the Intesa Sanpaolo Group's financial statements.

Based on the effects arising from the fair value measurement of the identifiable assets and liabilities, the balance sheet of the Morval Group is provided below, as accounted for at the acquisition date by Intesa Sanpaolo. In detail, the balance sheet shows figures as at the acquisition date based on the carrying values derived from the Morval Group and the fair values initially recognised in the consolidated financial statements of the Intesa Sanpaolo Group.

(millions of euro)

Assets		**Book value in accordance with the IAS/IFRS**	**Fair value**
10.	Cash and cash equivalents	89	89
20.	Financial assets measured at fair value through profit or loss	4	4
	a) financial assets held for trading	*2*	*2*
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	*2*	*2*
30.	Financial assets measured at fair value through other comprehensive income	132	132
35.	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-
40.	Financial assets measured at amortised cost	172	172
	a) due from banks	*90*	*90*
	b) loans to customers	*82*	*82*
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Investments in associates and companies subject to joint control	-	-
80.	Technical insurance reserves reassured with third parties	-	-
90.	Property and equipment	8	29
100.	Intangible assets	1	35
	Of which:	-	-
	- goodwill	-	-
110.	Tax assets	1	1
	a) current	*1*	*1*
	b) deferred	-	-
120.	Non-current assets held for sale and discontinued operations	-	-
130.	Other assets	4	4
Total assets		**411**	**466**

(millions of euro)

Liabilities		Book value in accordance with the IAS/IFRS	Fair value
10.	Financial liabilities measured at amortised cost	270	270
	a) due to banks	*1*	*1*
	b) due to customers	*269*	*269*
	c) securities issued	-	-
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-
20.	Financial liabilities held for trading	2	2
30.	Financial liabilities designated at fair value	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-
40.	Hedging derivatives	-	-
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	-	-
60.	Tax liabilities	2	15
	a) current	-	-
	b) deferred	*2*	*15*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	4	4
90.	Employee termination indemnities	-	-
100.	Allowances for risks and charges	1	1
	a) commitments and guarantees given	-	-
	b) post-employment benefits	-	-
	c) other allowances for risks and charges	*1*	*1*
110.	Technical reserves	-	-
120.	Valuation reserves	-	-
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	132	174
160.	Share premium reserve	-1	-1
170.	Share capital	1	1
180.	Treasury shares (-)	-	-
190.	Minority interests (+/-)	-	-
200.	Net income (loss) (+/-)	-	-
Total liabilities and shareholders' equity		**411**	**466**

The acquisition of the business unit regarding acquiring of payment card transactions carried out by Nexi

Pursuant to the agreements reached between Intesa Sanpaolo and the Nexi Group, the acquisition of the business unit regarding acquiring of payment card transactions connected to international networks (VISA and Mastercard), carried out by the Nexi Group in favour of customers of the former Venetian banks, now customers of Intesa Sanpaolo, became effective on 1 August 2018.

Acquiring activity involves authorising and managing card-based payments on behalf of merchants, in addition to leasing and distributing payment solutions (POS terminals) to merchants. Intesa Sanpaolo's interest in acquiring Nexi's international network acquiring business involving customers of the former Venetian banks is related to its desire to manage the relationships in question within the framework of the Intesa Sanpaolo Group's business model, which calls for the bank to perform the acquiring role directly and processing to be provided by Mercury Payments (formerly Setefi). The former Venetian banks' model, in which the banks distributed the acquiring services offered by the Nexi Group, was impossible to integrate into either Intesa Sanpaolo's business model or its IT architecture.

The business unit acquired by Intesa Sanpaolo consists solely of the acquiring contracts in effect as at the end of June 2018 between Nexi and the merchants who were previously customers of the former Venetian banks, along with the related assets and liabilities, consisting of short-term accounts receivable from the payment networks and merchants in respect of sums due by way of commissions in accordance with the relevant contracts and accounts payable to the former Venetian banks' commercial networks, acquired by Intesa Sanpaolo under the contract dated 26 June 2017, as limited to the sums due by way of consideration for acquiring services. As at 1 August 2018, the effective date of the transaction, the acquired business unit presented a negative imbalance of 4 million euro.

The contract between the parties provides for a sale price of the business unit of 17 million euro. Considering the amount by which it exceeds the business unit's negative imbalance, the consideration agreed between the parties was certified to be reasonable in a specific fairness opinion provided by an independent third party.

The transaction in question qualifies as a business combination in accordance with IFRS 3 and was accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date (determined to be 1 August 2018 for the transaction in question). The amount by which the consideration paid exceeds the fair value of the assets acquired and liabilities assumed must be recognised as goodwill.
In the case at hand, without prejudice to the identification of Intesa Sanpaolo as the acquirer, the consideration paid is represented by the price provided for in the agreement for the acquisition of the business unit, 17 million euro. Since the assets and liabilities included in the acquired business unit have a limited residual maturity, their fair values were considered to be equal to their carrying amounts in accordance with IFRS 13.
The comparison of the consideration transferred and the balance sheet imbalance of the business unit acquired shows a residual difference to be allocated amounting to 21 million euro. That difference, as stated in the fairness opinion by an independent third party on the price of the acquired business unit, was attributed to a specific client relationship intangible asset, associated with the value of the customer portfolio included in the business unit, based on the contracts for special arrangements in force as at the acquisition date. Specifically, the fairness opinion by the independent third party determined the current value of the acquired customer portfolio to be 21 million euro based on the present value potentially to be generated by the existing contracts over a certain time horizon of reference. Net revenues attributable to the business unit were calculated considering the fee and commission income applied to merchants, net of fee and commission expense due to the international networks, operating costs and taxes.
From a tax standpoint, since the acquisition was for consideration, the specific intangible to which the purchase price was allocated is also relevant for tax purposes. Accordingly, the related deferred tax liabilities were not recognised when accounting for the client relationship intangibles.
According to IAS 36, from the acquisition date the goodwill and intangibles acquired in a business combination must be allocated to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. Within the Intesa Sanpaolo Group, the intangible recognised following the acquisition of the Nexi business unit was allocated to the Banca dei Territori CGU.
According to IAS 38, the useful life of an intangible asset and the resulting amortisation period must reflect the period within which the asset is expected to generate net cash inflows for the entity and the performance on the basis of which it is supposed that the asset's future economic benefits will be consumed by the entity. The measurement of the intangible assets recognised was based on the present value of the cash flows that could be generated over a specific forecast time horizon. Taking account of the lifing curve (probability of closing) of the contractual relationships in force at the acquisition date, a period of projection of cash flows of 18 years was considered in the measurement. As a result, the intangible assets recognised following the acquisition of the Nexi business unit are amortised on a straight-line basis over a period of 18 years, starting from the acquisition date.

The acquisition of control of Autostrade Lombarde

Following the agreements reached with the Gavio Group, with effect from 31 December 2018 Intesa Sanpaolo acquired control of Autostrade Lombarde S.p.A., increasing its shareholding from 42.5% to 55.8%, and it therefore applied the provisions of IFRS 3 on business combinations.
Autostrade Lombarde is a motorway sector holding company formed to promote, plan, build and operate motorways or other roads under concession, in addition to other communication infrastructure. In particular, it is the concessionaire of the Milan-Brescia motorway section (A35), through its operating subsidiary Società di Progetto Brebemi (hereinafter "Brebemi"), in which it holds an approximately 79% interest.
IFRS 3 applies, inter alia, to business combinations achieved in stages, i.e. combinations in which the acquirer gains control of an entity in which it held an interest immediately prior to the acquisition date. In this specific case, before acquiring control on 31 December 2018, Intesa Sanpaolo held a 42.5% interest in Autostrade Lombarde, classified as an investment in a jointly controlled entity pursuant to IFRS 11 and accounted for using the equity method.
The acquisition of Autostrade Lombarde was therefore accounted for according to the acquisition method, which involves three main steps:

- identifying the acquirer and determining the acquisition date;
- determining the purchase price;
- allocating the purchase price (PPA – Purchase Price Allocation).

According to the acquisition method, at the acquisition date the acquirer must allocate the cost of the business combination by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at their acquisition date fair value and the amount, if any, by which the cost incurred for the business combination exceeds the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

Identifying the acquirer and determining the acquisition date

Without prejudice to the identification of Intesa Sanpaolo as the acquirer, the acquisition date is an important element to the accounting treatment of a transaction because it is only from when control is obtained that profit or loss from the subsidiary is included line by line in the acquirer's financial statements. It is also the date from which the assets acquired and the liabilities assumed are measured at fair value.
In the case at hand, it bears recalling that Intesa Sanpaolo held equity investments in Tangenziali Esterne (TE) and Tangenziali Esterne Milano (TEM), which, like Autostrade Lombarde, were subject to joint control with the Gavio Group under a specific shareholders' agreement entered into between the parties in 2013.
In order to separate their interests in the companies by concentrating the stake in Autostrade Lombarde within Intesa Sanpaolo and that in TEM/TE within Gavio, the parties entered into an agreement that initially provided for the exchange of only bare ownership of the parties' interests and then, on 31 December 2018, of the transfer of the related right of usufruct. Accordingly, on 31 December 2018 the agreement produced its definitive effects, permitting the two groups to separate and acquire full ownership of the shares of the Autostrade Lombarde Group, in the case of Intesa Sanpaolo, and of TEM and TE,

in the case of the Gavio Group. Consequently, with effect from 31 December 2018, Intesa Sanpaolo derecognised the interests in TEM and TE and concurrently recognised the 13.3% interest in Autostrade Lombarde held by the Gavio Group (through Satap), paying Gavio the agreed adjustment of approximately 12 million euro. This resulted in an increase in its interest from 42.5% to 55.8% and thus exclusive control of the company. In addition, the shareholders' agreements between Intesa Sanpaolo and the Gavio Group regarding governance rights to Autostrade Lombarde and its subsidiaries were also terminated with effect from 31 December 2018. As a direct consequence, the directors appointed by Gavio to the boards of Autostrade Lombarde and Brebemi resigned.
Given the foregoing, Intesa Sanpaolo acquired control of Autostrade Lombarde pursuant to IFRS 10 with effect from 31 December 2018, and this date also represents the acquisition date in accordance with IFRS 3.
Since control of Autostrade Lombarde was acquired with effect from 31 December 2018, only the investee's assets and liabilities were consolidated line by line in Intesa Sanpaolo's 2018 consolidated financial statements.
Lastly, it should also be noted that despite the control exercised over Autostrade Lombarde pursuant to IFRS 10, given the radically different nature of the said company's business, Intesa Sanpaolo deemed it preferable for the investee's governing body to make its decisions in full autonomy. Consequently, the subsidiary is not subject to management and coordination by Intesa Sanpaolo within the meaning of Articles 2497 *et seq.* of the Italian Civil Code.

Determining the purchase price
In accordance with IFRS 3, the purchase price is equal to the sum of the consideration transferred to acquire control of Autostrade Lombarde, represented by the fair value of the assets transferred (in the case at hand, the cash adjustment of 12 million euro and the fair value of the equity investments in Tangenziali Esterne Milano and Tangenziali Esterne), in addition – in cases such as that in question involving acquisitions achieved in stages – to the fair value of the interest already held.
As stated above, Intesa Sanpaolo held a 42.5% equity investment in Autostrade Lombarde prior to the acquisition date. In this regard, IFRS 3 provides that in a business combination achieved in stages the purchase price must also take account of the fair value at the acquisition date of the equity investments in the acquiree previously held by the acquirer. With regard to the purchase price of the interests in Autostrade Lombarde exchanged for the interests held by Intesa Sanpaolo in TEM and TE, reference was made to the provisions of IAS 16 on exchanges, according to which if an entity is able to reliably determine the fair value of an asset received or exchanged, the fair value of the asset exchanged is used to measure the cost of the asset received, unless the fair value of the asset received is more clearly evident. Since the asset received is represented by the interests in Autostrade Lombarde, the fair value of which has already been calculated in reference to the interests already held by Intesa Sanpaolo, the cost of the newly acquired interests was determined by reference to the fair value of the interests in Autostrade Lombarde exchanged with Gavio, plus the cash adjustment.
Therefore, for the purposes of determining the total purchase price Intesa Sanpaolo had to determine the total fair value of Autostrade Lombarde, the measurement of which depends primarily on the fair value attributed to its operating subsidiary Brebemi.

The purchase price - the measurement of Autostrade Lombarde
Within the IAS/IFRS framework, the concept of "fair value" is defined in IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, as provided for in IFRS 13, fair value is a market concept and not entity-specific. In respect of on-balance sheet assets, its purpose is to indicate the price at which a sale transaction could take place between market participants. These aspects, which identify fair value with the concept of the "exit price", are illustrated in the Standard, which clearly states that, when measuring an asset's fair value, its specific characteristics must be taken into account only if market participants would take them into account when pricing that assets.
Consequently, in measuring the fair value of Autostrade Lombarde – given the regulated sector in which the company operates and the configuration of market value – account was not taken, from a measurement standpoint, of possible synergies that might arise in the long term, and hence of a possible control premium. Rather, an attempt was made to determine the potential price of sale from a short-term perspective, applying an appropriate liquidity discount to the value calculated by discounting the cash flows deriving from the company's business plan.
Considering the foregoing, a specific appraisal was commissioned from a third-party consultant to determine the fair value of Autostrade Lombarde at the acquisition date. The valuation prepared by the third-party consultant was based on the adjusted equity method, which is founded on an estimate of the current or market values of the individual assets and liabilities of the company being valued. In the valuation of Brebemi – the main asset of Autostrade Lombarde – the unlevered discounted cash flow method was used. This method, which is based on the discounting of the operating cash flows generated by the company subject to valuation, was deemed most consistent with the company's characteristics, the environment of reference and the available information. The weighted average cost of capital (WACC) was used as the rate for the discounting process. The resulting value is known as the "Enterprise Value". The "equity value" is derived from the Enterprise Value by summing the value of any non-business-use assets held as at the valuation date (surplus assets) and subtracting the company's net financial position at that same date.
In the specific case at hand, the valuation of Brebemi was based on the financial plan prepared by the company's management. This plan stipulates, inter alia, that the term of management of the stretch of motorway is set to end when the concession expires in December 2039 and calls for a final indemnity of 1,205 million euro, corresponding to the value of the works not yet depreciated at the end of the concession. The plan also takes account of a motorway concession rebalancing mechanism at the end of the five-year regulatory period (2021), based on an update of the fair remuneration rate and the related regulatory financial plan in accordance with the criteria established in the current agreements. The discount rate used to discount the cash flows was the WACC, determined to be 8.1%. The cost of capital component of this rate reflects a premium of 150 bps by way of execution risk to reflect the possible full rebalancing of the financial plan. The net financial position was subtracted from the resulting Enterprise Value to determine the Equity Value.
As mentioned above, it was also deemed appropriate not to take account of any majority premium, but rather to apply a negotiability discount, in the light of the provisions of IFRS 13, which require that account be taken of the effect of the lack of liquidity of unquoted equity instruments measured at fair value, in contrast to equity instruments issued by comparable listed companies, which are thus more liquid. Indeed, the equity investment held by Intesa Sanpaolo in Autostrade Lombarde may

be regarded as not readily negotiable in the short term, given the limited number of market transactions involving equity investments in individual motorway concessions.
The valuation indicated a fair value of the total interest held by Intesa Sanpaolo in Autostrade Lombarde (55.8%) of 207 million euro, of which 158 million euro relating to the share already held and 49 million euro to the newly acquired share. The sum of 207 million euro thus represents the purchase price of the equity investment in Autostrade Lombarde pursuant to IFRS 3.
In combinations achieved in stages, the Standard requires that the difference between the acquisition date fair value and the consolidated carrying amount of the previously held equity investment be recognised in the acquirer's consolidated income statement. The comparison with the consolidated carrying amount of the equity investment in Autostrade Lombarde already held indicated a gain of 112 million euro, taken to the caption of the consolidated income statement "250. Profits (Losses) on investments in associates and companies subject to joint control".
As stated above, Intesa Sanpaolo recognised the new interest acquired in Autostrade Lombarde (13.3%) at its acquisition date fair value of 49 million euro. Considering the cash adjustment of 12 million euro and the carrying amount of the equity investments in Tangenziali Esterne Milano and Tangenziali Esterne to which the adjustment referred, a positive difference of approximately 9 million euro emerged, taken to the income statement caption "250. Profits (Losses) on investments in associates and companies subject to joint control".
Finally, with regard to combinations achieved in stages, IFRS 3, par. 42, governs the case in which the acquirer may have previously accounted for the equity investment in the acquiree according to the equity method and recognised changes in the value of the equity investment due to changes in the investee's valuation reserves in its own valuation reserves. In such cases, when the equity investment is reclassified from significant influence (IAS 28) to exclusive control (IFRS 10), the amount of the reserves recognised by the acquirer must be released to the income statement, similarly to the case in which the acquirer were to dispose directly of the equity investment previously recognised in other comprehensive income. In the case at hand, Intesa Sanpaolo had recognised negative cash flow hedge reserves of 85 million euro on the equity investment previously held in Autostrade Lombarde. These reserves are attributable to the negative fair value of the interest rate swaps entered into by Brebemi, controlled by Autostrade Lombarde, hedging against interest rate risk on the cash flows to be paid in the framework of project financing. In accordance with the Standard, the pro-rata amount of the cash flow hedge reserve recognised among valuation reserves was released to the consolidated income statement of Intesa Sanpaolo, generating a negative economic effect of 85 million euro taken to caption "90 – Fair value adjustments in hedge accounting", pursuant to Bank of Italy Circular 262.
Overall, considering the foregoing, the effect on the consolidated income statement of Intesa Sanpaolo of the acquisition of control of Autostrade Lombarde was a positive 36 million euro.

Fair value of assets acquired and liabilities assumed
For the purposes of preparation of the consolidated financial statements as at and for the year ended 31 December 2018, an IAS-compliant consolidated statement of financial position was prepared for Autostrade Lombarde at the acquisition date. In this regard, please note that the financial statements of Autostrade Lombarde had been prepared in accordance with the Italian GAAP issued by the Italian Accounting Standard-Setter (OIC). Accordingly, the Italian GAAP financial situation of Autostrade Lombarde at the acquisition date was subject to the following:
- the adjustment of the accounting balances determined according to Italian GAAP to reflect the provisions of IASs/IFRSs; and
- the subsequent adjustment of accounting balances in order to determine the acquisition date fair value in accordance with IFRS 3.

When preparing the IAS-compliant situation of Autostrade Lombarde, account was taken of IFRIC 12 – *Service Concession Arrangements*. Specifically, IFRIC 12 applies to service concession arrangements in which the grantor is a public sector entity and the operator is a private sector entity. In accordance with IFRIC 12, in return for the construction and/or improvement services rendered by the operator, the grantor pays the operator consideration, to be recognised at fair value, which may consist of rights to:
- a financial asset (the financial asset model); or
- an intangible asset (the intangible asset model).

The financial asset model applies when the operator has an unconditional right to receive contractually guaranteed cash flows for the construction services, regardless of the effective use of the infrastructure. By contrast, within the intangible asset model, in return for the infrastructure construction or improvement services, the operator acquires the right to charge the users for the use of the infrastructure. If the operator is paid for its infrastructure construction and improvement services in part through a financial asset and in part through an intangible asset, a mixed accounting model applies. In this scenario, the components of the arrangement must be separated into those referring to the financial asset and those relating to the intangible asset. In this case, IFRIC 12 requires that the operator first calculates the part referring to the financial asset and then, on a residual basis (in respect of the value of the construction and/or improvement services rendered) the amount of the intangible asset. For further details regarding the application of IFRIC 12, see the paragraph "Service concession arrangements" of Part A.2 – Main financial statement captions of these Notes.
A mixed accounting model applies to the Brebemi concession. Accordingly, the payment to be made upon expiry of the concession (final indemnity in January 2040) of 1,205 million euro was discounted at 31 December 2018 at the 20-year BTP rate at year-end, considering that the grantor is a public entity, in order to determine the fair value of the financial asset. The amount to be recognised among intangible assets was then determined on a residual basis in respect of the final indemnity. The financial asset was determined to be 606 million euro, whereas the value of the intangible asset, calculated on a residual basis in respect of the final indemnity, was 599 million euro.
The application of IFRIC 12 did not entail changes in the values of the company's assets and liabilities, but simply a reclassification of the final concession indemnity, which for Italian GAAP purposes was fully recognised among property and equipment, to financial assets and intangible assets.
Conversely, an analysis of the IAS/IFRS-compliant statement of financial position of Autostrade Lombarde at 31 December 2018 identified the following elements in terms of the difference between the carrying amount and fair value.

The fair value of the project financing
Within the framework of the project to design and build the A35 motorway, Brebemi contracted long-term project financing from a pool of banks (including Intesa Sanpaolo) and Cassa Depositi e Prestiti. Sace S.p.A. is acting as guarantor in the transaction. At 31 December 2018, the IAS/IFRS-compliant carrying amount of the project financing was 1,532 million euro.
The fair value of the project financing was calculated in accordance with the Group's Fair Value policy, i.e. by discounting future cash flows at a rate representing the current level of market rates and the counterparty's creditworthiness.
The measurement identified a fair value lower than the book value of the loan carried as a liability by Brebemi by a total of 183 million euro.
The valuation of the loan at below par is related to the credit spread used to discount the cash flows, determined on the basis of comparable market data. In particular, reference was made to loans exchanged on the market, the valuation of which is available from specialised info providers, presenting similar characteristics in terms of sector, rating and geographical area to the loan granted to Brebemi. Since the loan is floating-rate (based on the six-month Euribor), the current level of market rates did not affect the measurement.

The fair value of the shareholders' loans
The shareholders' loans granted to third parties at the level of the Autostrade Lombarde Group, including those granted by Brebemi, were measured at fair value, resulting in an IAS/IFRS-compliant book value of 116 million euro at 31 December 2018. The fair value of the shareholders' loans was measured based on the information provided in the appraisal drafted by the third-party consultant within the framework of the overall valuation of Autostrade Lombarde. The analyses indicated a fair value exceeding the book value of the shareholders' loans carried as liabilities by the Autostrade Lombarde Group by a total of 15 million euro.

As required by IAS 12, deferred tax liabilities or assets, depending on the sign, were recognised on the resulting differences between the fair values of the liabilities mentioned above and their values for tax purposes, which did not change following the transaction.

Calculation of goodwill
In accordance with IFRS 3, the purchase price was compared with the net value of the assets acquired and liabilities assumed, expressed at fair value, to determine the difference, if any, to be allocated to goodwill or specific intangibles. The following table presents a summary of the purchase price allocation of Autostrade Lombarde:

(millions of euro)

Purchase price	**207**
IAS/IFRS-compliant shareholders' equity acquired (55.8%)	**47**
Difference to be allocated	**160**
Fair value differences of the assets acquired and liabilities assumed	
Project financing	183
Shareholders' loans	-15
Tax effect	-36
Total net gain on assets acquired and liabilities assumed	**132**
Minority interest share of the fair value differences (1)	-79
Total net gain for the acquired interest	**53**
Goodwill recognised	**107**

(1) For the purposes of determining goodwill, the fair value differences were considered in respect of the interest acquired in Autostrade Lombarde (55.8%), given that Autostrade Lombarde holds a 79% interest in Brebemi.

Based on the information presented above, the difference between the purchase price and the pro-rata shareholders' equity at fair value was found to be 107 million euro. This difference was provisionally allocated to goodwill. In this regard, it bears recalling that IFRS 3 grants the acquirer a period of 12 months for definitive completion of the PPA process.
Considering the provisions of in IAS 36 according to which a CGU must represent "… *the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets*" and that Autostrade Lombarde operates in a sector extraneous to the Intesa Sanpaolo Group's operations, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Articles 2497 *et seq.* of the Italian Civil Code, Autostrade Lombarde was identified as a separate CGU in the Intesa Sanpaolo Group, to which the aforementioned goodwill was allocated.

Based on the effects arising from the fair value measurement of the identifiable assets and liabilities, the balance sheet of Autostrade Lombarde is provided below, as accounted for at the acquisition date by Intesa Sanpaolo. In detail, the balance sheet shows figures as at the acquisition date based on the IAS/IFRS-compliant carrying values derived from Autostrade Lombarde and the fair values initially recognised in the consolidated financial statements of the Intesa Sanpaolo Group.

(millions of euro)

Assets		Book value in accordance with the IAS/IFRS	Fair value
10.	Cash and cash equivalents	1	1
20.	Financial assets measured at fair value through profit or loss	-	-
	a) financial assets held for trading	-	-
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	-	-
30.	Financial assets measured at fair value through other comprehensive income	25	25
35.	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-
40.	Financial assets measured at amortised cost	770	770
	a) due from banks	*117*	*117*
	b) loans to customers	*653*	*653*
50.	Hedging derivatives	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	-	-
70.	Investments in associates and companies subject to joint control	-	-
80.	Technical insurance reserves reassured with third parties	-	-
90.	Property and equipment	4	4
100.	Intangible assets	975	1,082
	Of which:		
	- goodwill	-	*107*
110.	Tax assets	193	197
	a) current	-	-
	b) deferred	*193*	*197*
120.	Non-current assets held for sale and discontinued operations	-	-
130.	Other assets	251	251
Total assets		**2,219**	**2,330**

(millions of euro)

Liabilities		**Book value in accordance with the IAS/IFRS**	**Fair value**
10.	Financial liabilities measured at amortised cost	1,662	1,494
	a) due to banks	*1,616*	*1,448*
	b) due to customers	*46*	*46*
	c) securities issued	-	-
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities designated at fair value	-	-
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-
40.	Hedging derivatives	331	331
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	-	-
60.	Tax liabilities	24	75
	a) current	-	-
	b) deferred	*24*	*75*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	Other liabilities	157	157
90.	Employee termination indemnities	1	1
100.	Allowances for risks and charges	-	-
	a) commitments and guarantees given	-	-
	b) post-employment benefits	-	-
	c) other allowances for risks and charges	-	-
110.	Technical reserves	-	-
120.	Valuation reserves	-	-
130.	Redeemable shares	-	-
140.	Equity instruments	-	-
150.	Reserves	-387	-264
160.	Share premium reserve	3	3
170.	Share capital	468	468
180.	Treasury shares (-)	-	-
190.	Minority interests (+/-)	-40	65
200.	Net income (loss) (+/-)	-	-
Total liabilities and shareholders' equity		**2,219**	**2,330**

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

2.1 Business combinations

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2018.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

Part H – Information on compensation and transactions with related parties

A) TRANSACTIONS WITH RELATED PARTIES

1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.
These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:
- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.
The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:
- the counterparty holds a stake in Intesa Sanpaolo’s capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank’s financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full or partial exemptions from the application of the regulations is also envisaged.
With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower than or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.
In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2018 within the consolidated accounts – other than those fully consolidated intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

	31.12.2018	
	Amount (millions of euro)	Impact (%)
Total financial assets (1)	7,733	1.1
Total other assets (2)	97	0.7
Total financial liabilities (3)	6,750	1.1
Total other liabilities (4)	536	0.5

(1) Includes captions 20, 30, 35, 40 ,45 and 70 of balance sheet assets

(2) Includes captions 50, 60, 120 and 130 of balance sheet assets

(3) Includes captions 10, 15, 20, 30 and 35 of balance sheet liabilities

(4) Includes captions 40, 50, 70, 80, 90, 100 and 110 of balance sheet liabilities

	31.12.2018	
	Amount (millions of euro)	Impact (%)
Total interest income	61	0.6
Total interest expense	19	0.6
Total fee and commission income	13	0.1
Total fee and commission expense	13	0.6
Total operating costs (1)	94	0.9

(1) Includes caption 180 of the income statement

In relation to associates and companies subject to joint control, in the year a total of around 22 million euro of net adjustments to loans were recorded.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.

The table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.

For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 216 million euro.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis	Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
Financial assets measured at fair value through profit or loss	3	1	153	-	-	157	1	2,231
a) financial assets held for trading	-	*1*	*5*	-	-	*6*	*1*	*2,189*
b) financial assets designated at fair value	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	*3*	-	*148*	-	-	*151*	-	*42*
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	20	45
Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	-	-	3	-	-	3	1	238
Financial assets measured at amortised cost	1	52	359	8	-	420	24	3,650
a) due from banks	-	-	-	-	-	-	-	2,213
b) loans to customers	1	52	359	8	-	420	24	1,437
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Other assets	5	-	4	-	2	11	-	86
Investments in associates and companies subject to joint control	33	54	856	-	-	943	-	-
Financial liabilities measured at amortised cost	130	1	668	15	222	1,036	364	1,465
a) due to banks	70	-	2	-	-	72	-	1,301
b) due to customers	60	1	666	15	222	964	364	164
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	-	-	-	-	-	-	-	-
Financial liabilities held for trading	-	-	-	-	-	-	-	3,885
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	-	-	-	-	-	-	-	-
Other financial liabilities	3	-	12	7	501	523	2	11
Guarantees and committments given	-	21	11	-	-	32	-	203
Guarantees and committments received	-	85	187	19	-	291	1	492
Total	**175**	**214**	**2,253**	**49**	**725**	**3,416**	**413**	**12,306**

(*) Shareholders and their groups that hold a stake in the share capital that exceeds the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies, calculated considering only shares owned or under management (currently 3%), as well as entities jointly controlled by them.

(**) Companies that meet the conditions of at least two of these indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group to the counterparty. The amounts mostly refer to JPMorgan Chase & Co., in relation to the aggregate investment equal to 6.952%, of which 1.941% with voting rights, recorded with form 120 B updated at 26 November 2018 and recalculated in 6.951%, of which 1.940% with voting rights, as a consequence of the change in share capital taking place on 26 November 2018 following the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. had submitted the original report on 16 July 2018 (with form 120 B) following the positions held against the issue of "LECOIP 2.0 Certificate on Intesa Sanpaolo ordinary shares" received by the employees of the Intesa Sanpaolo Group as part of the LECOIP 2.0 2018-2021 Long-Term Incentive Plan based on financial instruments.

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – included in the category of related parties in accordance with the version of IAS 24 in effect are: Intrum Italy S.p.A., Penghua Fund Management Co. Ltd, Equiter S.p.A., AM InvestCO Italy S.p.A., CAF S.p.A. Cassa di Risparmio di Fermo S.p.A., Autostrada Pedemontana Lombarda S.p.A., IDeAMI S.p.A., Consorzio Bancario Sir S.p.A. in liquidation and Rainbow. The main jointly controlled companies (joint ventures) include the following: Mir Capital Sca Sicar, PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management and VUB Generali Dochodkova Spravcovska Spolocnost A.S..

3. Information on transactions with related parties

Most significant transactions

During the year, the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.
Please note the that most significant transactions in the period are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.4 billion euro) or of the other indicators defined by the Consob regulation.
The transactions exempt from said obligation include the multi-originator securitisation transaction to expand the portfolio of retained securities of Intesa Sanpaolo S.p.A. eligible for Eurosystem refinancing operations.
The transaction, which in addition to the Parent Company involved various banks of the Group including Banca CR Firenze S.p.A. and Cassa di Risparmio in Bologna S.p.A., and whose total value amounts to about 5.7 billion euro, was created via the sale to the vehicle company Brera Sec S.r.l. of loans disbursed to small and medium companies.

Most significant intragroup transactions

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – the sales of mortgage portfolios to the vehicle companies ISP OBG S.r.l. and ISP CB Ipotecario S.r.l. took place during the period, for an amount of about 4.2 and 2.5 billion euro respectively.

Other significant transactions

Transactions entered into with related parties fall within the scope of the Group's ordinary activities and are usually entered into at market conditions, in any case based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.
The main less significant transactions concluded during the year by the Parent Company or subsidiaries with related parties are reported below.
Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level.
Relations between the Intesa Sanpaolo Group, board members and general managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.

With respect to transactions with Shareholders with equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (to which the provisions governing transactions with related parties were extended as a form of self-regulation, subjecting them to the same assessment, approval and disclosure procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken, settled at market conditions.
Finally, ordinary transactions in OTC financial instruments were also carried out by Banca IMI S.p.A. with Blackrock Fund Managers Ltd., Quaestio Capital SGR S.p.A and with JP Morgan Securities PLC.
In relation to Significant Shareholders with significant equity and financial ties to the Group, stakes in the capital of the Bank of Italy were sold to Fondazione Cassa Risparmio di Padova e Rovigo (1,200 stakes for a total of 30 million euro) and to Fondazione Cassa di Risparmio in Bologna (750 stakes for a total of approximately 19 million euro). The stakes were sold at a price equalling the related nominal value, in line with the conditions applied for sales to unrelated counterparties.

The Parent Company signed a shareholders' agreement with various shareholders of the company F2i Fondi Italiani per le Infrastrutture SGR S.p.a. including Compagnia di San Paolo, Fondazione Cariplo and Fondazione Cassa di Risparmio di Padova e Rovigo in order to govern the composition of the corporate bodies of the asset management company.

With regard to the Group's most significant relationships with entities under joint control and associates and their subsidiaries, during the period loans and renewals were granted to: Alitalia Società Aerea Italiana S.p.A. in extraordinary administration, Italconsult S.p.A., Immobiliare Novoli S.p.A., Arborea Società Agricola S.r.l., Sandonato S.r.l., Flabrum S.r.l., and other minor companies. These transactions were carried out at rates aligned to market rates or in any case correct and favourable for the Group. Transactions in OTC financial instruments were also carried out by Banca IMI S.p.A. with Cassa di Risparmio di Fermo.

Again referring to the transactions with entities under joint control and associates and their subsidiaries, the early settlement of various securitisation transactions originally attributable to the two former Venetian banks (Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A.) should be noted.
In particular, the Group repurchased the respective loan portfolio from the following vehicle companies:

- Berica ABS S.r.l., for a total value of 627 million euro;
- Berica 9 Residential MBS S.r.l., for a total value of 422 million euro;
- Berica 10 Residential MBS S.r.l., for a total value of 410 million euro;
- Berica ABS 2 S.r.l., for a total value of 404 million euro;
- Berica 8 Residential MBS S.r.l., for a total value of 355 million euro;
- Berica 6 Residential MBS S.r.l., for a total value of 278 million euro;
- Berica 5 Residential MBS S.r.l., for a total value of 119 million euro;
- Apulia Finance n. 4 S.r.l. 3rd issue, for a total value of 109 million euro;
- Apulia Mortgages n. 3 S.r.l., for a total value of 30 million euro;
- Apulia Finance n. 2 S.r.l., for a total value of 13 million euro.

Finally, transactions conducted with Pension funds for employees of Intesa Sanpaolo and other Group Companies included transactions in OTC financial instruments by Banca IMI S.p.A. with Cariplo Pension Fund.

Other significant information

With regard to investments carried at equity, adjustments were posted deriving from Mir Capital Sca Sicar, Cassa di Risparmio di Fermo S.p.A. and Rainbow.

For Pension Funds in which Group companies are co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the financial statements – Part B – Information on the consolidated Balance Sheet – Liabilities, Post employment defined benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

The following table shows the amounts of the compensation paid in 2018 to the members of the Management and Control Bodies and the General Managers of the subsidiary companies, as well as the compensation paid to other Key Managers of the Parent Company who fall within the notion of "related party". This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

	MANAGEMENT BODIES/ CONTROL BODIES[1]		OTHER MANAGERS [2]		TOTAL as at 31.12.2018	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits [3]	23	19	46	39	69	58
Post-employement benefits [4]	-	-	5	3	5	3
Other long-term benefits [5]	-	-	9	1	9	1
Termination benefits [6]	-	-	4	-	4	-
Share-based payments [7]	-	-	17	1	17	1
Total	**23**	**19**	**81**	**44**	**104**	**63**

(1) Figures referring to 471 positions. The table does not include approximately 2 million euro relating to 86 positions in the Boards of Directors (or similar bodies), as this was fully transferred to other Group Companies

(2) Figures referring to 81 positions. The table does not include approximately 5 million euro relating to 14 General Manager positions (or similar positions), as this was fully transferred to other Group Companies

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations

(5) Includes an estimate of provisions for employee seniority bonuses

(6) Includes benefits due under the employment contract for termination of employment

(7) The cost refers to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through LECOIPs

Detailed information on the remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the "Report on Remuneration", which includes:

- a detailed indication of the compensation paid to the members of the management and control bodies and General Managers and, in aggregate, the Key Managers, as well as the stock option plans reserved for Board Members, General Managers and Key Managers;
- the details and the evolution of the stock option plans relative to Key Managers;
- Parent Company's and subsidiary companies' shares held by the members of the management and control bodies, General Managers, Key Managers and other associated entities.

Part I – Share-based payments

A. QUALITATIVE INFORMATION

Description of share-based payments

Incentive Plan based on financial instruments

The Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, inter alia, that a portion of incentives paid to "Risk Takers" be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 9 October 2015 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro.
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.

The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive system. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the "malus condition" – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group's resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.

There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the "challenge to create value" represented by the Business Plan (LECOIP).

The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
   - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
   - invest them in Co-Investment Plans through long-term financial instruments, the "LECOIP Certificates", with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.
As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.
The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:

- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares ("protected capital") and
- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Subscription to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.

The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Management Board's mandate to:

- increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
- increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.

The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period ended in April 2018.

In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as "equity settled" plans, since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead, the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.
Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 150a "Administrative expenses: personnel expenses", as a balancing entry for an increase in a specific shareholders' equity reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).
For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment in December 2014, as the shares are not subject to accrual conditions (vesting period).
For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.

The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), were recognised during the period of accrual of the benefit and throughout the duration of the Plan.

Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0

At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:

- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.
The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).

The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).

Furthermore, in June the Group signed a novation agreement (*accollo liberatorio*) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transfers to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby takes on all the volatility risks associated with the Plan.

Instead with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.

The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:

- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment (“Free Shares”);
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment (“Matching Shares”) and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price (“Discounted Shares”).

The Certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.

The POP and the LECOIP 2.0 were subject to the approval of the ordinary Shareholders’ Meeting of 27 April 2018.

With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders’ Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.

Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a cash entry. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry under shareholders’ equity.

With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders’ equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset (the “transferred receivable” representing the Certificates) as a balancing entry in Shareholders' Equity. In particular, the Certificates entered in the Group’s financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value.

B. QUANTITATIVE INFORMATION

Incentive plans based on financial instruments in 2018

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2017	18,413,887	-	January 2018 / May 2022
Financial instruments granted during the year	9,923,320	-	May 2020 / May 2023
Financial instruments no longer assignable (a)	224,645	-	
Financial instruments vested during the year and assigned	7,434,211	-	
Financial instruments outstanding as at 31 December 2018	20,678,351	-	May 2019 / May 2023
of which: vested and assigned as at 31 December 2018	-	-	-

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

In addition to the shares specified above, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration Policies of the Group, during 2018, 1,256,106 shares were assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance).

Breakdown by residual life

Residual life	Number of shares
May - November 2019	7,275,487
May - November 2020	8,547,505
May - November 2021	2,663,097
May - November 2022	1,587,033
May 2023	605,229

Long-term share-based instruments: LECOIP

The economic effects for 2018 connected to the LECOIP Plans amount to about 37.1 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).

This being an equity settled plan, payables for cash settled payments are not recorded.
The following table summarises the changes in the LECOIP Plan from the date of acceptance (December 2014) until 31 December 2018.

	LECOIP PLAN												
	Free Shares at December 2014		**Matching Shares at December 2014**		**Discounted Shares at December 2014**		**Sell to cover shares at December 2014 (a)**		**Total number of shares assigned at December 2014**	**Number of LECOIP Certificates 31.12.2017**	Changes in the year (c)	**Number of LECOIP Certificates 31.12.2018**	Average fair value 31.12.2018
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	22,646,388	2.3442	42,332,754	2.3310	259,916,568	0.3736	46,201,721	2.4007	371,097,431	61,853,144	-256,132	-	-

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan.

Long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		**Matching Shares at July 2018**		**Discounted Shares at July 2018**		**Sell to cover shares at July 2018 (a)**		**Total number of shares assigned at July 2018**	**Number of LECOIP Certificates at July 2018 (c)**	Changes in the year (d)	**Number of LECOIP Certificates at 31.12.2018**	**Average fair value 31.12.2018**
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	22,644,267	2.4750	44,952,192	2.4750	473,175,213	0.3771	90,465,596	2.5416	631,237,268	67,596,459	-931,114	66,665,345	2.4699

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates subscribed on 11 July 2018 by Group employees who adhered to the LECOIP 2.0

(d) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

	Performance-based Option Plan (POP)				
	POP options AL July 2018 (a)		**Changes in the year (b)**	**POP options at 31 December 2018**	
	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value
Total Risk Takers	517,066,285	0.3098	-	517,066,285	0.0372

(a) Number of POP options and relevant average fair value assigned on 11 July 2018 to beneficiaries (Top Management, Risk Takers and Key Managers)

(b) Number of POP options for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees due to failure to comply with the condition of continuation of employment and other vesting conditions.

Part L – Segment reporting

Breakdown by business area: 2018 income statement figures[a]

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total
Net interest income	4,636	1,645	1,324	159	1	-	-489	7,276
Net fee and commission income	4,551	898	524	1,696	701	-	-483	7,887
Income from insurance business	1	-	-	-	-	1,119	-36	1,084
Profits (Losses) on financial assets and liabilities designated at fair value	75	1,190	171	14	-10	-	169	1,609
Other operating income (expenses)	43	15	-77	9	25	-13	17	19
Operating income	**9,306**	**3,748**	**1,942**	**1,878**	**717**	**1,106**	**-822**	**17,875**
Personnel expenses	-3,310	-426	-531	-349	-70	-84	-1,073	-5,843
Other administrative expenses	-2,045	-626	-362	-237	-80	-98	664	-2,784
Adjustments to property, equipment and intangible assets	-6	-8	-82	-11	-1	-5	-730	-843
Operating costs	**-5,361**	**-1,060**	**-975**	**-597**	**-151**	**-187**	**-1,139**	**-9,470**
Operating margin	**3,945**	**2,688**	**967**	**1,281**	**566**	**919**	**-1,961**	**8,405**
Net adjustments to loans	-1,412	-139	-117	5	-	-	-731	-2,394
Other net provisions and net impairment losses on other assets	-71	-7	-41	-13	2	-5	-52	-187
Other income (expenses)	-	1	10	11	-	-	502	524
Income (Loss) from discontinued operations	-	-	-	-	-	-	-	-
Gross income (loss)	**2,462**	**2,543**	**819**	**1,284**	**568**	**914**	**-2,242**	**6,348**
Taxes on income	-899	-737	-138	-404	-103	-245	867	-1,659
Charges (net of tax) for integration and exit incentives	-14	-8	-35	-30	-	-5	-28	-120
Effect of purchase price allocation (net of tax)	-2	-	-	-1	-	-16	-138	-157
Levies and other charges concerning the banking industry (net of tax)	-	-	-	-	-	-	-340	-340
Impairment (net of tax) of goodwill and other intangible assets	-	-	-2	-	-	-	2	-
Minority interests	-	-	4	-	-10	-	-16	-22
Net income (loss)	**1,547**	**1,798**	**648**	**849**	**455**	**648**	**-1,895**	**4,050**

In application of the new financial reporting standard IFRS 15, in particular paragraphs 114 and 115, which require to disclose the disaggregation of revenues recognised from contracts with customers, the breakdown of fee and commission income and expense by business area is provided below.

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total
Fee and commission income	4,825	1,295	695	2,461	2,058	-	-1,332	10,002
Fee and commission expense	-274	-397	-171	-765	-1,357	-	849	-2,115

Breakdown by business area: balance sheet figures as at 31 December 2018[(a)]

(millions of euro)

	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance	Corporate Centre (b)	Total
Loans to customers	212,278	110,742	31,538	9,530	228	-	29,234	393,550
Direct deposits from banking business	191,588	102,449	39,384	32,103	6	-	49,552	415,082

(a) Figures from the reclassified forms as described in the Report on operations.

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

Breakdown by geographical area: 2018 income statement figures[(a)]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Net interest income	5,478	1,272	526	7,276
Net fee and commission income	6,384	1,363	140	7,887
Income from insurance business	923	161	-	1,084
Profits (Losses) on financial assets and liabilities designated at fair value	1,466	137	6	1,609
Other operating income (expenses)	15	-28	32	19
Operating income	**14,266**	**2,905**	**704**	**17,875**
Personnel expenses	-5,114	-603	-126	-5,843
Other administrative expenses	-2,243	-459	-82	-2,784
Adjustments to property, equipment and intangible assets	-745	-89	-9	-843
Operating costs	**-8,102**	**-1,151**	**-217**	**-9,470**
Operating margin	**6,164**	**1,754**	**487**	**8,405**
Net adjustments to loans	-2,299	-111	16	-2,394
Other net provisions and net impairment losses on other assets	-140	-38	-9	-187
Other income (expenses)	471	54	-1	524
Income (Loss) from discontinued operations	-	-	-	-
Gross income (loss)	**4,196**	**1,659**	**493**	**6,348**
Taxes on income	-1,240	-343	-76	-1,659
Charges (net of tax) for integration and exit incentives	-92	-23	-5	-120
Effect of purchase price allocation (net of tax)	-155	-2	-	-157
Levies and other charges concerning the banking industry (net of tax)	-307	-33	-	-340
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Minority interests	23	-20	-25	-22
Net income (loss)	**2,425**	**1,238**	**387**	**4,050**

Foreign branches are reported in the geographical breakdown with reference to their country of establishment . As far as income taxes are concerned, since Intesa Sanpaolo did not opt for the exemption of profits and losses of its foreign branches (i.e. Branch exemption), these branches' income is also taxed in Italy.

In application of the new financial reporting standard IFRS 15, in particular paragraphs 114 and 115, which require to disclose the disaggregation of revenues recognised from contracts with customers, the breakdown of fee and commission income and expense by geographical area is provided below.

(millions of euro)

	Italy	Europe	Rest of the world	Total
Fee and commission income	9,982	2,285	166	12,433
Fee and commission expense	-3,598	-922	-26	-4,546

Breakdown by geographical area: balance sheet figures as at 31 December 2018[(a)]

(millions of euro)

	Italy	Europe	Rest of the world	Total
Loans to customers	327,336	51,214	15,000	393,550
Direct deposits from banking business	350,585	55,681	8,816	415,082

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

(a) Figures from the reclassified forms, as described in the Report on operations.

Certification of the consolidated financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements during 2018.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2018 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems[23].

3. The undersigned also certify that:

   3.1 The Consolidated financial statements as at 31 December 2018:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
   - correspond to the results of the books and accounts;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.

   3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer and the companies included in the consolidation, together with a description of the main risks and uncertainties that they face.

26 February 2019

Carlo Messina
Managing Director and CEO

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

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

Independent Auditors' Report on the Consolidated financial statements

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Intesa Sanpaolo S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Intesa Sanpaolo Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Intesa Sanpaolo Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Intesa Sanpaolo S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Transition to IFRS 9

Notes to the consolidated financial statements "Part A - Accounting policies": "A.1 – General criteria"

Key audit matter	**Audit procedures addressing the key audit matter**
The new IFRS 9 "Financial instruments", whose application became mandatory in 2018, modified the classification, measurement, impairment and hedge accounting rules for financial instruments compared to those provided for by IAS 39, which was applicable up to 31 December 2017. As a first-time adopter of the new standard, the group restated its opening balances at 1 January 2018. Specifically, the group: — reclassified its financial assets into the new captions "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" and its financial liabilities to the new caption "Financial liabilities at amortised cost"; — restated its financial assets and liabilities in accordance with the measurement requirements of IFRS 9; — retested its financial assets for impairment, in particular loans and receivables with customers, using the rules of the new standard; — recognised the post-tax FTA effects under equity reserves;	Our audit procedures included: — gaining an understanding of the parent's and group companies' IFRS 9 transition processes and related IT environments in relation to the classification, measurement and impairment of financial instruments; — checking, on a sample basis, that financial assets and liabilities had been correctly classified, by considering the parent's and group companies' transition procedures, obtaining evidence of the analyses carried out and assessing the consistency of the analyses carried out with the results obtained; — sample-based analysis of the application of the measurement model (amortised cost or fair value) to financial assets and liabilities according to the classification adopted by the parent and group companies; — assessing the consistency of the parent's and group companies' staging rules for financial assets with the requirements of the new standard and checking, on a sample basis, that such rules had been applied correctly;

Key audit matter	Audit procedures addressing the key audit matter
— elected to use the practical expedients provided for by IFRS 9 and continued to recognise i) hedging transactions and ii) the financial assets and liabilities of its insurance companies using the rules of IAS 39; — disclosed the main changes introduced by the new standard, the transition process it followed, its key elections and the effects of FTA of IFRS 9. The application of the new standard led to a reduction of €2,937 million in equity at 1 January 2018, net of the related tax. It also required significant changes to the group's processes, organisation and measurement of financial assets, which accounted for 74.2% of the group's total assets at 1 January 2018. The IFRS 9 transition process required extremely complex estimates and factors of a subjective and uncertain nature. For the above reasons, we believe that the transition to IFRS 9 “Financial instruments” is a key audit matter.	— analysing the main estimates and methods underlying the new impairment models, including checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures on transition to the new standard in the consolidated financial statements.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the consolidated financial statements “Part A - Accounting policies”: paragraph A.2.3 “Financial assets measured at amortised cost”

Notes to the consolidated financial statements “Part B - Information on the consolidated balance sheet - Assets”: Section 4 “Financial assets measured at amortised cost”

Notes to the consolidated financial statements “Part C - Information on the consolidated income statement”: Section 8.1 “Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown”

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": Section 1.1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets at amortised cost, totalled €407,196 million at 31 December 2018, accounting for 51.7% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €2,503 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the parent's and group companies' customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	Our audit procedures included: — gaining understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and

Key audit matter	Audit procedures addressing the key audit matter
	discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures on loans and receivables with customers recognised under financial assets at amortised cost in the consolidated financial statements.

Classification and measurement of financial assets and liabilities at fair value

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 2 "Financial assets measured at fair value through profit or loss", Section 3 "Financial assets measured at fair value through other comprehensive income", Section 3-bis "Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39", Section 5 "Hedging derivatives"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 3-bis "Financial liabilities pertaining to insurance companies designated at fair value pursuant to IAS 39", Section 4 "Hedging derivatives"

Notes to the consolidated financial statements "Part C - Information on the consolidated income statement": Section 4 "Profits (losses) on trading", Section 5 " Fair value adjustments in hedge accounting", Section 7 "Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss", Section 7-bis "Profits (losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39"

Notes to the consolidated financial statements "Part E - Information on risks and relative hedging policies": paragraph 1.2 "Market risks", paragraph 1.3 "Derivatives and hedging policies", paragraph 3.2 "Financial risks"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the parent's and group companies' core activities. The consolidated financial statements at 31 December 2018 include financial assets and financial	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the trading, classification and measurement of financial instruments;

Key audit matter	Audit procedures addressing the key audit matter
liabilities at fair value totalling €255,123 million and €116,920 million, respectively. A portion thereof, equal to roughly €45,154 million and €101,989 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	— assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3. We carried out these procedures with the assistance of experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure with the assistance of experts of the KPMG network — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the consolidated financial statements.

Measurement of intangible assets with an indefinite useful life

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.7 "Intangible assets"

Notes to the consolidated financial statements "Part B - Information on the consolidated balance sheet - Assets": Section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Information on the income statement": Section 15 "Net adjustments to/recoveries on intangible assets", Section 19 "Goodwill impairment"

Key audit matter	Audit procedures addressing the key audit matter
As a result of a number of business combinations carried out in previous years, the group recognised intangible assets with an indefinite useful life, amounting to €6,045 million at the reporting date and comprising	Our audit procedures included: — gaining an understanding of the process adopted to prepare the impairment tests approved by the parent's directors;

Key audit matter	Audit procedures addressing the key audit matter
goodwill of €4,163 million and trademarks of €1,882 million. As disclosed in the notes to the consolidated financial statements, in accordance with IFRS 3, the parent's directors allocated the intangible assets with an indefinite useful life to certain cash-generating units ("CGU") they had identified. As in the past, the directors tested the reporting-date carrying amounts for impairment in order to identify any impairment loss on the CGU to which the intangible assets with an indefinite useful life have been allocated compared to their recoverable amount. The directors calculated the recoverable amount on the basis of the value in use by discounting the expected future cash flows. Impairment testing requires complex valuations and a high level of judgement, especially in relation to: — the expected cash flows, calculated by taking into account historical cash flows, the general economic performance and that of group's sector and the directors' forecasts about the group's future performance; — the financial parameters to be used to discount the cash flows. For the above reasons, we believe that the measurement of intangible assets with an indefinite useful life is a key audit matter.	— gaining an understanding of the process used to draft the group's business plan approved by the parent's directors; — checking any discrepancies between the previous year historical and business plan figures, in order to check the accuracy of the forecasting process; — analysing the criteria used to identify the CGU and tracing the carrying amounts of the assets and liabilities allocated thereto to the consolidated financial statements; — analysing the key assumptions used by the directors to determine the CGU's value in use. Our analyses included checking that the method applied was consistent with that applied in the previous years and comparing the key assumptions used to external information, where available; we carried out these procedures with the assistance of experts of the KPMG network; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures about intangible assets with an indefinite useful life and the related impairment test in the consolidated financial statements.

Responsibilities of the parent's directors and management control committee for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no.136/15, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 10 May 2011, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254 of 30 December 2016

The directors of Intesa Sanpaolo S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016.

We have checked that the directors had approved such non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254 of 30 December 2016, we attested the compliance of the non-financial statement separately.

Milan, 20 March 2019

KPMG S.p.A.

(signed on the original)

Mario Corti
Director of Audit

Attachments to the consolidated Financial Statement

Reconciliation between published consolidated financial statements and consolidated financial statements according to the new Circular 262

Reconciliation between published consolidated balance sheet as at 31 December 2017 and consolidated balance sheet as at 31 December 2017 according to the new Circular 262

Reconciliation between published consolidated income statement for 2017 and consolidated income statement for 2017 according to the new Circular 262

Reconciliation between consolidated balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between IFRS 9 consolidated financial statements and restated consolidated financial statements

Reconciliation between consolidated balance sheet as at 1 January 2018 (IFRS 9) and restated consolidated balance sheet as at 1 January 2018

Reconciliation between consolidated income statement for 2017 (IFRS 9) and restated consolidated income statement for 2017

Reconciliation between consolidated income statement for 2018 and restated consolidated income statement for 2018

Restated consolidated financial statements

Restated consolidated balance sheet

Restated consolidated income statement

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

Reconciliation between published consolidated financial statements and consolidated financial statements according to the new Circular 262

Reconciliation between published consolidated balance sheet as at 31 December 2017 and consolidated balance sheet as at 31 December 2017 according to the new Circular 262

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit and loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Investments in associates and companies subject to joint control	110. Technical insurance reserves reassured with third parties	120. Property and equipment	130. Intangible assets	140. Tax assets	150. Non-current assets held for sale and discontinued operations	160. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	9,353																**9,353**
20.	Financial assets measured at fair value through profit or loss		39,028	554														**39,582**
	a) financial assets held for trading		*39,028*															***39,028***
	b) financial assets designated at fair value			*554*														***554***
	c) other financial assets mandatorily measured at fair																	**-**
30.	Financial assets measured at fair value through other comprehensive income				64,968													**64,968**
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39		490	74,715	77,373				4									**152,582**
40.	Financial assets measured at amortised cost					1,174	72,057	410,728										**483,959**
	a) due from banks						*72,057*											***72,057***
	b) loans to customers					*1,174*		*410,728*										***411,902***
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39						405	18										**423**
50.	Hedging derivatives								4,213									**4,213**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-204								**-204**
70.	Investments in associates and companies subject to joint control										678							**678**
80.	Technical insurance reserves reassured with third parties											16						**16**
90.	Property and equipment												6,678					**6,678**
100.	Intangible assets													7,741				**7,741**
	of which:goodwill													*4,056*				***4,056***
110.	Tax assets														16,887			**16,887**
	a) current														*3,688*			***3,688***
	b) deferred														*13,199*			***13,199***
120.	Non-current assets held for sale and discontinued operations															627		**627**
130.	Other assets																9,358	**9,358**
TOTAL ASSETS		**9,353**	**39,518**	**75,269**	**142,341**	**1,174**	**72,462**	**410,746**	**4,217**	**-204**	**678**	**16**	**6,678**	**7,741**	**16,887**	**627**	**9,358**	**796,861**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	130. Technical reserves	TOTAL
10.	Financial liabilities measured at amortised cost	99,989	323,386	92,985											**516,360**
	a) due to banks	*99,989*													***99,989***
	b) due to customers		*323,386*												***323,386***
	c) securities issued			*92,985*											***92,985***
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1	57	1,254											**1,312**
20.	Financial liabilities held for trading				41,218										**41,218**
30.	Financial liabilities designated at fair value					3									**3**
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39				67	68,166									**68,233**
40.	Hedging derivatives						7,489								**7,489**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							478							**478**
60.	Tax liabilities								2,509						**2,509**
	a) current								*364*						***364***
	b) deferred								*2,145*						***2,145***
70.	Liabilities associated with non-current assets held for sale and discontinued operations									264					**264**
80.	Other liabilities										12,247				**12,247**
90.	Employee termination indemnities											1,410			**1,410**
100.	Allowances for risks and charges										327		5,481		**5,808**
	a) commitments and guarantees given										*327*		-		***327***
	b) post-employment benefits												*1,104*		***1,104***
	c) other allowances for risks and charges												*4,377*		***4,377***
110.	Technical reserves													82,926	**82,926**
TOTAL		**99,990**	**323,443**	**94,239**	**41,285**	**68,169**	**7,489**	**478**	**2,509**	**264**	**12,574**	**1,410**	**5,481**	**82,926**	**740,257**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		140. Valuation reserves	150. Redeemable shares	160. Equity instruments	170. Reserves	180. Share premium reserve	190. Share capital	200. Treasury shares (-)	210. Minority interests (+/-)	220. Net income (loss)	TOTAL
120.	Valuation reserves	-1,206									**-1,206**
125.	Valuation reserves pertaining to insurance companies	417									**417**
130.	Redeemable shares										**-**
140.	Equity instruments			4,103							**4,103**
150.	Reserves				10,921						**10,921**
160.	Share premium reserve					26,006					**26,006**
170.	Share capital						8,732				**8,732**
180.	Treasury shares (-)							-84			**-84**
190.	Minority interests (+/-)								399		**399**
200.	Net income (loss) (+/-)									7,316	**7,316**
TOTAL		**-789**	**-**	**4,103**	**10,921**	**26,006**	**8,732**	**-84**	**399**	**7,316**	**56,604**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY											**796,861**

Reconciliation between published consolidated income statement for 2017 and consolidated income statement for 2017 according to the new Circular 262 - *(Continued)*

(millions of euro)

2017 published / 2017 new 262		10. Interest and similar income	20. Interest and similar expense	**30. Interest margin**	40. Fee and commission income	50. Fee and commission expense	**60. Net fee and commission income**	70. Dividend and similar income	80. Profits (Losses) on trading	90. Fair value adjustments in hedge accounting	100. Profits (Losses) on disposal or repurchase of:	a) loans	b) financial assets available for sale	c) investments held to maturity	d) financial liabilities	110. Profits (Losses) on financial assets and liabilities designated at fair value	**120. Net interest and other banking income**	130. Net losses / recoveries on impairment	a) loans	b) financial assets available for sale	c) investments held to maturity	d) other financial activities	**140. Net income from banking activities**	**TOTAL**
10.	Interest and similar income	10,506																					10,506
20.	Interest and similar expense		-3,802																				-3,802
30.	**Interest margin**																						**6,704**
40.	Fee and commission income				9,544																		9,544
50.	Fee and commission expense					-2,116																	-2,116
60.	**Net fee and commission income**																						**7,428**
70.	Dividend and similar income							117															117
80.	Profits (Losses) on trading								651														651
90.	Fair value adjustments in hedge accounting									-15													-15
100.	Profits (Losses) on disposal or repurchase of:										502												502
	a) financial assets measured at amortised cost											*-8*		*1*									*-7*
	b) financial assets measured at fair value through other comprehensive income												*544*										*544*
	c) financial liabilities														*-35*								*-35*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss															-1							-1
	a) financial assets and liabilities designated at fair value															*-1*							*-1*
	b) other financial assets mandatorily measured at fair value															-							-
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	1,892	-69					227	-140		316		316			1,259							3,485
120.	**Net interest and other banking income**																						**18,871**
130.	Net losses/recoveries for credit risks associated with:																	-3,154					-3,154
	a) financial assets measured at amortised cost																		*-2,717*			*64*	*-2,653*
	b) financial assets measured at fair value through other comprehensive income																			*-501*			*-501*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39																	-8		-8			-8
140.	Profits (Losses) on changes in contracts without derecognition																						-
150.	**Net income from banking activities**	**12,398**	**-3,871**	**8,527**	**9,544**	**-2,116**	**7,428**	**344**	**511**	**-15**	**818**	**-8**	**860**	**1**	**-35**	**1,258**	**18,871**	**-3,162**	**-2,717**	**-509**	**-**	**-**	**15,709**	**15,709**

Reconciliation between published consolidated income statement for 2017 and consolidated income statement for 2017 according to the new Circular 262

(millions of euro)

2017 new 262 \ 2017 published		150. Net insurance premiums	160. Other net insurance income (expense)	**170. Net income from banking and insurance activities**	180. Administrative expenses:	a) personnel expenses	b) other administrative expenses	190. Net provisions for risks and charges	200. Net adjustments to / recoveries on property and equipment	210. Net adjustments to / recoveries on intangible assets	220. Other operating expenses (income)	**230. Operating expenses**	240. Profits (Losses) on investments in associates and companies subject to joint control	250. Valuation differences on property, equipment and intangible assets measured at fair value	260. Goodwill impairment	270. Profits (Losses) on disposal of investments	**280. Income (Loss) before tax from continuing operations**	290. Taxes on income from continuing operations	**300. Income (Loss) after tax from continuing operations**	310. Income (Loss) after tax from discontinued operations	**320. Net income (loss)**	330. Minority interests	**340. Parent Company's net income (loss)**	TOTAL
160.	Net insurance premiums	6,817																					6,817
170.	Other net insurance income (expense)		-9,012																				-9,012
180.	**Net income from banking and insurance activities**																						**13,514**
190.	Administrative expenses:				-11,052																		-11,052
	a) personnel expenses					*-7,177*																	*-7,177*
	b) other administrative expenses						*-3,875*																*-3,875*
200.	Net provisions for risks and charges							-893															-893
	a) commitments and guarantees given							-															-
	b) other net provisions							*-893*															*-893*
210.	Net adjustments to / recoveries on property and equipment								-347														-347
220.	Net adjustments to / recoveries on intangible assets									-532													-532
230.	Other operating expenses (income)										5,902												5,902
240.	**Operating expenses**																						**-6,922**
250.	Profits (Losses) on investments in associates and companies subject to joint control												1,150										1,150
260.	Valuation differences on property, equipment and intangible assets measured at fair value													-30									-30
270.	Goodwill impairment														-								-
280.	Profits (Losses) on disposal of investments															106							106
290.	**Income (Loss) before tax from continuing operations**																						**7,818**
300.	Taxes on income from continuing operations																	-464					-464
310.	**Income (Loss) after tax from continuing operations**																						**7,354**
320.	Income (Loss) after tax from discontinued operations																			-			-
330.	**Net income (loss)**																						**7,354**
340.	Minority interests																					-38	-38
350.	**Parent Company's net income (loss)**																						**7,316**
TOTAL		**6,817**	**-9,012**	**13,514**	**-11,052**	**-7,177**	**-3,875**	**-893**	**-347**	**-532**	**5,902**	**-6,922**	**1,150**	**-30**	**-**	**106**	**7,818**	**-464**	**7,354**	**-**	**7,354**	**-38**	**7,316**

Reconciliation between consolidated balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between consolidated balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

(millions of euro)

			Financial instruments reclassifications from IFRS 9 transition						Changes in carrying amounts due to IFRS 9 transition		
		TOTAL ASSETS as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	TOTAL ASSETS as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICA-TIONS	Change in measurement basis	Impairment	TOTAL ASSETS 01.01.2018
10.	Cash and cash equivalents	9,353						9,353			9,353
20.	Financial assets measured at fair value through profit or loss	39,582	-206	2,231	299	90	615	42,611	-52		42,559
30.	Financial assets measured at fair value through other comprehensive income	64,968	206	-5,749	379		5	59,809	51		59,860
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582						152,582			152,582
40.	Financial assets measured at amortised cost	483,959		3,518	-678	-90	-620	486,089	243	-4,137	482,195
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423						423			423
50.	Hedging derivatives	4,213						4,213			4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204						-204			-204
70.	Investments in associates and companies subject to joint control	678						678			678
80.	Technical insurance reserves reassured with third parties	16						16			16
90.	Property and equipment	6,678						6,678			6,678
100.	Intangible assets	7,741						7,741			7,741
110.	Tax assets	16,887						16,887	-47	1,178	18,018
120.	Non-current assets held for sale and discontinued operations	627						627			627
130.	Other assets	9,358						9,358			9,358
TOTAL ASSETS		**796,861**	**-**	**-**	**-**	**-**	**-**	**796,861**	**195**	**-2,959**	**794,097**

(millions of euro)

		TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition		TOTAL LIABILITIES as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICATIONS	Effect of transition to IFRS9	TOTAL LIABILITIES 01.01.2018
			60. Hedging derivatives	100. Other liabilities			
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	516,360			516,360		516,360
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312			1,312		1,312
20.	Financial liabilities held for trading	41,218	*238*		41,456		41,456
30.	Financial liabilities designated at fair value	3			3		3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233			68,233		68,233
40.	Hedging derivatives	7,489	*-238*		7,251		7,251
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478			478		478
60.	Tax liabilities	2,509			2,509		2,509
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264			264		264
80.	Other liabilities	12,247		*-22*	12,225		12,225
90.	Employee termination indemnities	1,410			1,410		1,410
100.	Allowances for risks and charges	5,808		*22*	5,830	186	6,016
110.	Technical reserves	82,926			82,926		82,926
120.	Valuation reserves	-1,206			-1,206	328	-878
125.	Valuation reserves pertaining to insurance companies	417			417		417
130.	Redeemable shares	-			-		-
140.	Equity instruments	4,103			4,103		4,103
150.	Reserves	10,921			10,921	-3,265	7,656
160.	Share premium reserve	26,006			26,006		26,006
170.	Share capital	8,732			8,732		8,732
180.	Treasury shares (-)	-84			-84		-84
190.	Minority interests (+/-)	399			399	-13	386
200.	Net income (loss) (+/-)	7,316			7,316		7,316
TOTAL		**796,861**	**-**	**-**	**796,861**	**-2,764**	**794,097**

Reconciliation between IFRS 9 consolidated financial statements and restated consolidated financial statements

Reconciliation between consolidated balance sheet as at 1 January 2018 (IFRS 9) and restated consolidated balance sheet as at 1 January 2018

(millions of euro)

Assets		1.1.2018 (IFRS 9)	Changes in the scope of consolidation (a)	1.1.2018 Restated
10.	Cash and cash equivalents	9,353	94	9,447
20.	Financial assets measured at fair value through profit or loss	42,559	8	42,567
	a) financial assets held for trading	*39,651*	*3*	*39,654*
	b) financial assets designated at fair value	*214*	*-*	*214*
	c) other financial assets mandatorily measured at fair value	*2,694*	*5*	*2,699*
30.	Financial assets measured at fair value through other comprehensive income	59,860	100	59,960
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	152,582	-	152,582
40.	Financial assets measured at amortised cost	482,195	185	482,380
	a) due from banks	*72,108*	*109*	*72,217*
	b) loans to customers	*410,087*	*76*	*410,163*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	423	-	423
50.	Hedging derivatives	4,213	-	4,213
60.	Fair value change of financial assets in hedged portfolios (+/-)	-204	-	-204
70.	Investments in associates and companies subject to joint control	678	-	678
80.	Technical insurance reserves reassured with third parties	16	-	16
90.	Property and equipment	6,678	29	6,707
100.	Intangible assets	7,741	1	7,742
	of which:			
	- goodwill	*4,056*	*1*	*4,057*
110.	Tax assets	18,018	1	18,019
	a) current	*4,802*	*1*	*4,803*
	b) deferred	*13,216*	*-*	*13,216*
120.	Non-current assets held for sale and discontinued operations	627	-	627
130.	Other assets	9,358	13	9,371
Total assets		**794,097**	**431**	**794,528**

(a) The restatement refers to the entry of Morval Vonwiller Holding SA group companies in the Group.

(millions of euro)

Liabilities and Shareholders' Equity		1.1.2018 (IFRS 9)	Changes in the scope of consolidation (a)	1.1.2018 Restated
10.	Financial liabilities measured at amortised cost	516,360	267	516,627
	a) due to banks	*99,989*	*3*	*99,992*
	b) due to customers	*323,386*	*264*	*323,650*
	c) securities issued	*92,985*	-	*92,985*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	1,312	-	*1,312*
20.	Financial liabilities held for trading	41,456	*3*	*41,459*
30.	Financial liabilities designated at fair value	3	-	*3*
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	68,233	-	*68,233*
40.	Hedging derivatives	7,251	-	*7,251*
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	478	-	*478*
60.	Tax liabilities	2,509	6	2,515
	a) current	*364*	-	*364*
	b) deferred	*2,145*	*6*	*2,151*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	264	-	264
80.	Other liabilities	12,225	4	12,229
90.	Employee termination indemnities	1,410	-	1,410
100.	Allowances for risks and charges	6,016	1	6,017
	a) commitments and guarantees given	*535*	-	*535*
	b) post-employment benefits	*1,104*	-	*1,104*
	c) other allowances for risks and charges	*4,377*	*1*	*4,378*
110.	Technical reserves	82,926	-	82,926
120.	Valuation reserves	-878	-	-878
125.	Valuation reserves pertaining to insurance companies	417	-	417
130.	Redeemable shares	-	-	-
140.	Equity instruments	4,103	-	4,103
150.	Reserves	7,656	-	7,656
160.	Share premium reserve	26,006	-	26,006
170.	Share capital	8,732	-	8,732
180.	Treasury shares (-)	-84	-	-84
190.	Minority interests (+/-)	386	150	536
200.	Net income (loss) (+/-)	7,316	-	7,316
Total liabilities and shareholders' equity		**794,097**	**431**	**794,528**

(a) The restatement refers to the entry of Morval Vonwiller Holding SA group companies in the Group.

Reconciliation between consolidated income statement for 2017 (IFRS 9) and restated consolidated income statement for 2017

(millions of euro)

		2017 (IFRS 9)	Changes in the scope of consolidation (a)	2017 Restated
10.	Interest and similar income	10,506	2	10,508
	of which: interest income calculated using the effective interest rate method	*9,870*	-	*9,870*
20.	Interest and similar expense	-3,802	-1	-3,803
30.	**Interest margin**	**6,704**	**1**	**6,705**
40.	Fee and commission income	9,544	27	9,571
50.	Fee and commission expense	-2,116	-3	-2,119
60.	**Net fee and commission income**	**7,428**	**24**	**7,452**
70.	Dividend and similar income	117	-	117
80.	Profits (Losses) on trading	651	3	654
90.	Fair value adjustments in hedge accounting	-15	-	-15
100.	Profits (Losses) on disposal or repurchase of:	502	1	503
	a) financial assets measured at amortised cost	*-7*	-	*-7*
	b) financial assets measured at fair value through other comprehensive income	*544*	*1*	*545*
	c) financial liabilities	*-35*	-	*-35*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	-1	1	-
	a) financial assets and liabilities designated at fair value	*-1*	-	*-1*
	b) other financial assets mandatorily measured at fair value	-	*1*	*1*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,485	-	3,485
120.	**Net interest and other banking income**	**18,871**	**30**	**18,901**
130.	Net losses/recoveries for credit risks associated with:	-3,154	-	-3,154
	a) financial assets measured at amortised cost	*-2,653*	-	*-2,653*
	b) financial assets measured at fair value through other comprehensive income	*-501*	-	*-501*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-8	-	-8
140.	Profits (Losses) on changes in contracts without derecognition	-	-	-
150.	**Net income from banking activities**	**15,709**	**30**	**15,739**
160.	Net insurance premiums	6,817	-	6,817
170.	Other net insurance income (expense)	-9,012	-	-9,012
180.	**Net income from banking and insurance activities**	**13,514**	**30**	**13,544**
190.	Administrative expenses:	-11,052	-25	-11,077
	a) personnel expenses	*-7,177*	*-17*	*-7,194*
	b) other administrative expenses	*-3,875*	*-8*	*-3,883*
200.	Net provisions for risks and charges	-893	1	-892
	a) commitments and guarantees given	-	-	-
	b) other net provisions	*-893*	*1*	*-892*
210.	Net adjustments to / recoveries on property and equipment	-347	-1	-348
220.	Net adjustments to / recoveries on intangible assets	-532	-	-532
230.	Other operating expenses (income)	5,902	-	5,902
240.	**Operating expenses**	**-6,922**	**-25**	**-6,947**
250.	Profits (Losses) on investments in associates and companies subject to joint control	1,150	-	1,150
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-30	-	-30
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	106	-	106
290.	**Income (Loss) before tax from continuing operations**	**7,818**	**5**	**7,823**
300.	Taxes on income from continuing operations	-464	-1	-465
310.	**Income (Loss) after tax from continuing operations**	**7,354**	**4**	**7,358**
320.	Income (Loss) after tax from discontinued operations	-	-	-
330.	**Net income (loss)**	**7,354**	**4**	**7,358**
340.	Minority interests	-38	-4	-42
350.	**Parent Company's net income (loss)**	**7,316**	**-**	**7,316**

(a) The restatement refers to the Income statement results 2017 of the Morval Vonwiller Holding SA group companies.

Reconciliation between consolidated income statement for 2018 and restated consolidated income statement for 2018

(millions of euro)

		2018	Changes in the scope of consolidation (a)	2018 Restated
10.	Interest and similar income	10,486	-	10,486
	of which: interest income calculated using the effective interest rate method	*10,814*	-	*10,814*
20.	Interest and similar expense	-3,144	-	-3,144
30.	**Interest margin**	**7,342**	**-**	**7,342**
40.	Fee and commission income	9,911	6	9,917
50.	Fee and commission expense	-2,308	-1	-2,309
60.	**Net fee and commission income**	**7,603**	**5**	**7,608**
70.	Dividend and similar income	94	-	94
80.	Profits (Losses) on trading	442	1	443
90.	Fair value adjustments in hedge accounting	-111	-	-111
100.	Profits (Losses) on disposal or repurchase of:	549	-	549
	a) financial assets measured at amortised cost	*-19*	-	*-19*
	b) financial assets measured at fair value through other comprehensive income	*508*	-	*508*
	c) financial liabilities	*60*	-	*60*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	298	-	298
	a) financial assets and liabilities designated at fair value	*28*	-	*28*
	b) other financial assets mandatorily measured at fair value	*270*	-	*270*
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	-	3,240
120.	**Net interest and other banking income**	**19,457**	**6**	**19,463**
130.	Net losses/recoveries for credit risks associated with:	-2,509	-	-2,509
	a) financial assets measured at amortised cost	*-2,507*	-	*-2,507*
	b) financial assets measured at fair value through other comprehensive income	*-2*	-	*-2*
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-26	-	-26
140.	Profits (Losses) on changes in contracts without derecognition	-11	-	-11
150.	**Net income from banking activities**	**16,911**	**6**	**16,917**
160.	Net insurance premiums	8,180	-	8,180
170.	Other net insurance income (expense)	-9,968	-	-9,968
180.	**Net income from banking and insurance activities**	**15,123**	**6**	**15,129**
190.	Administrative expenses:	-10,002	-6	-10,008
	a) personnel expenses	*-5,932*	*-4*	*-5,936*
	b) other administrative expenses	*-4,070*	*-2*	*-4,072*
200.	Net provisions for risks and charges	-35	-	-35
	a) commitments and guarantees given	*88*	-	*88*
	b) other net provisions	*-123*	-	*-123*
210.	Net adjustments to / recoveries on property and equipment	-383	-	-383
220.	Net adjustments to / recoveries on intangible assets	-597	-	-597
230.	Other operating expenses (income)	732	-	732
240.	**Operating expenses**	**-10,285**	**-6**	**-10,291**
250.	Profits (Losses) on investments in associates and companies subject to joint control	177	-	177
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-	-9
270.	Goodwill impairment	-	-	-
280.	Profits (Losses) on disposal of investments	452	-	452
290.	**Income (Loss) before tax from continuing operations**	**5,458**	**-**	**5,458**
300.	Taxes on income from continuing operations	-1,386	-	-1,386
310.	**Income (Loss) after tax from continuing operations**	**4,072**	**-**	**4,072**
320.	Income (Loss) after tax from discontinued operations	-	-	-
330.	**Net income (loss)**	**4,072**	**-**	**4,072**
340.	Minority interests	-22	-	-22
350.	**Parent Company's net income (loss)**	**4,050**	**-**	**4,050**

(a) Income statement results for the first three months of 2018 of the Morval Vonwiller Holding SA group companies.

Restated consolidated financial statements

Restated consolidated balance sheet

(millions of euro)

Assets		31.12.2018	01.01.2018 Restated	CHANGES amount	CHANGES %
10.	Cash and cash equivalents	10,350	9,447	903	9.6
20.	Financial assets measured at fair value through profit or loss	42,115	42,567	-452	-1.1
	a) financial assets held for trading	*38,806*	*39,654*	*-848*	*-2.1*
	b) financial assets designated at fair value	*208*	*214*	*-6*	*-2.8*
	c) other financial assets mandatorily measured at fair value	*3,101*	*2,699*	*402*	*14.9*
30.	Financial assets measured at fair value through other comprehensive income	60,469	59,960	509	0.8
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	152,582	-3,036	-2.0
40.	Financial assets measured at amortised cost	476,503	482,380	-5,877	-1.2
	a) due from banks	*69,307*	*72,217*	*-2,910*	*-4.0*
	b) loans to customers	*407,196*	*410,163*	*-2,967*	*-0.7*
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	423	529	
50.	Hedging derivatives	2,993	4,213	-1,220	-29.0
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	-204	328	
70.	Investments in associates and companies subject to joint control	943	678	265	39.1
80.	Technical insurance reserves reassured with third parties	20	16	4	25.0
90.	Property and equipment	7,372	6,707	665	9.9
100.	Intangible assets	9,077	7,742	1,335	17.2
	of which:				
	- goodwill	*4,163*	*4,057*	*106*	*2.6*
110.	Tax assets	17,253	18,019	-766	-4.3
	a) current	*3,320*	*4,803*	*-1,483*	*-30.9*
	b) deferred	*13,933*	*13,216*	*717*	*5.4*
120.	Non-current assets held for sale and discontinued operations	1,297	627	670	
130.	Other assets	8,707	9,371	-664	-7.1
Total assets		**787,721**	**794,528**	**-6,807**	**-0.9**

	Liabilities and Shareholders' Equity	31.12.2018	1.1.2018 Restated	CHANGES amount	CHANGES %
10.	Financial liabilities measured at amortised cost	513,775	516,627	-2,852	-0.6
	a) due to banks	*107,815*	*99,992*	*7,823*	*7.8*
	b) due to customers	*323,900*	*323,650*	*250*	*0.1*
	c) securities issued	*82,060*	*92,985*	*-10,925*	*-11.7*
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	1,312	-502	-38.3
20.	Financial liabilities held for trading	41,895	41,459	436	1.1
30.	Financial liabilities designated at fair value	4	3	1	33.3
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	68,233	-433	-0.6
40.	Hedging derivatives	7,221	7,251	-30	-0.4
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	478	-80	-16.7
60.	Tax liabilities	2,433	2,515	-82	-3.3
	a) current	*163*	*364*	*-201*	*-55.2*
	b) deferred	*2,270*	*2,151*	*119*	*5.5*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	264	-6	-2.3
80.	Other liabilities	11,645	12,229	-584	-4.8
90.	Employee termination indemnities	1,190	1,410	-220	-15.6
100.	Allowances for risks and charges	5,064	6,017	-953	-15.8
	a) commitments and guarantees given	*510*	*535*	*-25*	*-4.7*
	b) post-employment benefits	*261*	*1,104*	*-843*	*-76.4*
	c) other allowances for risks and charges	*4,293*	*4,378*	*-85*	*-1.9*
110.	Technical reserves	80,797	82,926	-2,129	-2.6
120.	Valuation reserves	-913	-878	35	4.0
125.	Valuation reserves pertaining to insurance companies	9	417	-408	-97.8
130.	Redeemable shares	-	-	-	
140.	Equity instruments	4,103	4,103	-	-
150.	Reserves	13,006	7,656	5,350	69.9
160.	Share premium reserve	24,768	26,006	-1,238	-4.8
170.	Share capital	9,085	8,732	353	4.0
180.	Treasury shares (-)	-84	-84	-	-
190.	Minority interests (+/-)	407	536	-129	-24.1
200.	Net income (loss) (+/-)	4,050	7,316	-3,266	-44.6
	Total liabilities and shareholders' equity	**787,721**	**794,528**	**-6,807**	**-0.9**

Restated consolidated income statement

(millions of euro)

		2018	2017	CHANGES	
		Restated	Restated	amount	%
10.	Interest and similar income	10,486	10,508	-22	-0.2
	of which: interest income calculated using the effective interest rate method	10,814	9,870	944	9.6
20.	Interest and similar expense	-3,144	-3,803	-659	-17.3
30.	**Interest margin**	**7,342**	**6,705**	**637**	**9.5**
40.	Fee and commission income	9,917	9,571	346	3.6
50.	Fee and commission expense	-2,309	-2,119	190	9.0
60.	**Net fee and commission income**	**7,608**	**7,452**	**156**	**2.1**
70.	Dividend and similar income	94	117	-23	-19.7
80.	Profits (Losses) on trading	443	654	-211	-32.3
90.	Fair value adjustments in hedge accounting	-111	-15	96	
100.	Profits (Losses) on disposal or repurchase of:	549	503	46	9.1
	a) financial assets measured at amortised cost	-19	-7	12	
	b) financial assets measured at fair value through other comprehensive income	508	545	-37	-6.8
	c) financial liabilities	60	-35	95	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	298	-	298	
	a) financial assets and liabilities designated at fair value	28	-1	29	
	b) other financial assets mandatorily measured at fair value	270	1	269	
115.	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	3,485	-245	-7.0
120.	**Net interest and other banking income**	**19,463**	**18,901**	**562**	**3.0**
130.	Net losses/recoveries for credit risks associated with:	-2,509	-3,154	-645	-20.5
	a) financial assets measured at amortised cost	-2,507	-2,653	-146	-5.5
	b) financial assets measured at fair value through other comprehensive income	-2	-501	-499	-99.6
135.	Net losses/recoveries pertaining to insurance companies pursuant to IAS39	-26	-8	18	
140.	Profits (Losses) on changes in contracts without derecognition	-11	-	11	
150.	**Net income from banking activities**	**16,917**	**15,739**	**1,178**	**7.5**
160.	Net insurance premiums	8,180	6,817	1,363	20.0
170.	Other net insurance income (expense)	-9,968	-9,012	956	10.6
180.	**Net income from banking and insurance activities**	**15,129**	**13,544**	**1,585**	**11.7**
190.	Administrative expenses:	-10,008	-11,077	-1,069	-9.7
	a) personnel expenses	-5,936	-7,194	-1,258	-17.5
	b) other administrative expenses	-4,072	-3,883	189	4.9
200.	Net provisions for risks and charges	-35	-892	-857	-96.1
	a) commitments and guarantees given	88	-	88	
	b) other net provisions	-123	-892	-769	-86.2
210.	Net adjustments to / recoveries on property and equipment	-383	-348	35	10.1
220.	Net adjustments to / recoveries on intangible assets	-597	-532	65	12.2
230.	Other operating expenses (income)	732	5,902	-5,170	-87.6
240.	**Operating expenses**	**-10,291**	**-6,947**	**3,344**	**48.1**
250.	Profits (Losses) on investments in associates and companies subject to joint control	177	1,150	-973	-84.6
260.	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-30	-21	-70.0
270.	Goodwill impairment	-	-	-	
280.	Profits (Losses) on disposal of investments	452	106	346	
290.	**Income (Loss) before tax from continuing operations**	**5,458**	**7,823**	**-2,365**	**-30.2**
300.	Taxes on income from continuing operations	-1,386	-465	921	
310.	**Income (Loss) after tax from continuing operations**	**4,072**	**7,358**	**-3,286**	**-44.7**
320.	Income (Loss) after tax from discontinued operations	-	-	-	
330.	**Net income (loss)**	**4,072**	**7,358**	**-3,286**	**-44.7**
340.	Minority interests	-22	-42	-20	-47.6
350.	**Parent Company's net income (loss)**	**4,050**	**7,316**	**-3,266**	**-44.6**

Reconciliation between restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

Assets			31.12.2018	01.01.2018 Restated
Due from banks			**68,723**	**71,685**
	Caption 40a (partial)	Financial assets measured at amortised cost - Due from banks	68,721	71,671
	Caption 20a (partial)	Financial assets held for trading - Due from banks	-	-
	Caption 20b (partial)	Financial assets designated at fair value - Due from banks	-	-
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Due from banks	2	14
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Due from banks	-	-
Loans to customers			**393,550**	**399,539**
Loans to customers measured at amortised cost			***392,945***	***399,152***
	Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers	388,448	393,252
	Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (transfer of non-trade receivables)	-654	-
	Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,151	5,900
Loans to customers at fair value through other comprehensive income and through profit or loss			***605***	***387***
	Caption 20a (partial)	Financial assets held for trading - Loans to customers	75	-
	Caption 20b (partial)	Financial assets designated at fair value - Loans to customers	-	-
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value - Loans to customers	502	387
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income - Loans to customers	28	-
Financial assets measured at amortised cost which do not constitute loans			**14,183**	**11,557**
	Caption 40a (partial)	Financial assets measured at amortised cost - Debt securities (banks)	586	546
	Caption 40b (partial)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	13,597	11,011
Financial assets at fair value through profit or loss			**41,536**	**42,166**
	Caption 20a (partial)	Financial assets held for trading	38,731	39,654
	Caption 20b (partial)	Financial assets designated at fair value - Debt securities	208	214
	Caption 20c (partial)	Other financial assets mandatorily measured at fair value	2,597	2,298
Financial assets at fair value through other comprehensive income			**60,441**	**59,960**
	Caption 30 (partial)	Financial assets measured at fair value through other comprehensive income	60,441	59,960
Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39			**149,546**	**152,582**
	Caption 35	Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39	149,546	152,582
Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39			**952**	**423**
	Caption 45	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	423
Investments in associates and companies subject to joint control			**943**	**678**
	Caption 70	Investments in associates and companies subject to joint control	943	678
Property, equipment and intangible assets			**16,449**	**14,449**
	Caption 90	Property and equipment	7,372	6,707
	Caption 100	Intangible assets	9,077	7,742
Tax assets			**17,253**	**18,019**
	Caption 110	Tax assets	17,253	18,019
Non-current assets held for sale and discontinued operations			**1,297**	**627**
	Caption 120	Non-current assets held for sale and discontinued operations	1,297	627
Other assets			**22,848**	**22,843**
	Caption 10	Cash and cash equivalents	10,350	9,447
	+ Caption 40b (partial)	Financial assets measured at amortised cost - Loans to customers (transfer of non-trade receivables)	654	-
	Caption 50	Hedging derivatives	2,993	4,213
	Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	124	-204
	Caption 80	Technical insurance reserves reassured with third parties	20	16
	Caption 130	Other assets	8,707	9,371
Total assets			**787,721**	**794,528**

(millions of euro)

Liabilities		31.12.2018	1.1.2018 Restated
Due to banks at amortised cost		**107,815**	**99,992**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	107,815	99,992
Due to customers at amortised cost and securities issued		**405,960**	**416,635**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	323,900	323,650
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	82,060	92,985
Financial liabilities held for trading		**41,895**	**41,459**
Caption 20	Financial liabilities held for trading	41,895	41,459
Financial liabilities designated at fair value		**4**	**3**
Caption 30	Financial liabilities designated at fair value	4	3
Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39		**810**	**1,312**
Caption 15	39	810	1,312
Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39		**67,800**	**68,233**
Caption 35	39	67,800	68,233
Tax liabilities		**2,433**	**2,515**
Caption 60	Tax liabilities	2,433	2,515
Liabilities associated with non-current assets held for sale and discontinued operations		**258**	**264**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	258	264
Other liabilities		**19,264**	**19,958**
Caption 40	Hedging derivatives	7,221	7,251
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	398	478
Caption 80	Other liabilities	11,645	12,229
Technical reserves		**80,797**	**82,926**
Caption 110	Technical reserves	80,797	82,926
Allowances for risks and charges		**6,254**	**7,427**
Caption 90	Employee termination indemnities	1,190	1,410
Caption 100 a)	Allowances for risks and charges - Commitments and guarantees given	510	535
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	261	1,104
Caption 100 c)	Allowances for risks and charges – Other allowances for risks and charges	4,293	4,378
Share capital		**9,085**	**8,732**
Caption 170	Share capital	9,085	8,732
Reserves		**37,690**	**33,578**
Caption 130	Redeemable shares	-	-
Caption 150	Reserves	13,006	7,656
Caption 160	Share premium reserve	24,768	26,006
- Caption 180	Treasury shares	-84	-84
Valuation reserves		**-913**	**-878**
Caption 120	Valuation reserves	-913	-878
Valuation reserves pertaining to insurance companies		**9**	**417**
Caption 125	Valuation reserves pertaining to insurance companies	9	417
Equity instruments		**4,103**	**4,103**
Caption 140	Equity instruments	4,103	4,103
Minority interests		**407**	**536**
Caption 190	Minority interests	407	536
Net income (loss)		**4,050**	**7,316**
Caption 200	Net income (loss) (+/-)	4,050	7,316
Total liabilities and shareholders' equity		**787,721**	**794,528**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

(millions of euro)

Captions		2018 Restated	2017 Restated
Net interest income		**7,276**	**7,265**
Caption 30	Interest margin	7,342	6,705
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	112	-10
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-124	2
- Caption 30 (partial)	Charges related to the disposal of loans	19	-
+ Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	691
+ Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-27	-42
+ Caption 200 (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-3	-
- Caption 30 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-43	-81
Net fee and commission income		**7,887**	**7,867**
Caption 60	Net fee and commission income	7,608	7,452
- Caption 60 (partial)	Contribution of insurance business	328	455
- Caption 60 (partial)	Components of net fee and commission income related to profits (losses) on financial assets and liabilities designated at fair value	-	6
+ Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	-49	-46
Income from insurance business		**1,084**	**933**
Caption 160	Net insurance premiums	8,180	6,817
Caption 170	Other net insurance income (expense)	-9,968	-9,012
- Caption 170 (partial)	Other net insurance income (expense) - changes in technical reserves due to impairment of securities measured at fair value through other comprehensive income	-21	-6
+ Caption 60 (partial)	Contribution of insurance business	-328	-455
Caption 115	Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39	3,240	3,485
+ Caption 30 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	43	81
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	-62	25
- Caption 200 (partial)	Net adjustments to / recoveries on property and equipment	-	-2
Profits (Losses) on financial assets and liabilities designated at fair value		**1,609**	**1,316**
+ Caption 80	Profits (Losses) on trading	443	654
+ Caption 90	Fair value adjustments in hedge accounting	-111	-15
+ Caption 110 a)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	28	-1
+ Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value	270	1
+ Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	508	545
+ Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	60	-35
+ Caption 60 (partial)	Components of net fee and commission income related to profits (losses) on financial assets and liabilities designated at fair value	-	-6
+ Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	82	79
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk - Financial assets measured at amortised cost (specific credit positions related to derivatives)	-	-
- Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Charges concerning the banking industry)	-	127
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	124	-2
- Caption 80 (partial)	Intragroup transactions between Banks/Other companies and the Insurance Segment	62	-25
Caption 90	Fair value adjustments in hedge accounting (Transfer of the Revaluation Reserve for Autostrade Lombarde)	86	
- Caption 100 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Effect of purchase price allocation)	-5	-
- Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	72	-
+ Caption 190 b) (partial)	Other administrative expenses (storage costs)	-	-3
- Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)		-3
+ Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	-10	-
Other operating income (expenses)		**19**	**92**
Caption 70	Dividend and similar income	94	117
+ Caption 230	Other operating expenses (income)	732	5,902
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-82	-79
- Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition - Charges for integration)	-	-1,285
- Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition)	-	-3,500
- Caption 230 (partial)	Other operating expenses (income) (Venetian Banks acquisition - Effect of purchase price allocation)	-	-363
- Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	-13	-8
- Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	-744	-746
- Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	11
- Caption 230 (partial)	Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)	-	-14
- Caption 230 (partial)	Other operating expenses (income)	-	3
- Caption 230 (partial)	Other operating expenses (income) (Charges for integration)	3	-
+ Caption 250 (partial)	Profits (losses) on investments in associates and companies subject to joint control (carried at equity)	29	54
Operating income		**17,875**	**17,473**

(millions of euro)

Captions		2018 Restated	2017 Restated
Personnel expenses		**-5,843**	**-5,687**
Caption 190 a)	Personnel expenses	-5,936	-7,194
- Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	66	1,465
- Caption 190 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	27	42
Other administrative expenses		**-2,784**	**-2,738**
Caption 190 b)	Other administrative expenses	-4,072	-3,883
- Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	60	52
- Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	422	290
- Caption 190 b) (partial)	Other administrative expenses (storage costs)	-	3
- Caption 190 b) (partial)	Other administrative expenses (Recovery of other expenses)	49	46
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of indirect taxes)	744	746
+ Caption 230 (partial)	Other operating expenses (income) (Recovery of expenses)	13	8
Adjustments to property, equipment and intangible assets		**-843**	**-811**
Caption 210	Net adjustments to / recoveries on property and equipment	-383	-348
+ Caption 220	Net adjustments to / recoveries on intangible assets	-597	-532
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Insurance expenses)	-	2
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Charges for integration)	29	11
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Charges for integration)	35	29
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	36	-
- Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	3	-
- Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Effect of purchase price allocation)	34	-2
- Caption 220 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	-	29
Operating costs		**-9,470**	**-9,236**
Operating margin		**8,405**	**8,237**
Net adjustments to loans		**-2,394**	**-3,304**
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-40	-7
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-1	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Securities held to maturity	-	-1
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-2,519	-2,653
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5	
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Loans	-	-
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges concerning the banking industry)	-	48
- Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	-691
Caption 140	Profits/losses from changes in contracts without derecognition	-11	-
Caption 200 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	88	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	84	-
Other net provisions and net impairment losses on other assets		**-187**	**-217**
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	8	-
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (Banks)	-1	-
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	-2	-501
- Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	488
Caption 135	Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39	-26	-8
+Caption 260	Valuation differences on property, equipment and intangible assets measured at fair value	-9	-30
Caption 200 b)	Net provisions for risks and charges - Other net provisions	-123	-892
+ Caption 170 (partial)	Other net insurance income (expense) - changes in technical reserves due to impairment of securities measured at fair value through other comprehensive income	21	6
- Caption 200 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	3	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Investments for the stability of the banking system)	-	0
- Caption 200 b) (partial)	Net provisions for risks and charges (Charges related to the sale of NTV)	10	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration)	-36	-
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Public contribution for Venetian Banks acquisition - Charges for integration)	-	739
- Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Effect of purchase price allocation)	14	-
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment)	-36	-
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment)	-3	-
+ Caption 230 (partial)	Other operating expenses (income) (Impairment losses on repurchased property and equipment)	-	-11
+ Caption 260 (partial)	Valuation differences on property, equipment and intangible assets measured at fair value (Effect of purchase price allocation)	-	6
+ Caption 230 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	-7	-14

(millions of euro)

Captions		2018 Restated	2017 Restated
Other income (expenses)		**524**	**4,746**
Caption 100 a (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	8	-
Caption 100 a (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (Banks)	14	-
Caption 100 a (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) Effect of purchase price allocation	-9	-
Caption 250	Profits (Losses) on investments in associates and companies subject to joint control	177	1,150
Caption 280	Profits (Losses) on disposal of investments	452	106
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Securities held to maturity	-	1
+Caption 30 (partial)	Charges related to the disposal of loans	-19	-
-Caption 90	Fair value adjustments in hedge accounting (Transfer of the Revaluation Reserve for Autostrade Lombarde)	-86	
+ Caption 230 (partial)	Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)	-	14
+ Caption 230 (partial)	Other operating expenses (income)	-	-18
+ Caption 230 (partial)	Other operating expenses (income) (IMI Sec, dispute)	-	0
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)	-29	-54
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)	7	14
- Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	9	-
+ Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition)	-	3,500
- Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	33
Income (Loss) from discontinued operations		-	-
Caption 320	Income (Loss) after tax from discontinued operations	-	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)	-	-
Gross income (loss)		**6,348**	**9,462**
Taxes on income		**-1,659**	**-1,482**
Caption 300	Taxes on income from continuing operations	-1,386	-465
- Caption 300 (partial)	Taxes on income from continuing operations (Discontinued operations)		
- Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	-47	-33
- Caption 300 (partial)	Taxes on income from continuing operations (Public contribution for Venetian Banks acquisition - Charges for integration - tax effect)	-	-678
- Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-72	-2
- Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-131	-88
- Caption 300 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	-23	-203
- Caption 300 (partial)	Taxes on income from continuing operations (Losses/recoveries on loans)	-	-13
Charges (net of tax) for integration and exit incentives		**-120**	**-300**
+ Caption 190 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-66	-1,465
+ Caption 190 b) (partial)	Other administrative expenses (Charges for integration)	-60	-52
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Public contribution for Venetian Banks acquisition - Charges for integration)	-	-739
+ Caption 200 (partial)	Net provisions for risks and charges (Charges for integration)	36	0
+ Caption 210 (partial)	Net adjustments to / recoveries on property and equipment (Impairment - Charges for integration)	-29	-11
+ Caption 220 (partial)	Net adjustments to / recoveries on intangible assets (Impairment - Charges for integration)	-35	-29
+ Caption 230 (partial)	Other operating expenses (income) (Public contribution for Venetian Banks acquisition)	-	1,285
+ Caption 230 (partial)	Other operating expenses (income) (Charges for integration)	-3	-
+ Caption 250 (partial)	Profits (Losses) on investments in associates and companies subject to joint control (Charges for integration - IFRS 5 measurement of SEC Servizi)	-9	-
+ Caption 300 (partial)	Taxes on income from continuing operations (Public contribution for Venetian Banks acquisition - Charges for integration - tax effect)	-	678
+ Caption 300 (partial)	Taxes on income from continuing operations (Charges for integration)	46	33
Effect of purchase price allocation (net of tax)		**-157**	**327**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-112	10
+ Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	6	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans (Effect of purchase price allocation)	-84	
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies) Effect of purchase price allocation	9	
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Effect of purchase price allocation)	-	3
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Effect of purchase price allocation)	-14	-
+ Caption 210 (partial)	Adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-34	2
+ Caption 220 (partial)	Adjustments to / recoveries on intangible assets (Effect of purchase price allocation)	-	-29
+ Caption 230 (partial)	Other operating expenses (income) (Venetian Banks acquisition - Effect of purchase price allocation)	-	378
- Caption 260 (partial)	Valuation differences on property, equipment and intangible assets measured at fair value (Effect of purchase price allocation)	-	-6
+ Caption 280 (partial)	Profits (Losses) on disposal of investments (Effect of purchase price allocation)	-	-33
+ Caption 300 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	72	2

(millions of euro)

Captions		2018 Restated	2017 Restated
Levies and other charges concerning the banking industry (net of tax)		**-340**	**-649**
+ Caption 100 b)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Charges concerning the banking industry)	-	-127
+ Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily measured at fair value (Charges concerning the banking industry)	-72	-
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans (Charges concerning the banking industry)	-	-48
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	-488
+ Caption 190 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-422	-290
+ Caption 200 b) (partial)	Net provisions for risks and charges - Other net provisions (Investments for the stability of the banking system)	-	0
+ Caption 300 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	131	88
+ Caption 300 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	23	203
- Caption 300 (partial)	Taxes on income from continuing operations (Losses/recoveries on loans)	-	13
Impairment (net of tax) of goodwill and other intangible assets		**-**	**-**
Caption 270	Goodwill impairment	-	-
Minority interests		**-22**	**-42**
Caption 340	Minority interests	-22	-42
Net income (loss)		**4,050**	**7,316**

Other consolidated attachments

List of the IAS/IFRS endorsed by the European Commission as at 31 December 2018

ACCOUNTING STANDARDS		Regulation endorsement
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008 mod. 1260/2008 - 1274/2008 - 69/2009 - 70/2009 -254/2009 - 494/2009 - 495/2009 - 1136/2009 - 1164/2009 - 550/2010 - 574/2010 - 662/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 183/2013 - 301/2013 -1174/2013 - 2173/2015 - 2343/2015 - 2441/2015 - 1905/2016 - 2067/2016 - 182/2018
IFRS 2	Share-based Payment	1126/2008 mod. 1261/2008 - 495/2009 - 243/2010 - 244/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2067/2016 - 289/2018
IFRS 3	Business Combinations	1126/2008 mod. 495/2009 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1361/2014 - 28/2015 - 1905/2016 - 2067/2016
IFRS 4	Insurance Contracts	1126/2008 mod. 1274/2008 - 494/2009 - 1165/2009 - 1255/2012 - 1905/2016 - 2067/2016 - 1988/2017
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 1142/2009 - 243/2010 - 475/2012 - 1254/2012 - 1255/2012 - 2343/2015 - 2067/2016
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008
IFRS 7	Financial Instruments: Disclosures	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 495/2009 - 824/2009 - 1165/2009 - 574/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 1174/2013 - 2343/2015 - 2406/2015 - 2067/2016
IFRS 8	Operating Segments	1126/2008 mod. 1274/2008 - 243/2010 - 632/2010 - 475/2012 - 28/2015
IFRS 9	Financial Instruments	2067/2016 - 498/2018 (*)
IFRS 10	Consolidated Financial Statements	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016
IFRS 11	Joint Arrangements	1254/2012 mod. 313/2013 - 2173/2015
IFRS 12	Disclosure of Interests in Other Entities	1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016 - 182/2018
IFRS 13	Fair Value Measurement	1255/2012 mod. 1361/2014 - 2067/2016
IFRS 15	Revenue from Contracts with Customers	1905/2016 - 1987/2017
IFRS 16	Leases	1986/2017 (*)
IAS 1	Presentation of Financial Statements	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 243/2010 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 301/2013 - 2113/2015 - 2406/2015 - 1905/2016 - 2067/2016
IAS 2	Inventories	1126/2008 mod. 70/2009 - 1255/2012 - 1905/2016 - 2067/2016
IAS 7	Statement of Cash Flows	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 494/2009 - 243/2010 - 1254/2012 - 1174/2013 - 1990/2017
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2067/2016
IAS 10	Events after the Reporting Period	1126/2008 mod. 1274/2008 - 70/2009 - 1142/2009 - 1255/2012 - 2067/2016
IAS 11	Construction Contracts	1126/2008 mod. 1260/2008 - 1274/2008 - 1905/2016
IAS 12	Income Taxes	1126/2008 mod. 1274/2008 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1174/2013 - 1905/2016 - 2067/2016 - 1989/2017
IAS 16	Property, Plant and Equipment	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 1255/2012 - 301/2013 - 28/2015 - 2113/2015 - 2231/2015 - 1905/2016
IAS 17	Leases	1126/2008 mod. 243/2010 - 1255/2012 - 2113/2015
IAS 18	Revenue	1126/2008 mod. 69/2009 - 1254/2012 - 1255/2012 - 1905/2016
IAS 19	Employee Benefits	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 29/2015 - 2343/2015
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008 mod. 1274/2008 - 69/2009 - 494/2009 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 23	Borrowing costs	1126/2008 mod. 1260/2008 - 70/2009 - 2113/2015 - 2067/2016
IAS 24	Related Party Disclosures	1126/2008 mod. 1274/2008 - 632/2010 - 475/2012 - 1254/2012 - 1174/2013 - 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008
IAS 27	Separate Financial Statements	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 494/2009 - 1254/2012 - 1174/2013 - 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 495/2009 - 1254/2012 - 1255/2012 - 2441/2015 - 1703/2016 - 2067/2016 - 182/2018
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008 - 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 1293/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 301/2013 - 1174/2013 - 1905/2016 - 2067/2016
IAS 33	Earnings per Share	1126/2008 mod. 1274/2008 - 494/2009 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016
IAS 34	Interim Financial Reporting	1126/2008 mod. 1274/2008 - 70/2009 - 495/2009 - 149/2011 - 475/2012 - 1255/2012 - 301/2013 - 1174/2013 - 2343/2015 - 2406/2015 - 1905/2016
IAS 36	Impairment of Assets	1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 1374/2013 - 2113/2015 - 1905/2016 - 2067/2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008 mod. 1274/2008 - 495/2009 - 28/2015 - 1905/2016 - 2067/2016
IAS 38	Intangible Assets	1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2231/2015 - 1905/2016
IAS 39	Financial Instruments: Recognition and Measurement (except for certain rules on hedge accounting)	1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 824/2009 - 839/2009 - 1171/2009 - 243/2010 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1375/2013 - 28/2015 - 1905/2016 - 2067/2016
IAS 40	Investment Property	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 1361/2014 - 2113/2015 - 1905/2016 - 400/2018
IAS 41	Agriculture	1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2113/2015

(*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2019.

INTERPRETATIONS		Regulation endorsement
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008 mod. 1260/2008 - 1274/2008
IFRIC 2	Members' Shares in Cooperative Entities and Similar Instruments	1126/2008 mod. 53/2009 - 1255/2012 - 301/2013 - 2067/2016
IFRIC 4	Determining whether an Arrangement contains a Lease	1126/2008 mod. 254/2009 - 1255/2012
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008 mod. 1254/2012 - 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1126/2008
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008 mod. 1274/2008
IFRIC 9	Reassessment of Embedded Derivatives	1126/2008 mod. 495/2009 - 1171/2009 - 243/2010 - 1254/2012 - 2067/2016
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008 mod. 1274/2008 - 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009 - 1905/2016 - 2067/2016
IFRIC 13	Customer Loyalty Programmes	1262/2008 mod. 149/2011 - 1255/2012 - 1905/2016
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008 mod. 1274/2008 - 633/2010 - 475/2012
IFRIC 15	Agreements for the Construction of Real Estate	636/2009 - 1905/2016
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009 mod. 243/2010 - 1254/2012 - 2067/2016
IFRIC 17	Distributions of Non-cash Assets to Owners	1142/2009 mod. 1254/2012 - 1255/2012
IFRIC 18	Transfers of Assets from Customers	1164/2009 - 1905/2016
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010 mod. 1255/2012 - 2067/2016
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012
IFRIC 21	Levies	634/2014
IFRIC 22	Foreign Currency Transaction and Advance Consideration	519/2018 (*)
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018 (**)
SIC 7	Introduction of the Euro	1126/2008 mod. 1274/2008 - 494/2009
SIC 10	Government Assistance - No Specific Relation to Operating Activities	1126/2008 mod. 1274/2008
SIC 15	Operating Leases - Incentives	1126/2008 mod. 1274/2008
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	1126/2008 mod. 1274/2008
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1126/2008 - 1905/2016 - 2067/2016
SIC 29	Service Concession Arrangements: Disclosures	1126/2008 mod. 1274/2008 - 254/2009
SIC 31	Revenue - Barter Transactions Involving Advertising Services	1126/2008 - 1905/2016
SIC 32	Intangible Assets - Web Site Costs	1126/2008 mod. 1274/2008 - 1905/2016

(*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2018.

(**) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2019.

Report and Parent Company's financial statements

Transition to IFRS 9

IFRS 9: the new financial reporting standard on financial instruments

This section, which is an integral part of section A.1 of the Notes to the financial statements - Part A of the 2018 Financial Statements, describes the impacts of the first-time adoption of IFRS 9, including the transition from the statements published in the 2017 Financial Statements and those presented for comparison in the 2018 Financial Statements, which are also included in the attachments to the Financial Statements.

Introduction

The illustration of the new standard, the application methods used by the Intesa Sanpaolo Group and the description of the impacts of the new rules for drafting financial statements have been presented in the specific chapter preceding the Report on Operations of the Consolidated Financial Statements, to which reference is made.
The effects of first-time adoption (FTA) of IFRS 9 on Intesa Sanpaolo and the companies merged in 2018 with accounting and tax effects from 1 January 2018 are presented below.
The statements of reconciliation of the merged companies are presented in aggregate form, with the exception of the statement of shareholders' equity, which illustrates the impacts company by company.

The effects of first-time adoption (FTA) of IFRS 9

As stated in the "Accounting Policies" chapter, the Group has decided to exercise the option, provided by IFRS 9, of not restating the comparative information for the IFRS 9 first-time adoption financial statements. In order to assign the 2017 comparative information to the accounting captions established in the new Circular 262 official financial statement layouts, the necessary reconciliations have been made, without changing the values, based on the criteria indicated in the Accounting Policies paragraph, which readers are referred to. This section shows the reconciliations of the accounting balances as at 1 January 2018 and the effects on the capital ratios as a result of the application of the new classification and measurement rules required by IFRS 9.

Reconciliation between the Financial Statements published in the 2017 Annual Report of Intesa Sanpaolo and the IFRS 9 Financial Statements (new Circular 262) as at 1 January 2018 (reclassification of IAS 39 balances)

The schedules below show the reconciliations between the Financial Statements as per the 2017 Annual Report of Intesa Sanpaolo and the Financial Statements introduced by the new Bank of Italy Circular 262, which incorporates the adoption of the presentation criteria established by IFRS 9. In these statements, the accounting balances as at 31 December 2017 (figures determined according to IAS 39) are reconciled to the new accounting captions, according to the reclassifications required as a result of the new classification criteria introduced by IFRS 9 and based on the analyses carried out (already described above), but without the application of the new measurement criteria and, therefore, with the same amount of total assets and total liabilities.

Assets

(millions of euro)

IFRS9 \ IAS 39		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Equity investments	110. Property and equipment	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and discontinued operations	150. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	5,750															**5,750**
20.	Financial assets measured at fair value through profit or loss		18,264	322													**18,586**
30.	Financial assets measured at fair value through other comprehensive income				36,912												**36,912**
40.	Financial assets measured at amortised cost					335	157,440	232,693									**390,468**
50.	Hedging derivatives								3,823								**3,823**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-131							**-131**
70.	Equity investments										30,558						**30,558**
80.	Property and equipment											4,400					**4,400**
90.	Intangible assets												2,454				**2,454**
100.	Tax assets													13,013			**13,013**
110.	Non-current assets held for sale and discontinued operations														266		**266**
120.	Other assets															3,278	**3,278**
TOTAL ASSETS		**5,750**	**18,264**	**322**	**36,912**	**335**	**157,440**	**232,693**	**3,823**	**-131**	**30,558**	**4,400**	**2,454**	**13,013**	**266**	**3,278**	**509,377**

Liabilities

(millions of euro)

IFRS9 \ IAS 39		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	173,710	170,914	82,665										**427,289**
20.	Financial liabilities held for trading				14,580									**14,580**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					9								**9**
40.	Hedging derivatives						5,555							**5,555**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							324						**324**
60.	Tax liabilities								1,285					**1,285**
70.	Liabilities associated with non-current assets held for sale and discontinued operations									-				**-**
80.	Other liabilities										6,983			**6,983**
90.	Employee termination indemnities											767		**767**
100.	Allowances for risks and charges										212		3,901	**4,113**
TOTAL		**173,710**	**170,914**	**82,665**	**14,580**	**9**	**5,555**	**324**	**1,285**	**-**	**7,195**	**767**	**3,901**	

Shareholders' equity

(millions of euro)

IFRS9 \ IAS 39		130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	170. Share premium reserve	180. Share capital	190. Treasury shares (-)	200. Net income (loss)	TOTAL
110.	Valuation reserves	774								**774**
120.	Redeemable shares		-							**-**
130.	Equity instruments			4,103						**4,103**
140.	Reserves				3,843					**3,843**
150.	Share premium reserve					26,164				**26,164**
160.	Share capital						8,732			**8,732**
170.	Treasury shares (-)							-26		**-26**
180.	Net income (loss) (+/-)								4,882	**4,882**
TOTAL		**774**	**-**	**4,103**	**3,843**	**26,164**	**8,732**	**-26**	**4,882**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY										**509,377**

Reconciliation between the 2017 Financial statements of the merged companies and the IFRS 9 Financial statements (new Circular 262) as at 1 January 2018 (reclassification of IAS 39 balances)

The schedules below show the reconciliations between the Financial statements as per the 2017 Annual Reports of the companies merged during 2018, with accounting and tax effects starting from 1 January 2018, and the Financial statements introduced by the new Bank of Italy Circular 262, which incorporates the adoption of the presentation criteria established by IFRS 9. In these statements, the accounting balances as at 31 December 2017 (figures determined according to IAS 39) are reconciled to the new accounting captions, according to the reclassifications required as a result of the new classification criteria introduced by IFRS 9 and based on the analyses carried out (already described above), but without the application of the new measurement criteria and, therefore, with the same amount of total assets and total liabilities.
In order to provide a summary representation of the data published in the 2017 Annual Reports of the single entities merged by incorporation, the data is provided in aggregate form, without taking account of netting of intercompany items.

Assets

(millions of euro)

IFRS9 \ IAS 39		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Equity investments	110. Property and equipment	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and discontinued operations	150. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	745															**745**
20.	Financial assets measured at fair value through profit or loss		260	1	67		35										**363**
30.	Financial assets measured at fair value through other comprehensive income				874												**874**
40.	Financial assets measured at amortised cost						15,609	41,402									**57,011**
50.	Hedging derivatives								219								**219**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-61							**-61**
70.	Equity investments										31						**31**
80.	Property and equipment											258					**258**
90.	Intangible assets												302				**302**
100.	Tax assets													1,078			**1,078**
110.	Non-current assets held for sale and discontinued operations														-		**-**
120.	Other assets															1,421	**1,421**
TOTAL ASSETS		**745**	**260**	**1**	**941**	**-**	**15,644**	**41,402**	**219**	**-61**	**31**	**258**	**302**	**1,078**	**-**	**1,421**	**62,241**

Liabilities

(millions of euro)

IFRS9 \ IAS 39		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	6,253	48,073	526										**54,852**
20.	Financial liabilities held for trading				173									**173**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					-								**-**
40.	Hedging derivatives						480							**480**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							136						**136**
60.	Tax liabilities								85					**85**
70.	Liabilities associated with non-current assets held for sale and discontinued operations									-				**-**
80.	Other liabilities										1,087			**1,087**
90.	Employee termination indemnities											231		**231**
100.	Allowances for risks and charges										36		492	**528**
TOTAL		**6,253**	**48,073**	**526**	**173**	**-**	**480**	**136**	**85**	**-**	**1,123**	**231**	**492**	

Shareholders' equity

(millions of euro)

IFRS9 \ IAS 39		130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	170. Share premium reserve	180. Share capital	190. Treasury shares (-)	200. Net income (loss)	TOTAL
110.	Valuation reserves	29								**29**
120.	Redeemable shares		-							**-**
130.	Equity instruments			-						**-**
140.	Reserves				606					**606**
150.	Share premium reserve					904				**904**
160.	Share capital						3,040			**3,040**
170.	Treasury shares (-)							-12		**-12**
180.	Net income (loss) (+/-)								102	**102**
TOTAL		**29**	**-**	**-**	**606**	**904**	**3,040**	**-12**	**102**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY										**62,241**

Reconciliation between the Balance Sheet as at 31 December 2017 of Intesa Sanpaolo (which incorporates the new IFRS 9 presentation rules) and the Balance Sheet as at 1 January 2018 (which incorporates the new IFRS 9 measurement and impairment rules)

The schedules below show the Reconciliation between the Balance Sheet as at 31 December 2017 (former IAS 39) of Intesa Sanpaolo, which incorporates the reclassification required by the classification rules established by IFRS 9, described above, and the Balance Sheet as at 1 January 2018 (IFRS 9). In these schedules, the accounting balances as at 31 December 2017 (amounts determined in accordance with IAS 39) have been modified as a result of the application of the new measurement and impairment rules, to determine the IFRS 9 compliant opening balances.

Assets

(millions of euro)

Captions		31.12.2017 Intesa Sanpaolo (a)	Effect of transition to IFRS 9 (b) Classification and measurement	Effect of transition to IFRS 9 (b) Impairment	01.01.2018 (c) = (a) + (b)
10.	Cash and cash equivalents	5,750	-	-	5,750
20.	Financial assets measured at fair value through profit or loss	18,586	7,354	-	25,940
30.	Financial assets measured at fair value through other comprehensive income	36,912	-1,193	-1	35,718
40.	Financial assets measured at amortised cost	390,468	-6,250	-2,205	382,013
50.	Hedging derivatives	3,823	-	-	3,823
60.	Fair value change of financial assets in hedged portfolios (+/-)	-131	-	-	-131
70.	Equity investments	30,558	-	-	30,558
80.	Property and equipment	4,400	-	-	4,400
90.	Intangible assets	2,454	-	-	2,454
100.	Tax assets	13,013	27	675	13,715
110.	Non-current assets held for sale and discontinued operations	266	-	-	266
120.	Other assets	3,278	-	-	3,278
	TOTAL ASSETS	**509,377**	**-62**	**-1,531**	**507,784**

Liabilities and shareholders' equity

(millions of euro)

Captions		31.12.2017 Intesa Sanpaolo (a)	Effect of transition to IFRS 9 (b)	01.01.2018 (c) = (a) + (b)
10.	Financial liabilities measured at amortised cost	427,289	-	427,289
20.	Financial liabilities held for trading	14,580	90	14,670
30.	Financial liabilities designated at fair value	9	-	9
40.	Hedging derivatives	5,555	-90	5,465
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	324	-	324
60.	Tax liabilities	1,285	53	1,338
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-
80.	Other liabilities	6,983	-	6,983
90.	Employee termination indemnities	767	-	767
100.	Allowances for risks and charges	4,113	98	4,211
110.	Valuation reserves	774	86	860
120.	Redeemable shares	-	-	-
130.	Equity instruments	4,103	-	4,103
140.	Reserves	3,843	-1,830	2,013
150.	Share premium reserve	26,164	-	26,164
160.	Share capital	8,732	-	8,732
170.	Treasury shares (-)	-26	-	-26
180.	Net income (loss) (+/-)	4,882	-	4,882
	TOTAL LIABILITIES	**509,377**	**-1,593**	**507,784**

Reconciliation between the Balance Sheet as at 31 December 2017 of the merged companies (which incorporates the new IFRS 9 presentation rules) and the Balance Sheet as at 1 January 2018 (which incorporates the new IFRS 9 measurement and impairment rules)

The schedules below show the Reconciliation between the Balance Sheet as at 31 December 2017 (former IAS 39) of the companies merged by incorporation into Intesa Sanpaolo during 2018, with accounting and tax effects starting from 1 January 2018, which incorporates the reclassification required by the classification rules established by IFRS 9, described above, and the Balance Sheet as at 1 January 2018 (IFRS 9). In these schedules, the accounting balances as at 31 December 2017 (amounts determined in accordance with IAS 39) – represented in aggregate form – have been modified as a result of the application of the new measurement and impairment rules, to determine the IFRS 9 compliant opening balances. In order to provide a summary representation of the data published in the 2017 Annual Reports of the single entities merged by incorporation, the data is provided in aggregate form, without taking account of netting of intercompany items.

Assets

(millions of euro)

Captions		31.12.2017 merged companies (a)	Effect of transition to IFRS 9 (b) Classification and measurement	Impairment	01.01.2018 (c) = (a) + (b)
10.	Cash and cash equivalents	745	-	-	745
20.	Financial assets measured at fair value through profit or loss	363	22	-2	383
30.	Financial assets measured at fair value through other comprehensive income	874	-10	-	864
40.	Financial assets measured at amortised cost	57,011	-3	-628	56,380
50.	Hedging derivatives	219	-	-	219
60.	Fair value change of financial assets in hedged portfolios (+/-)	-61	-	-	-61
70.	Equity investments	31	-	-	31
80.	Property and equipment	258	-	-	258
90.	Intangible assets	302	-	-	302
100.	Tax assets	1,078	-2	195	1,271
110.	Non-current assets held for sale and discontinued operations	-	-	-	-
120.	Other assets	1,421	-	-	1,421
	TOTAL ASSETS	**62,241**	**7**	**-435**	**61,813**

Liabilities and shareholders' equity

(millions of euro)

Captions		31.12.2017 merged companies (a)	Effect of transition to IFRS 9 (b)	01.01.2018 (c) = (a) + (b)
10.	Financial liabilities measured at amortised cost	54,852	-	54,852
20.	Financial liabilities held for trading	173	-	173
30.	Financial liabilities designated at fair value	-	-	-
40.	Hedging derivatives	480	-	480
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	136	-	136
60.	Tax liabilities	85	-	85
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-
80.	Other liabilities	1,087	-	1,087
90.	Employee termination indemnities	231	-	231
100.	Allowances for risks and charges	528	20	548
110.	Valuation reserves	29	-9	20
120.	Redeemable shares	-	-	-
130.	Equity instruments	-	-	-
140.	Reserves	606	-439	167
150.	Share premium reserve	904	-	904
160.	Share capital	3,040	-	3,040
170.	Treasury shares (-)	-12	-	-12
180.	Net income (loss) (+/-)	102	-	102
	TOTAL LIABILITIES	**62,241**	**-428**	**61,813**

Reconciliation between IAS 39 Shareholders' Equity and IFRS 9 Shareholders' Equity

The schedule below shows the reconciliation between the Shareholders' Equity as at 31 December 2017, as presented in the 2017 Annual Report, and the opening Shareholders' Equity as at 1 January 2018, after the transition to IFRS 9, which reflects the effects illustrated in the above tables for Intesa Sanpaolo and for the companies merged by incorporation during 2018 with accounting and tax effects starting from 1 January 2018.

(millions of euro)

		Effect of transition to IFRS9						
	Intesa Sanpaolo	*Banca Nuova*	*Cr Veneto*	*Cr Friuli*	*IMI Invest.*	*Banco di Napoli*	*Cr Forli*	
IAS 39 Shareholders' Equity - 31.12.2017	**48,472**	**173**	**1,333**	**284**	**853**	**1,769**	**257**	
CLASSIFICATION AND MEASUREMENT								
Fair value adjustment of financial assets failing the SPPI test	**-89**	**-**	**-**	**-**	**-**	**-**	**-1**	**-90**
IMPAIRMENT								
Application of the new (ECL) impairment model to loans measured at amortised cost:	**-2,206**	**-3**	**-222**	**-36**	**-**	**-294**	**-73**	**-2,834**
performing (Stage 1 and 2)	-507	-3	-25	-10	-	-58	-14	-617
non-performing (Stage 3)	-1,699	-	-197	-26	-	-236	-59	-2,217
Application of the new (ECL) impairment model to guarantees given and loan commitments (irrevocable and revocable)	**-99**	**-1**	**-6**	**-1**	**-**	**-9**	**-2**	**-118**
Application of the new (ECL) impairment model to debt securities measured at amortised cost	**-58**	**-1**	**-**	**-**	**-**	**-**	**-**	**-59**
performing (Stage 1 and 2)	-58	-1	-	-	-	-	-	-59
non-performing (Stage 3)	-	-	-	-	-	-	-	-
Application of the new impairment model (ECL) to financial assets measured at fair value through other comprehensive income	**-16**	**-**	**-**	**-**	**-**	**-**	**-**	**-16**
debt securities	-16	-	-	-	-	-	-	-16
loans	-	-	-	-	-	-	-	-
Other effects:	**75**	**-**	**-**	**-**	**9**	**-**	**-**	**84**
recognition of OCI reserve for reclassification of financial assets measured at amortised cost	75	-	-	-	-	-	-	75
Other	-	-	-	-	9	-	-	9
Tax effect	**649**	**-**	**63**	**10**	**-2**	**100**	**21**	**841**
Total IFRS 9 transition effects at 1.1.2018	**-1,744**	**-5**	**-165**	**-27**	**7**	**-203**	**-55**	**-2,192**
IFRS 9 Shareholders' Equity - 1.1.2018	**46,728**	**168**	**1,168**	**257**	**860**	**1,566**	**202**	

The table below shows the breakdown of the impacts on the prudential ratios:

(millions of euro)

Capital resources	Regulatory capital as at 31.12.2017 including regulatory adjustments (grandfathering)	Regulatory capital as at 01.01.2018 with remaining regulatory adjustments pursuant to Basel 3	IFRS 9 - Fully Loaded		IFRS 9 - 95% Phased-in		
			FTA Impact as at 01.01.2018	Amount as at 01.01.2018	FTA Impact as at 01.01.2018	Amount as at 01.01.2018	
Shareholders' equity	48,472	48,472	-1,744	46,728	1,234	47,962	(*)
Excess expected losses over adjustments (shortfall)	-405	-405	405	-	-	-	
Regulatory capital adjustments and deductions	-9,456	-9,880	-134	-10,014	124	-9,890	
Common Equity Tier 1 Capital (CET1)	**38,611**	**38,187**	**-1,473**	**36,714**	**1,358**	**38,072**	
Additional Tier 1 Capital (AT1)	5,486	5,439	-	5,439	-	5,439	
Tier 1 Capital (T1 = CET1 + AT1)	**44,097**	**43,626**	**-1,473**	**42,153**	**1,358**	**43,511**	
Excess adjustments over expected losses (excess reserve)	-	-	501	501	-501	-	
Other Tier 2 Capital items	7,622	7,607	-	7,607	-	7,607	
Tier 2 Instruments (T2)	**7,622**	**7,607**	**501**	**8,108**	**-501**	**7,607**	
Total Capital (TC = T1 + T2)	**51,719**	**51,233**	**-972**	**50,261**	**857**	**51,118**	
Risk-Weighted Assets (RWA)	**206,507**	**206,440**	**-594**	**205,846**	**556**	**206,402**	
Common Equity Tier 1 Capital / Risk-Weighted Assets (CET1 ratio)	**18.70%**	**18.50%**		**17.84%**		**18.45%**	

(*) This figure applies for prudential purposes only.

For the purpose of completeness, it is noted that, as a result of the 2019 Budget Act (Law 145 of 30 December 2018) – which provided for the deduction in instalments over ten tax periods of adjustments to loans to customers made on first-time adoption of IFRS 9 – in the final quarter of the year the amount of current tax exceeding the tenth instalment permitted for deduction for 2018 was transferred to deferred tax assets and it also became possible to recognise additional ineligible IRAP DTAs of 115 million euro arising from the greater recoverability of the IRAP resulting from the deduction in instalments.
For prudential purposes, taking into account the provisions of Regulation (EU) 2017/2395 on the inclusion of a progressively decreasing portion of the impact of IFRS 9 in the Common Equity Tier 1 capital, up to 2022, as at 31 December 2018 the DTAs related to the first-time adoption of the standard – both those related to the non-deductible component in the year of the tax effect already recognised on FTA and the additional IRAP DTAs recorded in the fourth quarter – were considered at 5% of their carrying amount among the items deducted from Common Equity Tier 1 capital. Conversely, the positive effect recorded in the fourth quarter deriving from the recognition of the aforementioned IRAP DTAs was included at 5% within the Common Equity Tier 1 capital. The above effects generated an overall negative impact of around 2 bps on the Intesa Sanpaolo's CET 1 ratio in the fourth quarter of 2018.

Financial statements of Intesa Sanpaolo and the merged companies

The financial statements of Intesa Sanpaolo and the companies merged in 2018, with accounting and tax effects starting from 1 January 2018, net of the related merger entries, are shown below.

Balance sheet

(millions of euro)

Assets		01.01.2018 FTA		Merger entries	01.01.2018
		Intesa Sanpaolo	Merged companies		
10.	Cash and cash equivalents	5,750	745	-	6,495
20.	Financial assets measured at fair value through profit or loss	25,940	383	-	26,323
	a) financial assets held for trading	*18,925*	*173*	-	*19,098*
	b) financial assets designated at fair value	*201*	-	-	*201*
	c) other financial assets mandatorily measured at fair value	*6,814*	*210*	-	*7,024*
30.	Financial assets measured at fair value through other comprehensive income	35,718	864	-	36,582
40.	Financial assets measured at amortised cost	382,013	56,380	-21,537	416,856
	a) due from banks	*157,331*	*15,602*	*-21,537*	*151,396*
	b) loans to customers	*224,682*	*40,778*	-	*265,460*
50.	Hedging derivatives	3,823	219	-24	4,018
60.	Fair value change of financial assets in hedged portfolios (+/-)	-131	-61	-	-192
70.	Equity investments	30,558	31	-4,732	25,857
80.	Property and equipment	4,400	258	-	4,658
90.	Intangible assets	2,454	302	-	2,756
	of which:				
	- goodwill	859	301	-	1,160
100.	Tax assets	13,715	1,271	-	14,986
	a) current	*2,951*	*153*	-	*3,104*
	b) deferred	*10,764*	*1,118*	-	*11,882*
110.	Non-current assets held for sale and discontinued operations	266	-	-	266
120.	Other assets	3,278	1,421	-761	3,938
Total assets		**507,784**	**61,813**	**-27,054**	**542,543**

(millions of euro)

Liabilities and Shareholders' Equity		01.01.2018 FTA		Merger entries	01.01.2018
		Intesa Sanpaolo	Merged companies		
10.	Financial liabilities measured at amortised cost	427,289	54,852	-21,537	460,604
	a) due to banks	*173,710*	*6,253*	*-20,350*	*159,613*
	b) due to customers	*170,914*	*48,073*	*-58*	*218,929*
	c) securities issued	*82,665*	*526*	*-1,129*	*82,062*
20.	Financial liabilities held for trading	14,670	173	-	14,843
30.	Financial liabilities designated at fair value	9	-	-	9
40.	Hedging derivatives	5,465	480	-24	5,921
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	324	136	-	460
60.	Tax liabilities	1,338	85	-	1,423
	a) current	*103*	*4*	-	*107*
	b) deferred	*1,235*	*81*	-	*1,316*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80.	Other liabilities	6,983	1,087	-664	7,406
90.	Employee termination indemnities	767	231	-	998
100.	Allowances for risks and charges	4,211	548	-97	4,662
	a) commitments and guarantees given	*311*	*55*	-	*366*
	b) post-employment benefits	*883*	*89*	-	*972*
	c) other allowances for risks and charges	*3,017*	*404*	*-97*	*3,324*
110.	Valuation reserves	860	20	-30	850
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	4,103	-	-	4,103
140.	Reserves	2,013	167	-770	1,410
150.	Share premium reserve	26,164	904	-904	26,164
160.	Share capital	8,732	3,040	-3,040	8,732
170.	Treasury shares (-)	-26	-12	12	-26
180.	Net income (loss) (+/-)	4,882	102	-	4,984
Total liabilities and shareholders' equity		**507,784**	**61,813**	**-27,054**	**542,543**

A breakdown is provided below of the credit quality of the exposures at amortised cost, before and after adoption of IFRS 9 as of 1 January 2018.

Composition and stage allocation of the exposures at amortised cost subject to IFRS 9 impairment testing and related ECL

(millions of euro)

On-balance sheet exposures (Amortised cost)	IFRS 9											
	Gross exposure				Total adjustments				Net exposure			
	STAGE				STAGE				STAGE			
	1	2	3	TOTAL	1	2	3	TOTAL	1	2	3	TOTAL
Loans to Customers	208,866	29,485	35,567	**273,918**	-438	-840	-20,549	**-21,827**	208,428	28,645	15,018	**252,091**
Due from Banks	148,662	408	4	**149,074**	-61	-2	-4	**-67**	148,601	406	-	**149,007**
Debt securities	13,603	2,248	44	**15,895**	-66	-69	-2	**-137**	13,537	2,179	42	**15,758**
TOTAL	**371,131**	**32,141**	**35,615**	**438,887**	**-565**	**-911**	**-20,555**	**-22,031**	**370,566**	**31,230**	**15,060**	**416,856**

	IAS 39								
	Gross exposure			Total adjustments			Net exposure		
	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL	Performing	Non-performing	TOTAL
Loans to Customers	243,847	35,613	**279,460**	-706	-18,365	**-19,071**	243,141	17,248	**260,389**
Due from Banks	153,359	4	**153,363**	-107	-4	**-111**	153,252	-	**153,252**
Debt securities	16,479	41	**16,520**	-32	-	**-32**	16,447	41	**16,488**
TOTAL	**413,685**	**35,658**	**449,343**	**-845**	**-18,369**	**-19,214**	**412,840**	**17,289**	**430,129**

The schedule below shows the reconciliation between the financial statements in relation to the balance sheet captions (Assets and Liabilities) established by the new Bank of Italy Circular no. 262 and the corresponding reclassified financial statements, reclassified Balance Sheet, and the new credit quality table for the captions of the reclassified statement.

Reconciliation between the (Circular 262) Balance Sheet and the Reclassified Balance Sheet

(millions of euro)

Assets		01.01.2018
Due from banks		**148,473**
Caption 40a (parziale)	Financial assets measured at amortised cost - Due from banks	148,458
Caption 20a (parziale)	Financial assets held for trading - Due from banks	-
Caption 20b (parziale)	Financial assets designated at fair value - Due from banks	-
Caption 20c (parziale)	Other financial assets mandatorily measured at fair value - Due from banks	15
Caption 30 (parziale)	Financial assets measured at fair value through other comprehensive income - Due from banks	-
Loans to customers		**263,142**
Loans to customers measured at amortised cost		***257,537***
Caption 40b (parziale)	Financial assets measured at amortised cost - Loans to customers	252,051
Caption 40b (parziale)	Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	5,486
Loans to customers designated at fair value through other comprehensive income and through profit or loss		***5,605***
Caption 20a (parziale)	Financial assets held for trading - Loans to customers	-
Caption 20b (parziale)	Financial assets designated at fair value - Loans to customers	-
Caption 20c (parziale)	Other financial assets mandatorily measured at fair value - Loans to customers	5,605
Caption 30 (parziale)	Financial assets measured at fair value through other comprehensive income - Loans to customers	-
Financial assets measured at amortised cost which do not constitute loans		**10,861**
Caption 40a (parziale)	Financial assets measured at amortised cost - Debt securities (banks)	2,938
Caption 40b (parziale)	Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	7,923
Financial assets designated at fair value through profit or loss		**20,703**
Caption 20a (parziale)	Financial assets held for trading	19,098
Caption 20b (parziale)	Financial assets designated at fair value - Debt securities	201
Caption 20c (parziale)	Other financial assets mandatorily measured at fair value	1,404
Financial assets designated at fair value through other comprehensive income		**36,582**
Caption 30 (parziale)	Financial assets measured at fair value through other comprehensive income	36,582
Equity investments		**25,857**
Caption 70	Equity investments	25,857
Property, equipment and intangible assets		**7,414**
Caption 80	Property and equipment	4,658
Caption 90	Intangible assets	2,756
Tax assets		**14,986**
Caption 100	Tax assets	14,986
Non-current assets held for sale and discontinued operations		**266**
Caption 110	Non-current assets held for sale and discontinued operations	266
Other assets		**14,259**
Caption 10	Cash and cash equivalents	6,495
Caption 50	Hedging derivatives	4,018
Caption 60	Fair value change of financial assets in hedged portfolios (+/-)	-192
Caption 120	Other assets	3,938
Total assets		**542,543**

(millions of euro)

Liabilities		01.01.2018
Due to banks at amortised cost		**159,613**
Caption 10 a)	Financial liabilities measured at amortised cost - Due to banks	159,613
Due to customers at amortised cost and securities issued		**300,991**
Caption 10 b)	Financial liabilities measured at amortised cost - Due to customers	218,929
Caption 10 c)	Financial liabilities measured at amortised cost - Securities issued	82,062
Financial liabilities held for trading		**14,843**
Caption 20	Financial liabilities held for trading	14,843
Financial liabilities designated at fair value		**9**
Caption 30	Financial liabilities designated at fair value	9
Tax liabilities		**1,423**
Caption 60	Tax liabilities	1,423
Liabilities associated with non-current assets held for sale and discontinued operations		**-**
Caption 70	Liabilities associated with non-current assets held for sale and discontinued operations	-
Other liabilities		**13,787**
Caption 40	Hedging derivatives	5,921
Caption 50	Fair value change of financial liabilities in hedged portfolios (+/-)	460
Caption 80	Other liabilities	7,406
Allowances for risks and charges		**5,660**
Caption 90	Employee termination indemnities	998
Caption 100 b)	Allowances for risks and charges - Post-employment benefits	972
Caption 100 c)	Allowances for risks and charges - Other allowances	3,324
of which allowances for commitments and financial guarantees given		
Caption 100 a)	Allowances for risks and charges - Loan commitments and guarantees given	366
Share capital		**8,732**
Caption 160	Share capital	8,732
Reserves		**27,548**
Caption 120	Redeemable shares	-
Caption 140	Reserves	1,410
Caption 150	Share premium reserve	26,164
- Caption 170	Treasury shares	-26
Valuation reserves		**850**
Caption 110	Valuation reserves	850
Equity instruments		**4,103**
Caption 130	Equity instruments	4,103
Net income (loss)		**4,984**
Caption 180	Net income (loss) (+/-)	4,984
Total liabilities and shareholders' equity		**542,543**

Reclassified balance sheet

(millions of euro)

Assets	**01.01.2018**
Due from banks	148,473
Loans to customers	263,142
Loans to customers measured at amortised cost	*257,537*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*5,605*
Financial assets measured at amortised cost which do not constitute loans	10,861
Financial assets at fair value through profit or loss	*20,703*
Financial assets at fair value through other comprehensive income	36,582
Equity Investments	25,857
Property, equipment and intangible assets	7,414
Tax assets	14,986
Non-current assets held for sale and discontinued operations	266
Other assets	14,259
Total Assets	**542,543**

Liabilities	**01.01.2018**
Due to banks at amortised cost	159,613
Due to customers at amortised cost and securities issued	300,991
Financial liabilities held for trading	14,843
Financial liabilities designated at fair value	9
Tax liabilities	1,423
Liabilities associated with non-current assets held for sale and discontinued operations	-
Other liabilities	13,787
Allowances for risks and charges	5,660
of which allowances for commitments and financial guarantees given	*366*
Share capital	8,732
Reserves	27,548
Valuation reserves	850
Equity instruments	4,103
Net income (loss)	4,984
Total liabilities and shareholders' equity	**542,543**

Credit quality

(millions of euro)

Captions	*31.12.2017*				*Reclassifications and adjustments*			*01.01.2018*				
	Gross exposure	*Total adjustments*	*Net exposure*	*% coverage*	*Gross exposure reclassifications*	*Adjustments reclassifications*	*FTA adjustments*	*Gross exposure*		*Total adjustments*	*Net exposure*	*% coverage*
Bad loans	23,873	-15,319	8,554	64.2	-	-	-1,573	23,873	(*)	-16,892	6,981	70.8
Unlikely to pay	11,395	-2,978	8,417	26.1	-46	34	-641	11,349		-3,585	7,764	31.6
Past due loans	345	-68	277	19.7	-	-	-4	345		-72	273	20.9
Non-Performing Loans	**35,613**	**-18,365**	**17,248**	**51.6**	**-46**	**34**	**-2,218**	**35,567**		**-20,549**	**15,018**	**57.8**
Non-Performing Loans in Stage 3 (subject to impairment)	XXXXX	XXXXX	XXXXX		-	-	-	-		-	-	-
Non-performing loans measured at fair value through profit or loss	XXXXX	XXXXX	XXXXX		-	-	-	-		-	-	-
Performing loans	***243,847***	***-706***	***243,141***	**0.3**	**-5,496**	***21***	***-593***	**238,351**		**-1,278**	**237,073**	**0.5**
Stage 2	XXXXX	XXXXX	XXXXX		-		-	29,485		-840	28,645	2.8
Stage 1	XXXXX	XXXXX	XXXXX		-		-	208,866		-438	208,428	0.2
Performing loans measured at fair value through profit or loss	XXXXX	XXXXX	XXXXX					-			-	*n.a.*
Performing loans represented by securities	***14,034***	***-31***	***14,003***		***-593***	***(**)***	***14***	***-55***	**13,441**		**-72**	**13,369**	**0.5**
Stage 2	XXXXX	XXXXX	XXXXX		-				11,263		-16	11,247	0.1
Stage 1	XXXXX	XXXXX	XXXXX		-				2,178		-56	2,122	2.6
Loans held for trading	XXXXX	XXXXX	XXXXX		-				-			-	
Total loans to customers	**293,494**	**-19,102**	**274,392**		**-6,135**	**69**	**-2,866**	**287,359**		**-21,899**	**265,460**	

(*) Of which disposable bad loans:
- gross exposure: 18,489 million euro
- total adjustments: -13,419 million euro
- net exposure: 5,071 million euro
- coverage: 72.6%

(**) Of which 295 million euro relating to securities of financial companies and governments classified as Loans & Receivables in the 2017 Financial Statements.

Report on operations

Intesa Sanpaolo – Financial highlights and alternative performance measures

Income statement figures (millions of euro)			Changes vs 2017	
			amount	%
Net interest income	4,224	4,120	104	2.5
Net fee and commission income	3,986	3,950	36	0.9
Profits (Losses) on financial assets and liabilities designated at fair value	564	342	222	64.9
Operating income	12,288	10,205	2,083	20.4
Operating costs	-6,283	-6,081	202	3.3
Operating margin	6,005	4,124	1,881	45.6
Net adjustments to loans	-1,827	-2,431	-604	-24.8
Net income (loss)	3,686	4,861	-1,175	-24.2

Figures restated on a consistent basis, where necessary and material.

Income statement figures (millions of euro)		Changes vs 2017 Aggregate	
		amount	%
Net interest income	4,224 4,312	-88	-2.0
Net fee and commission income	3,986 4,116	-130	-3.2
Profits (Losses) on financial assets and liabilities designated at fair value	564 281	283	
Operating income	12,288 10,516	1,772	16.9
Operating costs	-6,283 -6,603	-320	-4.8
Operating margin	6,005 3,913	2,092	53.5
Net adjustments to loans	-1,827 -2,453	-626	-25.5
Net income (loss)	3,686 4,580	-894	-19.5

Figures restated on a consistent basis. The figures for the 2017 Aggregate have been recalculated also on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza, Veneto Banca and Banca Nuova.

2018

2017 (Figure of the Aggregate Set)

Balance sheet figures (millions of euro)		Changes	
		amount	%
Loans to customers	251,870 263,142	-11,272	-4.3
Total assets	528,553 542,543	-13,990	-2.6
Direct customer deposits	285,424 300,991	-15,567	-5.2
Indirect customer deposits:	254,643 264,967	-10,324	-3.9
of w hich: Assets under management	157,808 163,562	-5,754	-3.5
Shareholders' equity	47,211 46,217	994	2.2

Figures restated on a consistent basis, where necessary and material.

31.12.2018

01.01.2018

Capital ratios (%)	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	14.0 18.7
TIER 1 Capital / Risk-weighted assets	15.9 21.4
Total owns funds / Risk-weighted assets	18.6 25.0
Risk-weighted assets (millions of euro)	256,959 206,507

Profitability ratios (%)	
Cost / Income	51.1 59.6
Net income / Shareholders' equity (ROE) (a)	9.4 3.2
Net income / Total assets (ROA) (b)	0.7 0.3

Figures restated on a consistent basis, where necessary and material.

(a) Ratio of net income, less non-recurring components, to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 equity instruments and net income for the period.

(b) Ratio of net income, less non-recurring components, to total assets.

Risk ratios (%)	
Net bad loans / Loans to customers	1.7 2.7
Cumulated adjustments on bad loans / Gross bad loans to customers	69.3 70.8

Operating structure	31.12.2018	31.12.2017	Changes amount
Number of employees (*)	**48,339**	**51,180**	**-2,841**
Italy	47,648	50,263	-2,615
Abroad	691	917	-226
Number of branches	**3,379**	**3,925**	**-546**
Italy	3,365	3,842	-477
Abroad	14	83	-69

Figures restated on a consistent basis, where necessary and material.

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

31.12.2018

01.01.2018

The Parent Company Intesa Sanpaolo results

Introduction

Regarding the content of the Report on operations of the Intesa Sanpaolo S.p.A. separate financial statements 2018, reference is made to the Report of the consolidated financial statements.

General aspects

The income statement and balance sheet of the Parent Company Intesa Sanpaolo as at and for the year ended 31 December 2018 are presented below. The income statement is presented in a condensed reclassified format to enable a more immediate interpretation of the results.

Please note that IFRS 9 came into force from 1 January 2018, following which the criteria for the classification and measurement of financial instruments were changed and new financial statement formats were adopted. However, since the specific provisions of IFRS 9 and IFRS 1 do not require the mandatory restatement on a like-for-like basis of the comparative information in the financial year of first-time adoption of the new standard, the income statement figures for the previous periods have not been restated and have been determined on the basis of the former IAS 39.

In contrast, to enable consistent comparison, the figures for previous periods have been restated, where necessary, to retroactively reflect the effects of the corporate actions in 2017 and 2018.

In particular, the restatements involved:
- the merger of Cassa di Risparmio del Veneto S.p.A. on 23 July 2018, with accounting and tax effects from 1 January 2018;
- the merger of Cassa di Risparmio del Friuli Venezia Giulia S.p.A. on 23 July 2018, with accounting and tax effects from 1 January 2018;
- the merger of Imi Investimenti S.p.A. on 1 October 2018, with accounting and tax effects from 1 January 2018;
- the merger of Banco di Napoli S.p.A. on 26 November 2018, with accounting and tax effects from 1 January 2018;
- the merger of Cassa dei Risparmi di Forlì e della Romagna S.p.A. on 26 November 2018, with accounting and tax effects from 1 January 2018.

In addition, to provide better comparability, the comparative income statement includes the profit or loss effects from 1 January 2017, reconstructed also on the basis of the management accounting data, of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, on 26 June 2017, and of Banca Nuova S.p.A., on 7 April 2018, with accounting and tax effect from 1 January 2018.

Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided in separate tables included in the attachments, as also required by Consob in its Communication 6064293 of 28 July 2006.
In summary, the reclassifications and aggregations are as follows:
- dividends relating to investments carried at equity, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- Profits (losses) on trading, Fair value adjustments in hedge accounting, and Profits (losses) on financial assets and liabilities measured at fair value through profit or loss, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- Profits (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income and on disposal or repurchase of financial liabilities, which have been reallocated to Profits (losses) on financial assets and liabilities designated at fair value;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of loans and debt securities with public entities, non-financial companies and others as counterparties, and Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of loans, which have been allocated to Net adjustments to loans;
- Net losses/recoveries for credit risk, associated with financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, and Net losses/recoveries for

credit risk associated with financial assets measured at fair value through other comprehensive income, in the form of debt securities, which have been allocated to Other net provisions and net impairment losses on other assets;

- the reversal in the time value of Employee termination indemnities and Allowances for risks and charges, which has been reclassified to Net interest income, as a phenomenon deriving directly from the application of the amortised cost criterion, in the absence of changes in projected future cash flows;
- Net impairment losses on equity investments in associates, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Other net provisions and net impairment losses on other assets, which consequently include – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to Impairment of goodwill and other intangible assets;
- Profits and losses on disposal or repurchase of financial assets measured at amortised cost, in the form of debt securities with governments and financial and insurance companies as counterparties, which have been allocated to Other income (expenses);
- Realised profits (losses) on equity investments and on other investments have been reallocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans.
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement to a separate caption;
- the Effects of purchase price allocation, net of the tax effect, are indicated in a specific caption. They represent adjustments, impairment losses and effects from realisation for financial assets and liabilities and property and equipment and intangible assets which were measured at fair value as provided for by IFRS 3;
- levies and other charges aimed at maintaining the stability of the banking industry, which have been reclassified, after tax, to the specific caption;
- Impairment losses on goodwill, investments in subsidiaries and impairment losses on other intangible assets, which are shown, net of tax, in a specific caption amongst "non-current" income components.

Reclassified income statement

(millions of euro)

	2018	2017	Changes vs 2017		2017 Aggregate	Changes vs 2017 Aggregate	
			amount	%		amount	%
Net interest income	4,224	4,120	104	2.5	4,312	-88	-2.0
Net fee and commission income	3,986	3,950	36	0.9	4,116	-130	-3.2
Profits (Losses) on financial assets and liabilities designated at fair value	564	342	222	64.9	281	283	
Other operating income (expenses)	3,514	1,793	1,721	96.0	1,807	1,707	94.5
Operating income	**12,288**	**10,205**	**2,083**	**20.4**	**10,516**	**1,772**	**16.9**
Personnel expenses	-3,619	-3,506	113	3.2	-3,804	-185	-4.9
Other administrative expenses	-2,533	-2,431	102	4.2	-2,633	-100	-3.8
Adjustments to property, equipment and intangible assets	-131	-144	-13	-9.0	-166	-35	-21.1
Operating costs	**-6,283**	**-6,081**	**202**	**3.3**	**-6,603**	**-320**	**-4.8**
Operating margin	**6,005**	**4,124**	**1,881**	**45.6**	**3,913**	**2,092**	**53.5**
Net adjustments to loans	-1,827	-2,431	-604	-24.8	-2,453	-626	-25.5
Other net provisions and net impairment losses on other assets	-89	-171	-82	-48.0	-189	-100	-52.9
Other income (expenses)	412	4,112	-3,700	-90.0	4,112	-3,700	-90.0
Income (Loss) from discontinued operations	-	-	-	-	-	-	-
Gross income (loss)	**4,501**	**5,634**	**-1,133**	**-20.1**	**5,383**	**-882**	**-16.4**
Taxes on income	-148	-90	58	64.4	-41	107	
Charges (net of tax) for integration and exit incentives	-50	-247	-197	-79.8	-283	-233	-82.3
Effect of purchase price allocation (net of tax)	-117	368	-485		368	-485	
Levies and other charges concerning the banking industry (net of tax)	-217	-545	-328	-60.2	-588	-371	-63.1
Impairment (net of tax) of goodwill, other intangible assets and controlling interests	-283	-259	24	9.3	-259	24	9.3
Net income (loss)	**3,686**	**4,861**	**-1,175**	**-24.2**	**4,580**	**-894**	**-19.5**

Figures restated on a consistent basis. The figures for the 2017 Aggregate have been recalculated also on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza, Veneto Banca and Banca Nuova.

The income statement for the year posted net income of 3.7 billion euro, compared to 4.6 billion in 2017.

Gross income, amounting to 4.5 billion euro, was down because the previous year included an amount of 3,500 million euro for the public contribution related to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca to cover the impacts on capital ratios, in order to ensure the neutrality of the transaction for the Common Equity Tier 1 ratio. Net of this extraordinary item, there was significant growth, driven by an increase in Operating income (+1.8 billion euro, +16.9%), a reduction in operating costs (-320 million euro, -4.8%), as well as a decrease in adjustments to loans, in other net provisions and net impairment losses on other assets, and a reduction in operating costs.

Net interest income, amounting to 4,224 million euro, was down by around 2%. Against the backdrop of interest rates at historical lows, performance was conditioned by the lower interest on non-performing assets due to pro-active management of NPLs and in particular to the disposal of bad loans in the Intrum transaction, together with the more limited contribution of hedging of core deposits also following the actions taken in light of the changed expectations regarding the interest rate curve. Customer dealing contributed 3,188 million euro. Interest on financial assets amounted to 239 million euro. Net interest income on the interbank market came to 80 million euro, benefiting from the modest cost of interbank funding.

Net fee and commission income amounted to 3,986 million euro, down from 4,116 million euro in the previous year. The decrease related to the management, dealing and financial consultancy segment (-115 million euro, or -5.4%), in particular for the distribution of insurance products (-44 million euro) and for the dealing and placement of financial instruments (-45 million euro, mainly as a result of the reduction in fees for the placement of funds, amounting to -121 million euro, partially offset by the increase in fees on the placement of securities and derivatives, up by around 85 million euro).
Other net fee and commission income was also down (-83 million euro, or -24%), mainly on loans and transactions in credit derivatives, in addition to other residual categories.
Growth was recorded in the commercial banking business (+68 million euro, or 4%), mainly attributable to debit and credit card services (+35 million euro, 14%), fees on current accounts (+21 million euro, 2%) and fees on guarantees given and received (+17 million euro, 8%).

Profits on trading amounted to 564 million euro at the end of 2018, compared to profits of 281 million euro recorded in 2017. As already mentioned in the introduction, the entry into force of IFRS 9 from 1 January 2018, which resulted in a change to

the criteria for the classification and measurement of financial instruments, means that the figures for the previous year are not fully comparable. This is because, in the absence of provisions regarding the mandatory restatement of the comparative information on a like-for-like basis in the year of first-time adoption of the new standard, the figures for the previous year have been determined based on the former IAS 39.
The positive result for the year was driven, in particular, by equity transactions amounting to 288 million euro, which included the net profit from the sale during the year of the interest held in Nuovo Trasporto Viaggiatori (NTV) of 258 million euro, dividends of 50 million euro, and profits on the sale of debt securities measured at fair value through other comprehensive income of 211 million euro, essentially relating to government bonds. Profits on transactions in interest rates and credit derivatives amounted to 132 million euro, despite including losses of 22 million euro from hedges, which were more than offset by the net profit from transactions in debt securities and trading derivatives; this aggregate also included the credit derivatives for managing counterparty risk generated by financial derivatives. Losses of 34 million euro were recorded on transactions in currencies, while profits were recorded, on the contrary, on transactions in structured products (16 million euro) and commodity derivatives (2 million euro).

Other net operating income amounted to 3,514 million euro compared to 1,807 million euro in the previous year. The aggregate includes dividends from investees of 3,442 million euro (1,699 million euro in the previous year), with the remainder comprised of other income.
In terms of dividends, the increase mainly regarded the distribution of profits by Eurizon Capital Sgr, Fideuram Intesa Sanpaolo Private Banking, Intesa Sanpaolo Vita, Mediocredito Italiano, and Bank of Alexandria, in addition to other minor companies. Vice versa, smaller contributions compared to the previous year were mainly received from Banca Imi, Banka Intesa Sanpaolo D.D. and other minor companies.
Other income, amounting to 73 million euro, mainly derived from recoveries for services rendered to Group companies and rental income, net of amortisation of leasehold improvement costs and other net charges.

As a result of these changes, Operating income amounted to 12,288 million euro, an increase of 1,772 million euro on the previous year (+16.9%).

Operating costs amounted to 6,283 million euro, down 4.8% on the previous year, due to the reduction in depreciation and amortisation of property and equipment and intangible assets, from 166 million euro to 131 million euro (-21%), in personnel expenses, which fell from 3,804 million euro to 3,619 million euro (-4.9%), and in other administrative expenses, which decreased from 2,633 million euro to 2,533 million euro (-3.8%). With regard to the personnel expenses, the decrease was also related to the redundancies resulting from the trade union agreements of 2017, which were higher than the normal increase in salaries and incentives for staff in service.

The performance of operating income and costs illustrated above resulted in an operating margin of 6,005 million euro. On a like-for-like basis, the comparison with the 3,913 million euro in the previous year shows an increase of 53%.

Net adjustments to loans totalled 1,827 million euro; also for this amount, the introduction of IFRS 9 means that it is not fully comparable with the figures for the previous year, determined on the basis of the former IAS 39. With regard to the profit or loss effect for 2018, adjustments to non-performing loans during the year, totalling 2,040 million euro, consisted of 37% of adjustments to bad loans, 48% of loans classified as unlikely to pay and 14% of past-due exposures.

Other net provisions and net impairment losses on other assets amounted to -89 million euro (-189 million euro in the previous period) and included -68 million euro in provisions intended to cover probable risks arising from revocatory actions, compensation suits and legal disputes, -28 million euro for other issues, -11 million euro in impairment losses on non-controlling investments and -6 million euro for the impairment losses on the fair value measurement of property and equipment. The total amount also includes recoveries of about 24 million euro.

Other income, amounting to 412 million euro (4,112 million euro as at 1 January 2018, 612 million euro net of the already mentioned public contribution of 3,500 million euro received to offset the impacts on the capital ratios from the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca), included the profit realised on the disposal of control of the equity investment in Tersia and the revaluation of the remaining minority interest, as part of the partnership with Intrum, which also involved the sale of a significant package of non-performing loans.

Gross income amounted to 4,501 million euro, compared to 5,383 million euro in the previous year (1,883 million euro excluding the public contribution).

Taxes on income showed an estimated allowance of 148 million euro compared to 41 million euro in the previous year. This caption was impacted by the change in relevance for tax purposes of the components of the income statement, which give rise to the difference compared to the nominal tax rates (IRES tax 27.5% and IRAP tax 5.56%). In the previous year the contribution received as part of the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca to cover the impacts on capital ratios (3.5 billion euro) was not relevant for tax purposes (IRES and IRAP tax). In both periods, a considerable difference compared to nominal tax rates depends on the tax regime for dividends.

Charges for integration and exit incentives, net of the tax effect of 24 million euro, amounted to 50 million euro, and included IT expenses and professional service fees attributable to integration projects, in addition to additional charges for exit incentive plans deriving from agreements entered into in previous years.

The Effect of purchase price allocation, net of the tax effect, amounted to -117 million euro. This aggregate includes the result of the fair value differences arising during the purchase price allocation in accordance with IFRS 3 and determined at the date

of acquisition of the Network Banks merged during the year, amounting to approximately -16 million euro after tax. These transactions, which qualify as business combinations under common control, were recognised using book value accounting.

Levies and other charges concerning the banking industry amounted to -217 million euro, net of tax effects of 105 million euro, and included the contributions to the resolution fund and deposit guarantee scheme and the full impairment of the Carige subordinated bonds subscribed through the Voluntary Scheme of the National Interbank Deposit Guarantee Fund.

The Impairment of goodwill, other intangible assets and controlling investments (net of the related tax effect), amounting to 283 million euro, consisted of the impairment losses recognised on investments held, primarily in Intesa Sanpaolo Provis, Banca Apulia, Risanamento, Veneto Banka, Intesa Reoco, Intesa Casa, and other minor companies.

Reclassified balance sheet

The reclassified balance sheet as at 31 December 2018 includes the results of the mergers by incorporation completed during the year, all with accounting and tax effect from 1 January 2018, of Banca Nuova S.p.A., Cassa Di Risparmio del Veneto S.p.A., Cassa Di Risparmio del Friuli Venezia Giulia S.p.A., Imi Investimenti S.p.A., Banco di Napoli S.p.A., and Cassa Dei Risparmi di Forlì e della Romagna S.p.A.

Breakdowns of restatements, aggregations and reclassifications are provided in separate tables included in the attachments to the Parent Company's financial statements, as also required by Consob in its Communication 6064293 of 28 July 2006.

The aggregations of the captions of the reclassified balance sheet related to:
- the separate presentation of financial assets constituting Due from banks and Loans to customers, regardless of the accounting portfolios to which they have been allocated;
- the separate presentation of financial assets not constituting loans, divided into financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, net of the amounts reclassified to Due from banks and Loans to customers;
- the presentation of debt securities, equities, quotas of UCI, derivatives held for trading, debt securities designated at fair value, and debt securities, equity securities and quotas of UCI mandatorily measured at fair value, in the caption Financial assets at fair value through profit or loss;
- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of Hedging derivatives and Fair value change of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the presentation of Property and equipment and Intangible assets in a single caption;
- the presentation of Due to customers at amortised cost and Securities issued in a single caption;
- the aggregation into one caption (Allowances for risks and charges) of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as an aggregate and net of any treasury shares.

To provide a more effective presentation of the composition of the aggregates, derivatives recorded in Financial assets/liabilities held for trading are presented on a net basis in the tables and in the related comments.

As already mentioned with regard to the income statement figures, also for the balance sheet, the entry into force, from 1 January 2018, of IFRS 9 has led to the change in the criteria for the classification and measurement of financial instruments and the adoption of new financial statement formats.
To facilitate comparison on a like-for-like basis, the reclassified balance sheet presented below compares the figures for the year with the figures for December 2017 restated as at 1 January 2018 based on the provisions of IFRS 9 (First Time Adoption).

The reclassified balance sheet as at 1 January 2018 also includes the results of the above-mentioned mergers by incorporation, which were completed during the year.

(millions of euro)

Assets	31.12.2018	01.01.2018	Changes	
			amount	%
Due from banks	154,291	148,473	5,818	3.9
Loans to customers	251,870	263,142	*-11,272*	*-4.3*
Loans to customers measured at amortised cost	*246,040*	*257,537*	*-11,497*	*-4.5*
Loans to customers designated at fair value through other comprehensive income and through profit or loss	*5,830*	*5,605*	*225*	*4.0*
Financial assets measured at amortised cost which do not constitute loans	9,273	10,861	-1,588	-14.6
Financial assets at fair value through profit or loss	20,066	20,703	*-637*	*-3.1*
Financial assets at fair value through other comprehensive income	31,117	36,582	-5,465	-14.9
Equity Investments	26,258	25,857	401	1.6
Property, equipment and intangible assets	7,366	7,414	-48	-0.6
Tax assets	14,335	14,986	-651	-4.3
Non-current assets held for sale and discontinued operations	672	266	406	
Other assets	13,305	14,259	-954	-6.7
Total Assets	**528,553**	**542,543**	**-13,990**	**-2.6**

(millions of euro)

Liabilities	31.12.2018	01.01.2018	Changes	
			amount	%
Due to banks at amortised cost	161,719	159,613	2,106	1.3
Due to customers at amortised cost and securities issued	285,424	300,991	-15,567	-5.2
Financial liabilities held for trading	14,560	14,843	-283	-1.9
Financial liabilities designated at fair value	1,821	9	1,812	
Tax liabilities	1,447	1,423	24	1.7
Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
Other liabilities	12,092	13,787	-1,695	-12.3
Allowances for risks and charges	4,279	5,660	-1,381	-24.4
of which allowances for commitments and financial guarantees given	*350*	*366*	*-16*	*-4.4*
Share capital	9,085	8,732	353	4.0
Reserves	29,256	27,548	1,708	6.2
Valuation reserves	1,081	850	231	27.2
Equity instruments	4,103	4,103	-	-
Net income (loss)	3,686	4,984	-1,298	-26.0
Total liabilities and shareholders' equity	**528,553**	**542,543**	**-13,990**	**-2.6**

Figures restated on a consistent basis, where necessary and material.

Comments are provided below on the main balance sheet aggregates as at 31 December 2018 compared with those as at 1 January 2018 including the effects of the first-time adoption of IFRS 9.

As a 31 December 2018, loans to customers totalled around 252 billion euro, down 4.3% on the restated figure as at 1 January 2018.

With regard to loan quality, net non-performing loans, excluding those represented by securities, decreased to 11 billion euro compared to 15 billion euro as at 1 January 2018.
The performance of the individual components shows:
– a decrease in bad positions of 37.1% (from 6,981 million euro to 4,392 million euro);
– a reduction in loans classified as “unlikely to pay”, which fell from 7,764 million euro to 6,439 million euro, equal to 17.1%;
– a decrease in past-due loans, which amounted to 261 million euro compared to 273 million euro as at 1 January 2018.
Performing loans, excluding those represented by securities and intragroup loans, of approximately 17 billion euro, amounted to around 227 billion euro, compared to 234 billion euro as at 1 January 2018, representing a decline of 7 billion euro (-2.9%). The related average coverage was 0.49%.

Direct deposits, consisting of amounts due to customers at amortised cost and securities issued, amounted to 285 billion euro, down 5.2% compared to 1 January 2018, with the reduction consisting of around 10.4 billion euro of non-securities funding and the remaining 5.2 billion euro of securities funding.

Net exposure to banks, consisting of amounts due from banks at amortised cost and held for trading, net of amounts due to banks at amortised cost, amounted to -7.4 billion euro compared to -11.1 billion euro as at 1 January 2018 (+3.7 billion euro).

Financial assets at fair value through profit or loss, which included financial and credit derivatives and debt and equities securities held for trading and mandatorily measured at fair value, amounted to a total of +3.7 billion euro, net of financial liabilities held for trading and designated at fair value, compared to +5.8 billion euro as at 1 January 2018.

Financial assets at fair value through other comprehensive income amounted to around 31 billion euro. These assets, which consisted of equity investments and private equity interests of 2.3 billion euro and debt securities of 28.8 billion euro, decreased by almost 5.5 billion euro, primarily due to the latter component.

Financial assets measured at amortised cost which do not constitute loans amounted to around 9 billion euro, down 1.6 billion euro compared to the previous year (-14.6%) mainly as a result of the reduction in debt securities with banks.

Property and equipment and intangible assets amounted to 7.4 billion euro, substantially unchanged compared to the previous year (-0.6%).

Equity investments, which amounted to just over 26 billion euro, included controlling interests in subsidiaries, associates and companies subject to joint control, and were essentially unchanged on the previous year (+1.6%).

Tax assets, net of tax liabilities, amounted to around 12.9 billion euro and were down by 5%.

Allowances for risks and charges amounted to 4.3 billion euro, down 24.4% compared to 1 January 2018 (-1.4 billion euro), mainly as a result of the reduction in the allowances for post-employment benefits (-0.75 billion euro) due to disbursements connected with the subscription of the capitalisation offer made to the members of the “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino” Fund.

Shareholders’ equity, including the net income of 3.7 billion euro, amounted to 47.2 billion euro compared to 46.3 billion euro as at 1 January 2018 and 48.5 billion as at 31 December 2017. The effect of the first-time adoption of IFRS 9 had an impact of -2.3 billion euro on the retained earnings reserves and +86 million euro on the valuation reserves.
During the year, shareholders’ equity increased by 353 million euro as a result of the merger of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo, as well as of the 2018-2021 LECOIP 2.0 Long-term Incentive Plan reserved for employees and based on financial instruments.
The share premium reserve increased by around 827 million euro as a result of the capital increase with payment and also decreased by -2.1 billion euro due to the distribution of dividends approved by the shareholders’ meeting.

Own funds amounted to around 47.8 billion euro. The calculation was carried out using the rules introduced, effective as of 1 January 2014, by European Regulation no. 575/2013 (CRR) and Directive 2013/36/EU (CRD IV) as part of the new regulatory framework of the European Union for banks and investment firms. Capital ratios remained high, far above the regulatory requirements. In particular, the Common Equity Tier 1 ratio was 14.0% according to the transitional rules in effect for 2018.

Other information

As provided for by article 2497 and subsequent articles of the Italian Civil Code, Intesa Sanpaolo exercises management and coordination activities for its direct and indirect subsidiaries, including companies which, on the basis of current laws, are not part of the Banking group, with the exception of Risanamento S.p.A., Autostrade Lombarde S.p.A and their subsidiaries.

This Report on the Intesa Sanpaolo S.p.A. financial statements includes only a comment on the Bank's performance and related alternative performance measures. For all other information required by Law or regulations, reference should be made to the consolidated financial statements or the Notes to these Parent Company's financial statements and to the related Report on Operations, when illustrating specific themes.

Specifically, reference should be made to the Notes to these Parent Company's financial statements with regard to:
- information on the Bank's transactions with related parties, provided in Part H;
- information on financial and operational risks, illustrated in Part E;
- the list of subsidiaries, companies subject to joint control and companies subject to significant influence as at 31 December 2018, provided in Part B;
- information on capital, provided in Part F.

Reference should instead be made to the consolidated financial statements with regard to:
- information on the main risks and uncertainties, as the same considerations as those illustrated in the corresponding paragraph of the Executive Summary of the consolidated financial statements also apply;
- risks linked to capital stability and to going concern issues, discussed in the Consolidated Executive Summary;
- information regarding obligations pursuant to Art. 15 of the Consob Market Regulation (formerly Art. 36), with reference to subsidiaries located in non-EU member states, provided in Part E.

Information on the Intesa Sanpaolo Corporate Governance system pursuant to Art. 123-bis is provided in the separate "Report on Corporate Governance and Ownership Structures published together with these financial statements.

Information on remuneration as per Art. 123-ter of the Consolidated Law on Finance is briefly illustrated in the Consolidated Report on Operations and in a separate information document "Report on Remuneration" published every year.

As regards the non-financial statement required by Legislative Decree 254/2016, note that the company has prepared the non-financial statement at consolidated level pursuant to Art. 4 of said Decree. Said document is published together with these financial statements.

Forecast for 2019

For Intesa Sanpaolo, profitability in 2019 is expected to be marked by a reduction in operating costs and a decrease in the cost of risk. The dividend policy for 2019 envisages the distribution of cash dividends corresponding to a payout ratio of 80% of consolidated net income.

The Board of Directors

Torino, 26 February 2019

Proposals to the Shareholders' Meeting

Distinguished Shareholders.

Pursuant to Article 2364 of the Italian Civil Code and Articles 7.3 and 29.3 of the Company's Articles of Association, we hereby submit for your approval the financial statements of the Parent Company Intesa Sanpaolo as at 31 December 2018 and the proposal for allocation of net income for the year.

The reclassifications made to the shareholders' equity items are described in section 12 of Part B - Liabilities of the Notes to the Financial Statements. You are also reminded that, pursuant to Article 6, paragraph 1, letter a) of Legislative Decree 38/2005 currently in force, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge and other than the net income from trading financial instruments and foreign exchange and hedging transactions, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2018, such amount was 86,185,974.87 euro.

Given the above, it is proposed to allocate the net income for the year 2018 of Intesa Sanpaolo, which amounts to 3,685,594,819.23 euro, as follows:

	(euro)
Net income for the year	3,685,594,819.23
Assignment of a dividend of 0.197 euro for each of the 17,509,481,027 ordinary shares outstanding, for a total disbursement of	3,449,367,762.32
Assignment to the Allowance for charitable, social and cultural contributions	13,500,000.00
Assignment to the Extraordinary reserve of the residual net income	222,727,056.91

The proposed dividend makes it possible to remunerate shareholders consistently with the sustainable profitability of the Group, while ensuring the capital adequacy of the Bank and the Banking Group. This is as a result of the Basel 3 series of Rules, as well as the provisions issued by the European Central Bank. If this proposal is approved, the consolidated capital requirements would show a Common Equity Tier 1 ratio of 13.5% and a Total Capital Ratio of 17.7%, while the capital requirements of Intesa Sanpaolo S.p.A. would be even higher.
The aforesaid capital ratios exceed the requirements of EU Bodies and the Supervisory Authority.
We propose that the above distributions be made payable, in compliance with legal provisions, as of 22 May 2019, with detachment of the coupon on 20 May 2019.
Please note that dividends not distributed in respect of any treasury shares held by the Bank at the record date shall be allocated to the Extraordinary Reserve.

If the proposal submitted is approved by you, and taking into account the reclassification to the Extraordinary Reserve of the total net negative amount of 170,947,708.11 euro relating to the merger and exchange differences arising from the cancellation of the shares of the subsidiaries Banca Nuova S.p.A., Cassa di Risparmio del Veneto S.p.A., Cassa di Risparmio del Friuli Venezia Giulia S.p.A., IMI Investimenti S.p.A., Cassa di Risparmio di Forlì e della Romagna S.p.A., Banco di Napoli S.p.A. and Intesa Sanpaolo Securitisation Vehicle S.r.l. merged during the year (in this regard it should be noted that, pursuant to Article 172, paragraph 5, of the Consolidated Law on Income Taxes, in relation to the aforementioned merger differences, Suspended Tax Reserves will be re-established for an amount of 14,425.49 euro), as well as the reclassification to the Share Premium Reserve of the total positive amount of 306,299,877.18 euro - now recognised under Other Reserves - of the LECOIP Contribution Reserve, established in connection with the LECOIP-Leveraged Employee Co-Investment Plan launched in 2014 and completed in 2018, the shareholders' equity of Intesa Sanpaolo S.p.A. will be as shown in the table below.

(millions of euro)

Shareholders' equity	Annual report 2018	Changes	Share capital and reserves of Annual Report 2018 after the Shareholders' Meeting resolutions
Share capital	**9,085**	**-**	**9,085**
Share premium reserve	24,926	306	25,232
Reserves	4,370	-83	4,287
Valuation reserves	1,081	-	1,081
Equity instruments	4,103	-	4,103
Treasury shares	-40	-	-40
Total reserves	**34,440**	**223**	**34,663**
TOTAL	**43,525**	**223**	**43,748**

The Board of Directors

Torino, 26 February 2019

Parent Company's financial statements

Financial statements

Balance sheet

(euro)

Assets		31.12.2018	31.12.2017	Changes amount	Changes %
10.	Cash and cash equivalents	7,363,132,608	5,749,702,612	1,613,429,996	28.1
20.	Financial assets measured at fair value through profit or loss	25,878,591,115	18,586,740,166	7,291,850,949	39.2
	a) financial assets held for trading	*18,020,440,604*	*18,264,452,315*	*-244,011,711*	*-1.3*
	b) financial assets designated at fair value	*197,753,361*	*322,287,851*	*-124,534,490*	*-38.6*
	c) other financial assets mandatorily measured at fair value	*7,660,397,150*	*-*	*7,660,397,150*	*-*
30.	Financial assets measured at fair value through other comprehensive income	31,135,690,799	36,911,639,839	-5,775,949,040	-15.6
40.	Financial assets measured at amortised cost	409,602,431,307	390,467,579,677	19,134,851,630	4.9
	a) due from banks	*154,590,837,735*	*157,439,934,737*	*-2,849,097,002*	*-1.8*
	b) loans to customers	*255,011,593,572*	*233,027,644,940*	*21,983,948,632*	*9.4*
50.	Hedging derivatives	2,877,547,472	3,822,813,304	-945,265,832	-24.7
60.	Fair value change of financial assets in hedged portfolios (+/-)	77,275,285	-130,633,072	207,908,357	
70.	Equity investments	26,257,677,770	30,558,013,553	-4,300,335,783	-14.1
80.	Property and equipment	4,598,266,116	4,399,954,385	198,311,731	4.5
90.	Intangible assets	2,767,601,935	2,454,495,926	313,106,009	12.8
	of which:				
	- goodwill	*1,160,336,910*	*858,532,215*	*301,804,695*	*35.2*
100.	Tax assets	14,334,819,665	13,012,846,576	1,321,973,089	10.2
	a) current	*2,996,573,278*	*2,950,336,388*	*46,236,890*	*1.6*
	b) deferred	*11,338,246,387*	*10,062,510,188*	*1,275,736,199*	*12.7*
110.	Non-current assets held for sale and discontinued operations	672,258,249	265,849,446	406,408,803	
120.	Other assets	2,987,801,986	3,278,434,392	-290,632,406	-8.9
Total assets		**528,553,094,307**	**509,377,436,804**	**19,175,657,503**	**3.8**

Balance sheet

(euro)

Liabilities and Shareholders' Equity		31.12.2018	31.12.2017	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	447,143,398,340	427,289,537,038	19,853,861,302	4.6
	a) due to banks	*161,719,030,885*	*173,709,711,661*	*-11,990,680,776*	*-6.9*
	b) due to customers	*208,532,094,893*	*170,914,110,169*	*37,617,984,724*	*22.0*
	c) securities issued	*76,892,272,562*	*82,665,715,208*	*-5,773,442,646*	*-7.0*
20.	Financial liabilities held for trading	14,559,502,621	14,579,631,354	-20,128,733	-0.1
30.	Financial liabilities designated at fair value	1,821,039,982	9,133,072	1,811,906,910	
40.	Hedging derivatives	5,357,675,339	5,555,327,525	-197,652,186	-3.6
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	381,865,835	323,857,059	58,008,776	17.9
60.	Tax liabilities	1,446,555,316	1,284,667,901	161,887,415	12.6
	a) current	*75,887,346*	*102,626,726*	*-26,739,380*	*-26.1*
	b) deferred	*1,370,667,970*	*1,182,041,175*	*188,626,795*	*16.0*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80.	Other liabilities	6,352,470,569	6,982,977,351	-630,506,782	-9.0
90.	Employee termination indemnities	845,215,781	767,146,054	78,069,727	10.2
100.	Allowances for risks and charges	3,434,676,119	4,112,924,336	-678,248,217	-16.5
	a) commitments and guarantees given	*350,010,141*	*212,022,648*	*137,987,493*	*65.1*
	b) post-employment benefits	*223,290,421*	*883,579,918*	*-660,289,497*	*-74.7*
	c) other allowances for risks and charges	*2,861,375,557*	*3,017,321,770*	*-155,946,213*	*-5.2*
110.	Valuation reserves	1,080,919,802	773,748,333	307,171,469	39.7
120.	Redeemable shares	-	-	-	-
130.	Equity instruments	4,102,664,631	4,102,750,714	-86,083	-
140.	Reserves	4,369,749,752	3,843,194,689	526,555,063	13.7
150.	Share premium reserve	24,925,954,843	26,164,131,214	-1,238,176,371	-4.7
160.	Share capital	9,085,469,852	8,731,984,116	353,485,736	4.0
170.	Treasury shares (-)	-39,659,294	-25,863,278	13,796,016	53.3
180.	Net income (loss) (+/-)	3,685,594,819	4,882,289,326	-1,196,694,507	-24.5
	Total liabilities and shareholders' equity	**528,553,094,307**	**509,377,436,804**	**19,175,657,503**	**3.8**

Income statement

(euro)

		2018	2017	Changes amount	Changes %
10.	Interest and similar income	7,036,268,661	6,458,141,888	578,126,773	9.0
	of which: interest income calculated using the effective interest rate method	*7,245,312,697*	*5,744,268,384*	*1,501,044,313*	*26.1*
20.	Interest and similar expense	-2,785,287,693	-3,647,250,788	-861,963,095	-23.6
30.	**Interest margin**	**4,250,980,968**	**2,810,891,100**	**1,440,089,868**	**51.2**
40.	Fee and commission income	4,929,423,970	3,793,854,801	1,135,569,169	29.9
50.	Fee and commission expense	-912,661,080	-825,520,418	87,140,662	10.6
60.	**Net fee and commission income**	**4,016,762,890**	**2,968,334,383**	**1,048,428,507**	**35.3**
70.	Dividend and similar income	3,491,677,892	1,888,660,731	1,603,017,161	84.9
80.	Profits (Losses) on trading	-79,935,623	46,821,374	-126,756,997	
90.	Fair value adjustments in hedge accounting	-22,244,300	-17,328,451	4,915,849	28.4
100.	Profits (Losses) on disposal or repurchase of:	100,711,617	181,248,529	-80,536,912	-44.4
	a) financial assets measured at amortised cost	*-64,232,505*	*-10,886,814*	*53,345,691*	
	b) financial assets measured at fair value through other comprehensive income	*214,993,962*	*212,407,293*	*2,586,669*	*1.2*
	c) financial liabilities	*-50,049,840*	*-20,271,950*	*29,777,890*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	280,721,335	2,366,331	278,355,004	
	a) financial assets and liabilities designated at fair value	*29,612,955*	*2,366,331*	*27,246,624*	
	b) other financial assets mandatorily measured at fair value	*251,108,380*	-	*251,108,380*	-
120.	**Net interest and other banking income**	**12,038,674,779**	**7,880,993,997**	**4,157,680,782**	**52.8**
130.	Net losses/recoveries for credit risks associated with:	-1,820,970,596	-2,017,545,067	-196,574,471	-9.7
	a) financial assets measured at amortised cost	*-1,821,932,128*	*-1,541,323,340*	*280,608,788*	*18.2*
	b) financial assets measured at fair value through other comprehensive income	*961,532*	*-476,221,727*	*477,183,259*	
140.	Profits (Losses) on changes in contracts without derecognition	-16,347,123	46,858	-16,393,981	
150.	**Net income from banking activities**	**10,201,357,060**	**5,863,495,788**	**4,337,861,272**	**74.0**
160.	Administrative expenses:	-7,016,630,150	-6,384,782,140	631,848,010	9.9
	a) personnel expenses	*-3,670,210,376*	*-3,775,235,832*	*-105,025,456*	*-2.8*
	b) other administrative expenses	*-3,346,419,774*	*-2,609,546,308*	*736,873,466*	*28.2*
170.	Net provisions for risks and charges	-39,701,232	-818,539,821	-778,838,589	-95.1
	a) commitments and guarantees given	*9,969,715*	-	*9,969,715*	-
	b) other net provisions	*-49,670,947*	*-818,539,821*	*-768,868,874*	*-93.9*
180.	Net adjustments to / recoveries on property and equipment	-125,285,249	-123,334,124	1,951,125	1.6
190.	Net adjustments to / recoveries on intangible assets	-15,077,425	-12,895,800	2,181,625	16.9
200.	Other operating expenses (income)	517,930,457	5,328,341,445	-4,810,410,988	-90.3
210.	**Operating expenses**	**-6,678,763,599**	**-2,011,210,440**	**4,667,553,159**	
220.	Profits (Losses) on equity investments	127,339,460	166,969,444	-39,629,984	-23.7
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-5,806,488	-16,560,861	-10,754,373	-64.9
240.	Goodwill impairment	-	-	-	-
250.	Profits (Losses) on disposal of investments	805,923	77,195,893	-76,389,970	-99.0
260.	**Income (Loss) before tax from continuing operations**	**3,644,932,356**	**4,079,889,824**	**-434,957,468**	**-10.7**
270.	Taxes on income from continuing operations	40,662,463	802,399,502	-761,737,039	-94.9
280.	**Income (Loss) after tax from continuing operations**	**3,685,594,819**	**4,882,289,326**	**-1,196,694,507**	**-24.5**
290.	Income (Loss) after tax from discontinued operations	-	-	-	-
300.	**Net income (loss)**	**3,685,594,819**	**4,882,289,326**	**-1,196,694,507**	**-24.5**

Statement of comprehensive income

(euro)

		2018	2017	Changes amount	Changes %
10.	**NET INCOME (LOSS)**	**3,685,594,819**	**4,882,289,326**	**-1,196,694,507**	**-24.5**
	Other comprehensive income (net of tax) that may not be reclassified to the income statement	**352,332,260**	**953,983,519**	**-601,651,259**	**-63.1**
20.	Equity instruments designated at fair value through other comprehensive income	93,023,800	-122,883,260	215,907,060	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-	-	
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-	-	
50.	Property and equipment	2,365,450	1,088,260,652	-1,085,895,202	-99.8
60.	Intangible assets	-	-	-	
70.	Defined benefit plans	256,943,010	-11,393,873	268,336,883	
80.	Non-current assets classified as held for sale	-	-	-	
90.	Share of valuation reserves connected with investments carried at equity	-	-	-	
	Other comprehensive income (net of tax) that may be reclassified to the income statement	**-122,722,843**	**244,589,465**	**-367,312,308**	
100.	Hedges of foreign investments	-	-	-	
110.	Foreign exchange differences	-	-	-	
120.	Cash flow hedges	90,890,788	212,935,555	-122,044,767	-57.3
130.	Hedging instruments (not designated elements)	-	-	-	
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	-213,613,631	31,653,910	-245,267,541	
150.	Non-current assets held for sale and discontinued operations	-	-	-	
160.	Share of valuation reserves connected with investments carried at equity	-	-	-	
170.	**Total other comprehensive income (net of tax)**	**229,609,417**	**1,198,572,984**	**-968,963,567**	**-80.8**
180.	**TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)**	**3,915,204,236**	**6,080,862,310**	**-2,165,658,074**	**-35.6**

Regarding the finalisation during the year of the capitalisation offer to employees enrolled in the Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino and the resulting elimination of the Bank's obligation for the corresponding portion to employees participating in the offer, the related IAS 19 Valuation reserve was reclassified and transferred to reserves under shareholders' equity, for a total net amount of 241,893,851 euro, included in the caption 70 "Defined benefit plans" of the Statement of consolidated comprehensive income reported above, in line with the indications of Bank of Italy Circular 262 contained in Part D – Comprehensive income.

Changes in shareholders' equity as at 31 December 2018

(euro)

	31.12.2018									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	savings shares		retained earnings	other					
AMOUNTS AS AT 31.12.2017	**8,247,089,025**	**484,895,091**	**26,164,131,214**	**3,264,996,415**	**578,198,274**	**773,748,333**	**4,102,750,714**	**-25,863,278**	**4,882,289,326**	**48,472,235,114**
Changes in opening balances (FTA IFRS9)				-2,277,349,892		85,709,389				-2,191,640,503
AMOUNTS AS AT 1.1.2018	**8,247,089,025**	**484,895,091**	**26,164,131,214**	**987,646,523**	**578,198,274**	**859,457,722**	**4,102,750,714**	**-25,863,278**	**4,882,289,326**	**46,280,594,611**
ALLOCATION OF NET INCOME										
OF THE PREVIOUS YEAR										
Reserves				3,517,649,758					-3,517,649,758	-
Dividends and other allocations									-1,364,639,568	-1,364,639,568
CHANGES IN THE PERIOD										
Changes in reserves				**-628,273,367**	**2,488,472**	**-8,147,337**				**-633,932,232**
Operations on shareholders' equity										
Issue of new shares	838,380,827		827,273,718	-87,959,908				7,875,191		1,585,569,828
Purchase of treasury shares		-484,895,091						-21,671,207		-506,566,298
Dividends			-2,065,450,089							-2,065,450,089
Changes in equity instruments							-86,083			-86,083
Derivatives on treasury shares										-
Stock options										-
Total comprehensive income for the period						**229,609,417**			**3,685,594,819**	**3,915,204,236**
SHAREHOLDERS' EQUITY AS AT 31.12.2018	**9,085,469,852**	**-**	**24,925,954,843**	**3,789,063,006**	**580,686,746**	**1,080,919,802**	**4,102,664,631**	**-39,659,294**	**3,685,594,819**	**47,210,694,405**

Changes in shareholders' equity as at 31 December 2017

(euro)

	31.12.2017									
	Share capital		Share premium reserve	Reserves		Valuation reserves	Equity instruments	Treasury shares	Net income (loss)	Shareholders' equity
	ordinary shares	savings shares		retained earnings	other					
AMOUNTS AS AT 1.1.2017	**8,247,089,025**	**484,895,091**	**27,507,513,386**	**3,237,874,582**	**578,198,274**	**-425,109,781**	**2,117,321,664**	**-19,708,272**	**1,759,516,827**	**43,487,590,796**
ALLOCATION OF NET INCOME										
OF THE PREVIOUS YEAR										
Reserves				**103,616,271**					**-103,616,271**	**-**
Dividends and other allocations									**-1,655,900,556**	**-1,655,900,556**
CHANGES IN THE PERIOD										
Changes in reserves				**-76,494,438**		**285,130**				**-76,209,308**
Operations on shareholders' equity										
Issue of new shares								6,377,621		**6,377,621**
Purchase of treasury shares								-12,532,627		**-12,532,627**
Dividends			-1,343,382,172							**-1,343,382,172**
Changes in equity instruments							1,985,429,050			**1,985,429,050**
Derivatives on treasury shares										**-**
Stock options										**-**
Total comprehensive income for the period						**1,198,572,984**			**4,882,289,326**	**6,080,862,310**
SHAREHOLDERS' EQUITY AS AT 31.12.2017	**8,247,089,025**	**484,895,091**	**26,164,131,214**	**3,264,996,415**	**578,198,274**	**773,748,333**	**4,102,750,714**	**-25,863,278**	**4,882,289,326**	**48,472,235,114**

Statement of cash flows

(euro)

	31.12.2018	31.12.2017
A. OPERATING ACTIVITIES		
1. Cash flow from operations	**2,972,628,078**	**6,181,677,785**
Net income (loss) (+/-)	3,685,594,819	4,882,289,326
Gains/losses on financial assets held for trading and on other assets/liabilities measured at fair value through profit and loss (-/+)	-230,392,908	-140,202,755
Gains/losses on hedging activities (-/+)	22,244,300	17,328,451
Net losses/recoveries for credit risk (+/-)	2,441,780,376	2,002,087,380
Adjustments to/net recoveries on property, equipment and intangible assets (+/-)	140,362,674	136,229,924
Net provisions for risks and charges and other costs/revenues (+/-)	461,255,673	1,965,601,577
Taxes, duties and tax credits to be paid/collected(+/-)	-55,850,015	-806,418,064
Net adjustments to/recoveries on discontinued operations net of tax effect (-/+)	-	-
Other adjustments (+/-)	-3,492,366,841	-1,875,238,054
2. Cash flow from / used in financial assets	**12,974,122,781**	**-61,169,688,544**
Financial assets held for trading	593,797,334	1,450,481,988
Financial assets designated at fair value	154,148,092	51,363,400
Other financial assets mandatorily measured at fair value	-7,458,457,072	-
Financial assets measured at fair value through other comprehensive income	6,593,845,107	2,172,363,170
Financial assets measured at amortised cost	11,520,803,803	-64,926,383,157
Other assets	1,569,985,517	82,486,055
3. Cash flow from / used in financial liabilities (*)	**-14,318,507,758**	**54,426,489,591**
Financial liabilities measured at amortised cost	-13,163,709,620	56,065,737,315
Financial liabilities held for trading	-168,736,942	-2,090,195,544
Financial liabilities designated at fair value	1,811,906,910	1,166,194
Other liabilities	-2,797,968,106	449,781,626
Net cash flow from (used in) operating activities	**1,628,243,101**	**-561,521,168**
B. INVESTING ACTIVITIES		
1. Cash flow from	**3,585,034,179**	**2,618,857,248**
Sales of investments in associates and companies subject to joint control	133,629,994	597,187,161
Dividends collected on investments in associates and companies subject to joint control	3,441,863,501	1,856,670,087
Sales of property and equipment	9,144,143	165,000,000
Sales of intangible assets	396,541	-
Sales of subsidiaries and business branches	-	-
2. Cash flow used in	**-1,052,751,580**	**-1,353,158,642**
Purchases of investments in associates and companies subject to joint control	-867,032,845	-1,003,673,114
Purchases of property and equipment	-159,236,164	-261,000,000
Purchases of intangible assets	-26,482,571	-88,485,528
Purchases of subsidiaries and business branches	-	-
Net cash flow from (used in) investing activities	**2,532,282,599**	**1,265,698,606**
C. FINANCING ACTIVITIES		
Issues/purchases of treasury shares	1,079,003,530	-6,155,006
Share capital increases	-198,376,766	1,832,818,202
Dividend distribution and other	-3,430,089,657	-2,998,151,147
Net cash flow from (used in) financing activities	**-2,549,462,893**	**-1,171,487,951**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,611,062,807**	**-467,310,513**
RECONCILIATION		
Financial statement captions		
Cash and cash equivalents at beginning of period	5,749,702,612	6,213,061,883
Net increase (decrease) in cash and cash equivalents	1,611,062,807	-467,310,513
Cash and cash equivalents: foreign exchange effect	2,367,189	3,951,242
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**7,363,132,608**	**5,749,702,612**

LEGEND: (+) from (–) used in

(*) With regard to the disclosure required by par. 44 B of IAS 7, it is noted that the changes in liabilities deriving from financing activities amount to -14.3 billion euro (cash flow used) and comprise -13.2 billion euro in cash flows, +1.7 billion euro in fair value changes and -2.8 billion euro in other changes.

Note to the Parent Company's financial statements

Part A – Accounting policies

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH IAS/IFRS

As set forth by Legislative Decree 38 of 28 February 2005, Intesa Sanpaolo's financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.

The financial statements as at 31 December 2018 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 43 of Legislative Decree 136/2015(*), with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, and 22 December 2017[24].

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The Parent Company's financial statements have been prepared using the International Accounting Standards in force as at 31 December 2018 (including the SIC and IFRIC interpretation documents) as listed in the attachments to the consolidated financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2018.

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

24 The new provisions introduced by IFRS 9 and IFRS 15 were incorporated in the 5th update of Circular 262, published on 22 December 2017. For the sake of completeness, please note that, on 30 November 2018, the Bank of Italy published the 6th update of Circular 262. The update, which incorporates the changes introduced by IFRS 16 - Leases, shall apply starting from the financial statements as at and for the year ended 31 December 2019.

IFRS endorsed as at 31.12.2018 in force since 2018

Regulation endorsement	Title	Effective date
1905/2016	IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
2067/2016	IFRS 9 Financial instruments	01/01/2018 First financial year starting on or after 01/01/2018
1987/2017	Amendments to IFRS 15 Revenue from contracts with customers	01/01/2018 First financial year starting on or after 01/01/2018
1988/2017	Amendments to IFRS 4 Insurance contracts	01/01/2018 First financial year starting on or after 01/01/2018
182/2018	Amendments to IAS 28 Investments in associates and Joint ventures	01/01/2018 First financial year starting on or after 01/01/2018
	Amendments to IFRS 1 First-time adoption of International Financial Reporting	01/01/2018 First financial year starting on or after 01/01/2018
	Amendments to IFRS 12 Disclosure of interest in other entities	01/01/2018 First financial year starting on or after 01/01/2018
289/2018	Amendments to IFRS 2 Share-based payment	01/01/2018 First financial year starting on or after 01/01/2018
400/2018	Amendments to IAS 40 Investment property	01/01/2018 First financial year starting on or after 01/01/2018
519/2018	IFRIC 22 Foreign currency transactions and advance	01/01/2018 First financial year starting on or after 01/01/2018

The international financial reporting standards applicable on a mandatory basis for the first time starting in 2018 consist of several significant accounting standards listed in the table above – including in particular IFRS 9 “Financial Instruments” – which have material impacts for Intesa Sanpaolo.

The accounting standards adopted in preparation of these Financial Statements, with regard to the classification, recognition, measurement and derecognition of the financial assets and liabilities, and the recognition methods for revenues and costs, have changed compared to those adopted for the Intesa Sanpaolo 2017 Annual Report. These amendments derive essentially from the mandatory application, from 1 January 2018, of the following international financial reporting standards:

- IFRS 9 “Financial Instruments”, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, which replaced IAS 39 concerning the rules for the classification and measurement of financial instruments, as well as the related impairment process;
- IFRS 15 “Revenues from contracts with customers”, endorsed by the European Commission through Regulation 1905/2016, which led to the cancellation and replacement of IAS 18 “Revenues” and IAS 11 “Construction contracts”.

Focusing on IFRS 9, given the particular importance of its effect, with regard to the methods of presentation of the effects of first-time adoption of the standard, Intesa Sanpaolo has decided to exercise the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 “First-Time Adoption of International Financial Reporting Standards”, according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. In order to allocate the comparative figures as at 31 December 2017 to the new financial statement layouts established in the 5th update to Bank of Italy Circular 262, in force from 1 January 2018, the necessary reconciliations have been made, without changing the values, to enable their inclusion in the new captions. Specifically, it should be noted that:

- the previous captions relating to loans to customers, loans to banks and investments held to maturity are all classified under caption “40. Financial assets measured at amortised cost”;
- those relating to financial assets held for trading and financial assets at fair value are classified in caption “20. Financial assets measured at fair value through profit or loss”;
- those relating to financial assets available for sale are classified in caption “30. Financial assets measured at fair value through other comprehensive income”;
- the previous captions relating to amounts due to banks, amounts due to customers and securities issued have all been allocated to the caption “10. Financial liabilities measured at amortised cost”.

The in-depth analysis of the impacts of first-time adoption of IFRS 9, including the transition from the statements published in the 2017 Financial Statements to those presented for comparison in the 2018 Financial Statements, is illustrated starting on page 595 of this package, in the chapter “Transition to IFRS 9”, which is an integral part of this section of these Notes to the financial statements, to which reference should be made for further details and in the corresponding paragraph of the consolidated financial statements.

With regard to the introduction of IFRS 15, the analyses conducted found that, in general, the accounting treatment of the main cases of revenues from contracts with customers was already in line with the provisions of the new standard and, consequently, no significant impacts were identified at accounting level.
These financial statements include the more detailed disclosure required by this Standard and the interpretations provided by the Bank of Italy in the 5th update of Circular 262.

In addition to the above standards, which, as mentioned, are extremely significant for Intesa Sanpaolo, the accounting standards applicable on a mandatory basis for the first time starting in 2018 consist of IFRIC 22 Foreign currency transactions and several amendments made to the existing standards, endorsed by the European Commission in 2018, which are not particularly significant for the Bank. For a summary of the above-mentioned Endorsement Regulations, refer to that described in greater detail in the Consolidated Financial Statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2019 - for financial statements reflecting the calendar year - or after this date.

IFRS endorsed as at 31.12.2018 applicable subsequent to 31.12.2018

Regulation endorsement	Title	Effective date
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
498/2018	Amendments to IFRS 9 Financial instruments	01/01/2019 First financial year starting on or after 01/01/2019
1595/2018	IFRIC 23 Uncertainty over income tax treatments	01/01/2019 First financial year starting on or after 01/01/2019

As regards the indications of the contents of the main changes that apply starting on 1 January 2019 – specifically regarding IFRS 16 Leases and the related impact estimates, in addition to the main choices made, reference should be made to that described in greater detail in the Consolidated Financial Statements.

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

IFRS not endorsed as at 31.12.2018

Standard/ Interpretation	Title	Date of issue
IFRS 17	Insurance Contracts	5/18/2017
Standard/ Interpretation	**Amendments**	**Date of issue**
IAS 28	Long-term Interest in Associates and Joint Ventures	10/12/2017
IFRS 3	Business Combination	12/12/2017
IFRS 11	Joint Arrangement	12/12/2017
IAS 12	Income Taxes	12/12/2017
IAS 23	Borrowing Costs	12/12/2017
IAS 19	Plan Amendment, Curtailment or Settlement	2/7/2018
(*)	Amendments to References to the Conceptual framework in IFRS Standards	3/29/2018
IFRS 3	Definition of a Business	10/22/2018
IAS 1	Definition of Material	10/31/2018
IAS 8	Definition of Material	10/31/2018

(*) The document amends references to Conceptual Framework in IFRS2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32

SECTION 2 – GENERAL PREPARATION PRINCIPLES

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

The financial statement forms and the Notes to the financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2017. As described in more detail in section 1 of this paragraph, the Bank has exercised the option provided in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1, according to which, with regard to the effects of the first-time adoption of IFRS 9, the mandatory restatement of the comparative information on a like-for-like basis is not required. Accordingly, in order to allocate the comparative information as at 31 December 2017 to the new financial statement layouts established in Bank of Italy Circular 262, the necessary reconciliations have been made, without changing the values, to enable their inclusion in the new captions.
The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2017 financial statements, together with specific reconciliations between the financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

Contents of financial statement forms

Balance sheet and income statement

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions). For the purposes of completeness with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

Statement of comprehensive income

The Statement of comprehensive income shows, starting from the net income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international financial reporting standards.
Comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income (loss) for the year under specific conditions. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

Changes in shareholders' equity

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

Statement of cash flows

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

Contents of the Notes to the Parent Company's financial statements

The Notes to the Parent Company's financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended, applicable for the preparation of these financial statements.

Specifically, it should be noted that the initial amounts in the tables presenting annual changes include the effects of first-time adoption of IFRS 9.

SECTION 3 – SIGNIFICANT EVENTS SUBSEQUENT TO FINANCIAL STATEMENT DATE

No significant subsequent events occurred other than the events described in the consolidated financial statements.

SECTION 4 - OTHER ASPECTS

Option for the national fiscal consolidation provisions

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

Set up of a VAT Group

Intesa Sanpaolo and almost all of the Italian companies in the Group opted to set up the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree 633/1972.
This option takes effect from 1 January 2019 and will have a duration of three years, automatically renewed each year, unless revoked.
As a result of this option, the tax will not apply to either the provision of services and sales of goods between participating parties. Sales of goods and provision of services by a participating party to an external party shall be considered made out by the group. Sales of goods and provision of services by an external party to a participating party shall be considered made to the group.

"Cooperative compliance" regime

Intesa Sanpaolo applied for and obtained from the Italian Revenue Agency admission to the "cooperative compliance" regime set out in Legislative Decree 128/2015.
The admission is effective from the tax period 2017.
The purpose of this regime is to promote the use of enhanced forms of communication and cooperation based on the reciprocal trust between the tax authorities and the taxpayer, as well as favouring the prevention and resolution of tax disputes, in the common interest of the parties.
Under the regime, Intesa Sanpaolo is required to maintain an appropriate system of recognition, measurement and management of tax risk as well as act in a cooperative and transparent manner, and the Italian Revenue Agency is required to promote a relationship based on the principles of transparency, cooperation and fairness.

Certification pursuant to Article 154 bis of the Consolidated Law on Finance and non-EU subsidiaries

Please refer to Part E of the Notes to the consolidated financial statements for information on the disclosure about the Certification pursuant to Article 154 bis of the Consolidated Law on Finance and subsidiaries based in non-European countries that are considered significant on the basis of the Consob regulations.

Auditing

KPMG S.p.A. audited Intesa Sanpaolo's financial statements, in execution of the resolution of the Shareholders' Meeting of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

Other aspects

For the purpose of fulfilling the provisions of Art. 1, paragraph 125 of Law 124/2017 – Annual law on markets and competition, pending clarifications on interpretation and in line with Assonime Circular no. 5 of 22 February 2019, which dealt with the interpretation of several of the uncertainties in that regulation, making it possible to deem those "benefits", considerations and remuneration that are justified by provision of the company and, in any event, in synallagmatic relationships that are typical of the recipient's business exempt from the disclosure obligation, as well as those aimed at businesses in general, such as tax and contributory benefits, it was decided to indicate that in 2018 the Company was provided with grants - which are included and illustrated in the National Register of State Aid which can be viewed by the public on the related website - for a total of 6.5 million euro, all of which qualify as Training Aid (Article 31 Reg (EU) 651/2014).

A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

1. Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. This caption includes in particular:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through profit or loss, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss only if it eliminates or significantly reduces a measurement inconsistency.

This caption therefore includes:

- debt securities and loans that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are not part of a Hold to Collect and Sell business model;
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCI (Undertakings for Collective Investment).

This caption also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.
Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through profit or loss.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.
For more information regarding the classification criteria for the financial instruments see the paragraph below “Classification drivers for the financial assets”.

Recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria

After initial recognition, the financial assets measured at fair value through profit or loss are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section “A.4 – Information on Fair Value”.

Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

2. Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This caption also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this caption includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed or other types of loans that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date.
In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).
For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria

After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in profit or loss of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in Other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold. The only component related to these equities that is recognised through profit or loss is their dividends.
Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
For more information regarding the criteria for the determination of fair value, see the Section "A.4 – Information on Fair Value".

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through profit or loss of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised.
Equity instruments are not subject to the impairment process.
See the paragraph below "Impairment of financial assets" for more details.

Derecognition criteria
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

3. Financial assets measured at amortised cost

Classification criteria
This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

More specifically, the following are recognised in this caption:
- loans to banks in their various forms that meet the requirements referred to above;
- loans to customers in their various forms that meet the requirements referred to above;
- debt securities that meet the requirements referred to above.

This category also includes the operating loans and receivables connected to the provision of financial activities and services as defined by the Consolidated Law on Banking and the Consolidated Law on Finance (e.g. for the distribution of financial products and servicing activities).

According to the general rules established by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under Shareholders' equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

For more information regarding the classification criteria for the financial instruments see the paragraph below "Classification drivers for the financial assets".

Recognition criteria
Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.
In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along with the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even when settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

Measurement criteria
After the initial recognition, these financial assets are measured at amortised cost, using the effective interest method. The assets are recognised in the balance sheet at an amount equal to their initial carrying amount less principal repayments, plus or minus the cumulative amortisation (calculated using the effective interest method referred to above) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income directly attributable to the individual asset) and adjusted by any provision for losses. The effective interest rate is the rate that exactly discounts

estimated future cash payments of the asset, as principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to that financial asset. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/income directly attributable to a financial asset over its expected lifetime.
The amortised cost method is not used for assets, measured at historical cost, whose short duration makes the effect of discounting negligible, or for assets without a definite maturity or revocable loans.
The measurement criteria, as described in more detail in the paragraph "Impairment of financial assets", are closely linked to the inclusion of these instruments in one of the three stages of credit risk established by IFRS 9, the last of which (stage 3) consists of non-performing financial assets and the remaining (stages 1 and 2) of performing financial assets.
With regard to the accounting representation of the above measurement effects, the adjustments for this type of asset are recognised in profit or loss:

- on initial recognition, for an amount equal to the 12-month expected credit loss;
- on subsequent measurement of the asset, when the credit risk has not increased significantly since initial recognition, in relation to changes in the amount of adjustments for the 12-month expected credit losses;
- on subsequent measurement of the asset, when the credit risk has increased significantly since initial recognition, in relation to the recognition of adjustments for expected credit losses over the contractually agreed remaining lifetime of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

These financial assets, when they are performing, are subject to an assessment, aimed at establishing the value adjustments to be recognised in the financial statements, at the level of individual loan (or "tranches" of securities), according to the risk parameters consisting of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), derived from the AIRB models, and duly adjusted to take account of the provisions of IFRS 9.
If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "non-performing", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and, as detailed in the paragraph "Impairment of financial assets", takes account of forward-looking information and possible alternative recovery scenarios.
Non-performing assets include financial assets classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.
The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.
The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.
Recoveries on impairment with time value effects are recognised in net interest income.
In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised.
In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information. In some cases, in fact, it may be clear, without resorting to complex analysis, that the changes introduced substantially modify the characteristics and/or contractual flows of a particular asset while, in other cases, further analysis (including quantitative analysis) will need to be carried out to assess the effects of the changes and verify whether or not to derecognise the asset and recognise a new financial instrument.
The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
  - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements (apart from the triggers discussed below) is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are considered to result in derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, disposed financial assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

4. Hedging transactions

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

Classification criteria: type of hedge

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 endorsed by the European Commission. Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets or liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Bank may qualify for hedge accounting.

The choice made by the Group to take advantage of the possibility of continuing to fully apply the IAS 39 rules for hedging relationships means that the equity instruments classified as Financial assets measured at fair value through other comprehensive income (FVOCI) cannot be measured as hedged items for price or exchange rate risk, since these instruments are not recognised through profit or loss, not even if they are sold (except for dividends that are recognised through profit or loss).

Recognition criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at fair value.

Measurement criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (with regard to the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 60. "Fair value change of financial assets in hedged portfolios" or under caption 50. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction. A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:
- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measure how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macrohedging relationship is discontinued, the cumulative change in fair value losses carried under caption 60 "Fair value change of financial assets in hedged portfolios" or caption 50. “Fair value change of financial liabilities in hedged portfolios” are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

5. Equity investments

Classification criteria

The caption includes investments in subsidiaries, companies subject to joint control and associates.
Entities are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entities in question.
Entities are considered to be companies subject to joint control (joint ventures), if control is contractually shared by Intesa Sanpaolo with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.
Companies are considered subject to significant influence (associates), when Intesa Sanpaolo holds 20% or more of the voting rights (including “potential” voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.
Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

Recognition criteria

Equity investments are recognised at settlement date. On initial recognition equity investments are recorded at cost.

Measurement criteria

Equity investments are measured at cost, which may be adjusted if impairment losses are deemed to have occurred. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.
If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

6. Property and equipment

Classification criteria

Property and equipment include land, owner-occupied property, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment that are expected to be used during more than one period.
Property and equipment held for use in the production or supply of goods and services are classified as “Property and equipment used in operations”, in accordance with IAS 16. Real estate owned for investment purposes (to obtain rental income or gains on the capital invested) is classified as “Investment property” based on IAS 40.
This caption also includes property and equipment classified in accordance with IAS 2 - Inventories, which refer both to assets resulting from the enforcement of guarantees or from purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not meet the requirements for classification in the previous categories.
Lastly, property and equipment also include the goods used in finance lease contracts, even though the ownership remains in the books of the lessor.

Recognition criteria

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

Measurement criteria

Property and equipment are measured at cost, net of depreciation and impairment losses, except for owner-occupied properties and valuable art assets, which are measured according to the revaluation model.
The investment properties are measured with the fair value method.
For the property and equipment subject to assessment according to the revaluation model:

- if the carrying value of an asset is increased following a revaluation, the increase must be recognised in other comprehensive income and accumulated in the shareholders' equity under the caption revaluation reserve; instead, in the case where a decrease in a revaluation of the same asset recognised previously in the income statement is reversed, it must be recognised as income;
- if the carrying value of an asset is decreased following the revaluation, the decrease must be recognised in other comprehensive income as revaluation excess to the extent in which there are possible credit balances in the revaluation reserve referring to this asset; otherwise this reduction is recorded in the income statement.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods (or the net value recalculated if the method adopted for the valuation is the one of the value recalculation) net of the residual value at the end of the depreciation period, if significant. Buildings are depreciated for a portion deemed to be suitable to represent their deterioration over time following their use, considering extraordinary maintenance expenses, which are recognised in the carrying value of the assets. In order to determine the useful life of the various types of assets and the corresponding depreciation rates, the Bank's real estate assets have been divided into four clusters: (i) Restricted and unrestricted historical properties, (ii) Entire buildings, (iii) Banking branches and (iv) Other properties.

The following are not depreciated:

- land, irrespective of whether acquired individually or embedded in the value of buildings, since it has an indefinite useful life;
- the valuable art assets, the other historical, artistic and decorative assets, since their useful life cannot be estimated and their value is normally destined to increase over time;
- the investment properties which, as required by IAS 40, must not be amortised, as they are measured at fair value through profit or loss.

If there is some evidence that property and equipment measured at cost may have been impaired, the carrying amount of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.
If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

With regard to the property and equipment recognised in accordance with IAS 2, these are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying amount and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

Derecognition criteria

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

7. Intangible assets

Classification criteria

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

Recognition and measurement criteria

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.
If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:

- technology-related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years;
- customer-related intangibles represented, in business combinations, by asset management relations, non-financial activities related to provision of services and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations and non-financial activities related to provision of services,

they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing-related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between fair value of shareholders' equity acquired and the purchase price of the equity investment is representative of the future income-generation potential of the equity investment.
If this difference should be negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.
Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. The business operations carried out directly by the Parent Company falls under the Cash-generating units corresponding to Banca dei Territori and Corporate and Investment Banking. Therefore, goodwill is allocated to such divisions.

Derecognition criteria
Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

8. Other assets
Other assets essentially consist of items awaiting classification and items not attributable to the other balance-sheet captions, including receivables arising from the supply of goods and non-financial services, sundry tax items other than those recognised in their own caption (e.g., connected to withholding agent activities), gold, silver and precious metal, and accrued income other than that capitalised on the related financial assets, including the income resulting from contracts with customers in accordance with IFRS 15, paragraphs 116 and following. As required by paragraphs 91 and following of IFRS 15, the costs incurred for the acquisition and fulfilment of long-term contracts with customers are capitalised and amortised when they are incremental and are expected to be recovered.

9. Non-current assets held for sale and discontinued operations and related liabilities
Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for some type of assets (e.g., financial assets within the scope of IFRS 9) for which IFRS 5 specifically establishes that the measurement principles of the applicable accounting standard must be used.

The income and charges (net of tax effect) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

10. Current and deferred tax
Taxes on income, calculated according to domestic tax regulations, are accounted for as a cost on an accruals basis, in line with the method followed to include, in the financial statements, the costs and income that generated them. Therefore, they represent the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Bank due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which the Bank has requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.

Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Bank and those originated by other Group companies are managed separately from an administrative standpoint.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.
Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable

amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.
If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by taxes on income.
Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, measurements of financial assets recognised at fair value through other comprehensive income or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).
No provision is made for reserves subject to latent taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

11. Allowances for risks and charges

Allowances for risks and charges for commitments and guarantees given
This sub-caption of the allowances for risks and charges contains the allowances for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS 9 impairment rules. For these cases, in general, the methods described for financial assets measured at amortised cost or at fair value through other comprehensive income are adopted for the assignment to the three credit risk stages and the calculation of the expected credit loss.
This aggregate also includes allowances for risks and charges made to cover other types of commitments and guarantees given that, due to their specific characteristics, do not fall under the scope of impairment pursuant to IFRS 9.

Post-employment benefits
Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Other allowances
Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.
Consequently, a provision is recognised when, and only when:
- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date and takes into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

12. Financial liabilities measured at amortised cost

Classification criteria
Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.
It also includes the payables recorded by the bank in the capacity of lessee in finance lease transactions.

Recognition criteria
Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.

Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

Measurement criteria
After initial recognition, financial liabilities are measured at amortised cost with the effective interest method. An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

Derecognition criteria
Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.
Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

13. Financial liabilities held for trading

Recognition criteria
These financial instruments are recognised at the subscription or issue date at the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.
This liability category includes, in particular, the negative fair value of trading derivatives, as well as embedded derivatives with a negative fair value contained in combined contracts, where the host contract is a financial liability, but that are not closely correlated to those contracts. It also includes liabilities determined by short selling generated by securities trading activities.

Measurement criteria
All financial liabilities held for trading are measured at fair value through profit or loss.

Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed of with the substantial transfer of all the risks and rewards connected to it.

14. Financial liabilities designated at fair value

Classification criteria
Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

Recognition criteria
These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

Measurement criteria
These liabilities are measured at fair value according to the following rules established by IFRS 9:

- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

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

15. Foreign currency transactions

Initial recognition
Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

Subsequent measurement
At every close of annual or interim financial statements, captions in foreign currency are measured as follows:
- foreign currency monetary items are translated using the closing rate;

- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.
When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

16. Other information

Own shares
Any own shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

Accruals, prepayments and deferrals
Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

Employee termination indemnities
Employee termination indemnities qualify as a “post-employment benefit” classified as:
- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan”, therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions accrued until 31 December 2006. These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.
The plan’s costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

Share-based payments
Share-based payments are recorded in the income statement, with a corresponding increase in shareholders’ equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.
In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.
The combination of the two values supplies the fair value of the assigned instrument.
Any decrease in the number of financial instruments granted is accounted for as a cancellation of a portion of such instruments.

Employee benefits
Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees. Employee benefits are divided into:
- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and “extraordinary” benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;

- termination benefits, i.e. compensation that the company recognises to the staff members upon termination of the employment agreement, following the company's decision to terminate the employment relationship prior to the normal retirement date;
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

Recognition of revenues and costs

Revenues are gross flows of economic benefits deriving from the performance of the company's ordinary business and are recognised when control of the goods or services is transferred to the customer, at an amount that represents the amount of consideration that the company considers it is entitled to. In particular, revenues are recognised by applying a model that must meet the following criteria:

- identification of the contract, defined as an agreement in which the parties are committed to perform their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sale prices of the individual obligation;
- recognition of revenues when (or as) the performance obligation is satisfied by transferring a promised good or service to a customer.

The transaction price is the amount to which an entity expects to be entitled in exchange for the transfer of goods and services promised. It may include fixed or variable amounts or both. Revenues from variable fees are recognised in the income statement if they can be reliably estimated and only if it is highly likely that all or a significant part of this fee will not need to be reversed from the income statement in future periods. Where there is a high level of uncertainty related to the nature of the consideration, it will be recognised only when this uncertainty is resolved.

Revenues may be recognised:

- at a specific point in time, when the entity satisfies a performance obligation by transferring a promised good or service to the customer, or
- over time, as the entity satisfies a performance obligation by transferring a promised good or service to the customer.

The good is transferred when, or in the period when, the customer acquires control of the good.

In particular:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued up to the reporting date, relating to financial derivatives:
  a) hedging interest-generating assets and liabilities;
  b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit or loss (fair value option) in management terms;
  c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate is recognised under interest;
- revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instrument quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, or when the performance obligation towards the customer is satisfied.

Costs are recognised in the income statement on an accruals basis. Costs relating to the receipt and performance of contracts with customers are recognised in the income statement in the periods when the related revenues are recognised.

Use of estimates and assumptions in preparing financial reports

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

If there are greater uncertainties and/or the assets being measured are particularly material, the valuation is supported by specific fairness opinions from external appraisers/experts.
The main cases for which subjective evaluations are required to be made by corporate management include:
- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the fair value measurement of real estate and valuable art assets;
- the measurement of personnel funds and allowances for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves.

For some of the types listed above, the main factors subject to estimates by the Bank and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:
- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- the estimates for the assignment of loans and debt securities classified as Financial assets measured at amortised cost and Financial assets measured at fair value through other comprehensive income to the three credit risk stages required by IFRS 9 and to calculate the related expected credit losses involve:
  - the determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising Intesa Sanpaolo, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. The cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising Intesa Sanpaolo, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- the fair value measurement of real estate and valuable art assets is based on valuations prepared by qualified independent firms. Lease rentals, selling prices, discount rates and capitalisation rates are estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure allowances for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences and tax losses carried forward).

The classification drivers for financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI Test).
The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:
- Financial assets measured at amortised cost: assets that pass the SPPI test and come under the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test

For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows that are solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.
The SPPI test must be carried out on each individual financial instrument at the time of recognition in the balance sheet. After initial recognition, and as long as it is recognised in the balance sheet, the asset is no longer subject to new assessment

for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.
For the application of the SPPI test, IFRS 9 provides the following definitions:
- Principal: this is the fair value of the financial asset at initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: this is the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a 'basic lending arrangement', which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a subjective judgement and, consequently, the establishment of internal application policies.

In cases of modified time value of money – for example, when the interest rate of the financial asset is recalculated periodically, but the frequency of the recalculation or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is recalculated monthly on the basis of a one-year rate) or when the interest rate is recalculated regularly on the basis of an average of particular short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.
The standard requires specific analyses ("look through test") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example in cases where the loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e. if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

For operations in debt securities, Intesa Sanpaolo uses the services offered by well-known info-providers for the performance of the SPPI Tests. This choice, on one hand, provides front office staff who deal in securities with an immediate result for the performance of the test, enabling the streamlining of purchasing processes, and, on the other hand, provides access to market approaches shared by numerous operators and audit firms. Only in cases where the securities are not managed by info-providers, the test is carried out manually using a proprietary tool based on an internally developed methodology (decision-making trees).

A proprietary tool based on an internally developed methodology (decision-making trees) has also been developed for carrying out the SPPI test for the lending processes. In particular, given the significant differences in characteristics, the procedure differs between products related to a contractual standard (typically the retail loan portfolio) and tailor-made loans (typically the corporate loan portfolio).
For standard products, the SPPI test is carried out during the structuring of the contractual standard, through the "New Product Coordination" process, and the result of the test is applied to all the individual relationships related to the same catalogue product. For tailor-made products, on the other hand, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

The decision-making trees – included in the proprietary tool – have been produced internally (both for debt securities and loans) and capture the possible non-SPPI compliant characteristics. They take account of the instructions provided by IFRS 9, as well as the interpretations of the standard made by the Intesa Sanpaolo Group. The trees are used both for the implementation of the rules of the proprietary tool and for the verification and validation of the methodology adopted by the info-providers.

Business model
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:
- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part

of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as 'worst case' or 'stress case' scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the company's organisation, the specialisation of the business functions, the risk cascading model, and the assignment of delegated powers (limits). All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, must be consistent with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.
In this regard, and in relation to the business models under which the financial assets are held, a specific set of Business Model Rules – approved by the competent levels of governance – define and set out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the Intesa Sanpaolo Group's business structures.

For the Hold to Collect portfolios, Intesa Sanpaolo has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.
More specifically, within an HTC business model sales are allowed:
- in the event of an increase in credit risk, which occurs:
  - for securities, when there is a downgrade of predetermined notches with respect to the rating upon origination. The approach adopted differentiates the number of notches according to the rating upon origination, in line with the method used to identify significant deterioration, i.e. for the staging assignment;
  - for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - significance is defined as the percentage ratio between the nominal value of the sales and the total nominal value of the instruments held in the portfolio over the period considered.

If both the frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (for example, to assess whether sales are made close to maturity).
With regard to the determination of the "Risks" and the "Reporting" for the HTCS and Trading business models, the provisions of the RAF and Market Risk Charter concerning market risk controls apply in principle, and governance measures are established for monitoring the limits of the portfolios classified with HTCS and Other/Trading business models.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different

depending on the fact that financial assets/liabilities have fixed or floating rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or floating) over the life of the loan. For financial assets/liabilities with a floating rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Measurement at amortised cost is applied for the financial assets measured at amortised cost and for the financial assets measured at fair value through other comprehensive income, as well as the financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective return, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).
With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation in syndicated loans and brokerage commissions received.
For debt securities not measured at fair value through profit or loss, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, structured liabilities that are not measured at fair value through profit or loss, for which the embedded derivative has been separated from the financial instrument, are also measured at amortised cost.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high, and in the case of a purchase it is purchased at a deep discount (with respect to the initial disbursement value). If these financial assets, based on the application of the classification drivers (SPPI Test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classed as Purchased or Originated Credit Impaired (POCI) assets and are subject to special treatment for the impairment process. In addition, for the financial assets classed as POCI, the credit-adjusted effective interest rate is calculated, at the initial recognition date, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit or loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraphs relating to financial assets and liabilities measured at amortised cost, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

Impairment of assets

Impairment of financial assets

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.
If there is evidence of impairment, these financial assets – in line with any other assets pertaining to the counterparty – are considered impaired and are included in stage 3. For these exposures, consisting of financial assets classified – in accordance with the provisions of Bank of Italy Circular 262/2005 – in the categories of bad loans, unlikely-to-pay loans and exposures past due by more than ninety days, value adjustments must be recognised equal to their lifetime expected credit losses.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (unimpaired financial instruments), it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of "significantly increased" credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have "significantly increased" and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has "significantly increased" since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between "stages" where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.
The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

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

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In Intesa Sanpaolo, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional conservative margin specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 Intesa Sanpaolo refers to the plans at amortised cost for both loans and receivables and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, Intesa Sanpaolo has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.

The alternative paths are selected using external information. In particular:
- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the historical series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.
Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets
Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.
Non-performing loans classified as bad loans are subject to the following measurement methods:
- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of forward looking-information, and in particular information relating to the impact of future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans with mortgage collateral, for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:
- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to include the impacts of future macroeconomic scenarios (as described in the previous paragraphs) and of continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the on-balance sheet exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of future macroeconomic scenarios.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, 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.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid redundancies, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.

  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.
  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).
  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.
  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of forward-looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to current economic conditions, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described. In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates pegged to the current conditions must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its “NPL Guidance” published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.
Consequently, the “ordinary” scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.
In compliance with the “NPL Guidance” the business strategies regarding NPL reduction are illustrated in the “NPL plan”, a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.

Where the “NPL plan” specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the “NPL plan” identifies a larger portfolio of loans that may be sold represented by loans that are disposable (thus, for example, are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.
In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The “collection amount” was determined according to the ordinary methods adopted by Intesa Sanpaolo for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the “below-threshold” exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that Intesa Sanpaolo uses the write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

- uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- disposal of the loan;
- waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six months) portfolios of bad loans are defined to be subject to total or partial write-offs with the following macro-characteristics:

- percentage coverage > 95%
- vintage (understood as the period of time in “bad loan” status) > 5 years or > 8 years, respectively, for non-mortgage and mortgage loans.

Impairment of equity investments

At each balance sheet date, the investments in associates and companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.

Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

For controlling investments in subsidiaries, the single equity investments are not individually significant for the purposes of the impairment test in the Parent Company’s financial statements, instead they are included in the impairment test of the Cash-Generating Units (CGU) conducted at consolidated level. The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. When an equity investment does not produce cash flows that are largely independent of the cash flows from other assets the impairment tests are conducted at CGU level, rather than at the individual investment level. Consequently, when the assets attributable to a subsidiary are included in a CGU that is broader than the equity investment itself, as described in more detail in the following chapter, the impairment test can only be conducted at this level and not at the level of individual subsidiary for which the accurate estimation of a value in use is not possible.

Impairment of non-financial assets

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.

In order to test its owner-occupied properties for signs of impairment, the Bank conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.

For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge and lead to impairment in case of damages, exit from the production process or other similar non-recurring circumstances.
Intangible assets recognised following a business combination and in application of IFRS 3 are subject to an impairment test at each balance sheet date to assess whether there is objective evidence of an impairment loss.
Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.
Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.
The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. As stated, as these are the same CGUs identified at consolidated level, the assessment of the retention of goodwill and other assets with an indefinite life recorded in the Intesa Sanpaolo Group's financial statements is also valid with reference to the values recorded in the Parent Company's financial statements. Therefore, the assessment conducted at consolidated level with reference to the individual CGUs is used, after comparing the book value of the assets in the Parent Company's financial statements, without conducting, if the result is positive, a new test in the Parent Company's financial statements.
If, at consolidated financial statement level, an impairment loss needs to be recognised for a particular CGU, this write-down must be assigned to the assets that make up the CGU starting with goodwill. If the need to record an adjustment relates to a CGU that does not coincide with the associated legal entity, the write-down is assigned to the banking subsidiaries, after the elimination of the goodwill pertaining to the CGU recorded in the Parent Company's financial statements under a specific caption, on the basis of the respective fair values.
For a description of the criteria for the determination of the recoverable amount of the CGUs see the contents of Part A - Accounting policies, of the consolidated financial statements.

Business combinations

Business combinations are governed by IFRS 3.
The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.
To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.
IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.
The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.
The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.
In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see the chapter A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.
Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.
Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition

targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs.
Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32.
Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.
Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.
If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying value is taken to income statement.
Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.
The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.
The following are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company’s business or transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the transactions (business combinations involving entities under common control). These transactions are considered immaterial.
Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.
Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.
Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

Following the adoption of IFRS 9, the Intesa Sanpaolo Group did not make changes to its business model for managing its financial assets and, therefore, no transfers occurred between portfolios of financial assets.
According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. Such changes are expected to be extremely rare and must be decided by the management following significant external or internal changes that can be demonstrated to external parties.

A.3.1 Reclassified financial assets: change in business model, book value and interest income

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No disclosure is required since no portfolio transfers were carried out in 2018.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No disclosure is required since there are no reclassified financial assets recognised under balance sheet assets.

A.4 – INFORMATION ON FAIR VALUE

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods the Bank applied to implement and use those elements.

General fair value principles

The Bank governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
The bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
a. in the principal active market for the asset or liability;
b. in the absence of a major market, in the most advantageous active market for the asset or liability.
The entity is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Bank considers the principal market of a financial asset or liability to be the market in which the Bank generally operates.

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

In specific cases regulated by 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 independent price verification principles

The Bank governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.

The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

According to the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), Art. 4, par. 1.70 and Art. 105, par. 8, the Bank governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments, for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Bank governs and defines the prudent value measurement of financial instruments through the Group's Prudent Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), prudent valuation requires the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed to capture different sources of valuation uncertainty and 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, without impacts on accounting fair values.

The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities measured at fair value.

If there is no active market, the fair value is determined using 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 reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

Fair value hierarchy

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

– Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active

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

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the 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)[25] 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).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products 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.

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;

[25] 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.

- 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;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered at level 2;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

Valuation of financial instruments

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

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

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. 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 Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Model Validation

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.

The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.

The Independent Price Verification (IPV) process, illustrated below, supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments

As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as "fair value adjustments", which constitute an integral part of the fair value of the financial instrument. These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided

by the mitigation or elimination of said risks.
For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds), on the valuation models used.

/· Valuation of non-contributed debt securities

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.
In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.
Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, with respect to financial liabilities measured at fair value through profit and loss, the credit spread of Intesa Sanpaolo 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.

//· Valuation of loans

Loans are measured at fair value calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.

///· Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".

b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and

several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see “Fair value adjustments”).

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value, the Bank also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer’s own credit risk.

IV. Valuation model for structured credit products

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, is 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 are prepared for the valuations referred to the main input parameters:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal are decreased by 25% (50% for REITS underlying securities);
- stress of the correlations: inter and intra correlations are 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, are increased by 25%;
- stress of expected residual lives: the latter are 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 are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the 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 are identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation.

V· Valuation of equities

Level 2 equities 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).

Level 3 equities for which the "relative" models described above are not applicable in significant terms, and, therefore, "absolute" valuation models are used, 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.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

VI· The valuation of hedge funds

The determination of the fair value of a fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via a MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via a MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. Valuation of other level 2 and 3 instruments

Loans measured at amortised cost, whose fair value is reported, for information purposes, in the Notes to the Parent Company's Financial Statements, 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 with the granting of loans are taken into consideration in the rate used to discount future cash flows.

Independent price verification of financial instruments

Independent Price Verification (IPV) is "a process by which market prices or marking to model inputs are regularly verified for accuracy and independence" (Article 4(1.70) EU Regulation 575/2013), carried out "in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book" (Article 105(8) EU Regulation 575/2013).

The Bank has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.

Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Bank level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The prudent value of financial instruments

The Bank, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions designated at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.

– Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The "Rules on Prudent Valuation of Financial Instruments" outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and Loans	Discounting Cash Flows	Credit Spread	-28	1	%	3,973	-125
ABSs	Discounting Cash Flows	Credit Spread	-27	34	%	5,607	-4,310
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-132	53
Structured securities and Loans	Two-factor model	Correlation	-17	18	%	-	-
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	5,895	-5,442
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of Default (PD) based on counterparty's internal rating	CCC	BBB	internal rating	201	-141

A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

As required by IFRS 13, for the financial assets and liabilities measured at level 3, the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

Financial assets/liabilities	Non-observable parameters	Sensitivity (thousands of euro)	Change in non-observable parameter
FVTPL and FVTOCI securities and loans	Credit spread	-175	1 bp
FVTPL and FVTOCI securities and loans	Recovery rate	-5	-1%
FVTPL and FVTOCI securities and loans	Correlation	-	1%

A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo carried out level changes based on the following guidelines.

For debt securities, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reporting date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reporting date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reporting date, some of the significant parameters used in determining fair value are not directly observable on the market.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk-free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For equity instruments other than those held for trading, change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.

The Intesa Sanpaolo Group refers to the net positions in derivatives of each counterparty in order to calculate the bCVA (for more information on the valuation of derivatives refer to paragraph A.4.1 above). For other cases, the Group does not make use of the option provided in paragraph 48 of IFRS 13, which permits an entity “to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions”.

FAIR VALUE OF REAL ESTATE AND VALUABLE ART ASSETS

Fair value of real estate assets

As extensively illustrated in the first part regarding the accounting policies, the Group has adopted the revaluation method as the basis of measurement for the owner-occupied properties accounted for according to IAS 16 and fair value for the investment properties accounted for according to IAS 40.

Valuation of real estate assets

The revaluation method applied to owner-occupied properties envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation, net of depreciation and any accumulated impairment losses.
For the properties held for investment, the Intesa Sanpaolo Group has chosen the fair value method, according to which, after initial recognition, all investment properties are measured at fair value.

Valuation approach

IFRS 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".
The valuation approach has been defined on the basis of the business relevance and plan for the use of the properties, which consists of 3 main groups:

- "trophy assets", i.e. particularly prestigious properties used by management functions located in the main cities where the bank is based or properties of particular historical and artistic interest because they are listed by the Ministry for Cultural Heritage and Activities;
- "owner-occupied properties";
- "investment properties".

The properties are valued individually asset-by-asset without considering any discount, or premium, that may be agreed during commercial negotiations if all or part of the portfolio is sold in bulk or in lots.
The Intesa Sanpaolo Group has chosen to assign the valuation activity to professionally qualified external companies with an international structure, able to provide property valuations based on the RICS Valuation standards[26] which guarantee:

- determination of the value consistent with the fair value configuration indicated in the IAS/IFRS;
- compliance with the professional, ethical and independence requirements for experts, in line with the provisions of international and European standards.

To determine the value of the assets, the following valuation methods are used based on the characteristics of the asset and the conditions of the market of reference; the valuer determines the most suitable method for each individual property.

- Discounted Cash Flow method; the discounted cash flow method is based on the discounting (for a variable period based on the rental/occupational situation of the property and its subsequent optimisation) of the future net proceeds from the rental or sale of the property. At the end of this period, the value of the property is assumed to be the sale price obtained by capitalising the income of the last year at a market rate for investments similar to the object of the estimate or through a split sale. This method is used for the valuation of all the owner-occupied properties or real estate leased to third parties, located in Italy.
- Comparative or Market Method; the comparative or market method is based on the comparison between the assets examined and similar assets recently sold/purchased or offered on the same market or in competitive environments. This criterion is based on a comparison with properties that have recently been sold or offered on the open market and, if possible, have the same characteristics. In the absence of observations directly related to the property examined, cases are used that are as similar as possible to the property examined, making the necessary adjustments. This method, which also represents the basis for other valuation methods, can be adopted in particular for non-core assets and/or, in any case, for unrestricted and available assets in Italy and abroad.
- Direct capitalisation income approach; the income approach is based on the current value of the potential market income of a property, obtained by capitalising the income at a market rate. This approach is applied mainly to owner-occupied properties abroad, where a prolonged stay within the building is envisaged.
- Investment Value (Worth). the Investment Value (Worth) is defined by the IVS as: "the value of an asset to a particular owner or prospective owner for individual investment or operational objectives". This definition is consistent with the provisions of the latest edition of the "RICS Valuation - Global Standards 2017" of the Royal Institution of Chartered Surveyors of the United Kingdom, where the Investment Value is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives".
  The Investment Value is applicable to properties built by the entity or properties with a strong business relevance subject to significant investments for technological, construction and functional adaptation.
  The Investment Value of these properties is determined on the basis of a 12+6-year plan for business use without break options, whose annual rent is determined by applying an appropriate gross rate of return to the amount of direct and indirect costs capitalised by the Owner, including the costs of purchasing the land.

Frequency of valuation

Revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
The frequency of revaluations depends upon the changes in fair values of the property and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

[26] Standards set out in the Royal Institution of Chartered Surveyors of the United Kingdom document "RICS Valuation – Global Standard 2017" (also known as the "Red Book").

Specifically, based on the market trends, different valuation frequencies have been identified that, according to the characteristics of the assets and their location, are considered capable of capturing the significant changes in the value of the assets.
The following distinction is made for owner-occupied properties:
- for trophy assets, the revaluation is carried out by verifying the value through a scenario analysis (market trend analysis) every year and with a new appraisal every two years;
- for the other owner-occupied properties, the revaluation is carried out through scenario analysis (market trend analysis) every year and through a new appraisal every three years.

If the scenario analysis identifies significant changes (+/–10%), specific and updated appraisals must be carried out to adjust the fair value of the asset to the valuations of the real estate market.
For investment properties, the value is determined on the basis of new appraisals each year.

Scenario analysis
As part of the annual update of the fair value of the owner-occupied properties, in the years when a revaluation of the property is not envisaged, a scenario analysis (market trend analysis) is carried out using the best information sources available for the various countries in which the properties are located, in order to identify deviations, using databases, in the market values between the analysis period and the previous period. In particular, the changes are defined using at least 3 different sources. The main source is that provided by the Italian Revenue Agency, based on the specific OMI (Real Estate Market Monitor) zones. The second publication source is Nomisma for which, for the related zoning, the same queries are conducted as those for the OMI (main database). Lastly, the third source is based on the analyses of the changes during the year of reference in terms of the offers present on the real estate market.
Accordingly, the experts identify the annual deviations in rents and/or prices by related asset class for each property.
This activity is carried out close to the end of the year in order to produce a range of deviations that can be included within two different thresholds and to enable the timely planning, on the basis of those thresholds, of the updating of the specific appraisals for the properties whose deviation exceeds the threshold.
The permitted variation threshold is +/-10%
If the deviations identified exceed this threshold, a new valuation will be carried out before the end of the year.

Fair value of valuable art assets

The bank's valuable art assets are also valued using the revaluation method, which envisages that property and equipment, whose fair value can be reliably determined, is recorded at a revalued amount, equal to its fair value at the date of the revaluation.

Valuation approach
The valuation is carried out by determining the value through external appraisals, entrusted to qualified independent experts.
At least four different values can be formulated for an individual art asset:
- current commercial or market value;
- liquidation value;
- restoration value;
- insurance value.

For the valuation of Intesa Sanpaolo's collections, the "current commercial or market value" has been adopted as the main criterion. However, additional value criteria may be used if there are anomalies in the main criterion.
For the determination of the fair value, the same criteria used for the initial selection of assets to be included in the "valuable art assets" category are considered:
- state of preservation of the artwork;
- historical importance of the artist;
- critical/historical-artistic importance of the artwork;
- illustrious origin of the artwork;
- quality and certain attribution of the artwork;
- declaration of interest from the Ministry for Cultural Heritage and Activities.

After having identified the criteria, the fair value is obtained, by comparison, from the online databases that list over 100 million artworks and monitor the results of leading Italian and international auction houses such as Christie's, Sotheby's, Dorotheum, Pandolfini, Wannenes, and Il Ponte. The results of the auctions are objective parameters that are compared with the market as a whole, in an analysis that also involves monitoring the sales of galleries and art fairs.
The comparison consists of the analysis of the auction trades for similar artworks (in terms of technique, size and subject matter) by the same artist or by similar schools or genres in terms of style and philosophy, which indicate the commercial value of the artwork.

The valuation approach is based on the monitoring of the objective market values of the artworks included in the category examined, which follows three methodological approaches:

- prudent basis, analysing the average values of a variety of different information sources, based on robust, updated and statistically representative databases: in a market of "unique" artworks, often without transactions for decades, this approach ensures the periodic identification of any outlier values and avoids following speculative trends;
- comparison, monitoring the transactions that have taken place at a global level in a variety of distribution channels, in order to avoid considering only certain forms of transaction and the related financial values: in a global market with global demand, this approach enables verification of the presence of any geographical arbitrage or specific appreciation/depreciation phenomena with potential impacts;
- recurrence, since it updates and monitors price trends over the shortest period of time that the specific features of the market allow, i.e. the quarter: in a market in which there are no public trades monitored daily, the shortness of the measurement period ensures maximum attention and timeliness of any changes.

Frequency of valuation

For valuable art assets, the revaluation is carried out by means of an expert appraisal every three years. However, a scenario analysis is carried out annually to identify any appreciable changes in value in order to bring forward the valuation.

Scenario analysis

In order to identify and determine the changes in the market value of the artworks being valued, trading trends are monitored to detect signs of significant change that require appraisals to be made in advance with respect to the frequency established.
Scenario analyses are pivotal for monitoring the market trends for artworks similar to those owned by Intesa Sanpaolo, since there have been significant increases in the market in recent years.
With respect to the parameters used for valuation purposes, the growth and evolution of the market has aspects of interest that have a direct impact on the scenario analyses that are conducted regularly to monitor the trends.
In view of the above, a scenario analysis of the art market is conducted annually, based on an examination of the sector publications and the most authoritative annual reports produced by leading consulting firms (Deloitte Luxembourg & ArtTactic, Art & Finance Report) or other accredited banking groups (The Art Market 2018. An Art Basel & UBS Report).
This monitoring activity is carried out on a two-fold basis:

- monitoring of the market prices of the top artworks/collections in terms of value held in Intesa Sanpaolo's collections, which represent approximately 75% of the total value of the "valuable art assets" category, by verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines) and the reports of the main world databases (Art Price, Art Net), whose analytics provide useful tools for monitoring prices;
- monitoring the performance of the art market in general, to identify trends and changes with respect to Intesa Sanpaolo's "valuable art assets", verifying both the results of the main international auctions (which are based on a calendar of precise seasonal deadlines), and the reports of the main world databases (Art Price, ArtNet); since the works of many authors in the Intesa Sanpaolo collection rarely go up for auction due to the limited number of items left in the market, it is important to monitor the trend of similar artists or works; accordingly, the monitoring is not just limited to the works held and their artists, but also extends to the authors and artworks related to the same area, to take into account trend data.

If the annual monitoring identifies a potential, positive or negative, value deviation of more than 15% (for individual artworks/collections of artists in the Intesa Sanpaolo collections and comparable on the basis of objective criteria such as size, technique, period of production, etc.), the appraisals are commissioned according to the usual internal procedures in order to align the carrying amount.

Quantitative information

A.4.5. Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: fair value by level

(millions of euro)

Assets / liabilities at fair value	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets designated at fair value through profit or loss	3,127	15,468	7,283	3,519	14,652	415
a) Financial assets held for trading	*3,095*	*14,723*	*202*	*3,519*	*14,499*	*246*
of which: Equities	-	-	-	-	-	-
of which: quotas of UCI	*5*	-	*47*	*177*	-	*93*
b) Financial assets designated at fair value	-	*198*	-	-	*153*	*169*
c) Other financial assets mandatorily designated at fair value	*32*	*547*	*7,081*	-	-	-
of which: Equities	-	*94*	*135*	-	-	-
of which: quotas of UCI	*12*	-	*920*	-	-	-
2. Financial assets designated at fair value through other comprehensive income	28,725	2,093	318	33,468	2,370	1,074
of which: Equities	*557*	*1,451*	*312*	*501*	*1,575*	*483*
3. Hedging derivatives	-	2,868	10	-	3,809	14
4. Property and equipment	-	-	4,419	-	-	4,237
5. Intangible assets	-	-	-	-	-	-
Total	**31,852**	**20,429**	**12,030**	**36,987**	**20,831**	**5,740**
1. Financial liabilities held for trading	599	13,864	97	554	13,921	105
2. Financial liabilities designated at fair value	-	1,821	-	-	9	-
3. Hedging derivatives	-	5,353	5	-	5,550	5
Total	**599**	**21,038**	**102**	**554**	**19,480**	**110**

In 2018, there were no significant transfers of assets or liabilities between level 1 and level 2 pursuant to IFRS 13, par. 93, letter c).

As at 31 December 2018, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of financial and credit derivative contracts, amounted to a reduction of 178 million euro in positive fair value and a reduction of 48 million euro in negative fair value.

The aggregation of “Property and equipment” of 4,419 million euro relates to the criterion of revaluation of owner-occupied properties and valuable art assets and the fair value measurement of investment property.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial assets designated at fair value through profit or loss				Financial assets designated at fair value through other comprehensive income	Hedging derivatives	Property and equipment	Intangible assets
	TOTAL	*of which: a) Financial assets held for trading*	*of which: b) Financial assets designated at fair value*	*of which: c) Other financial assets mandatorily designated at fair value*				
1. Initial amount	**6,903**	**345**	**64**	**6,494**	**336**	**14**	**4,237**	**-**
2. Increases	**803**	**25**	**-**	**778**	**42**	**-**	**354**	**-**
2.1 Purchases	310	-	-	310	25	-	25	-
2.2 Gains recognised in:	101	20	-	81	10	-	4	-
2.2.1 Income statement	101	20	-	81	-	-	3	-
- of which capital gains	*69*	*20*	*-*	*49*	*-*	*-*	*3*	*-*
2.2.2 Shareholders' equity	-	X	X	X	10	-	1	-
2.3 Transfers from other levels	10	5	-	5	4	-	-	-
2.4 Other increases	382	-	-	382	3	-	325	-
3. Decreases	**-423**	**-168**	**-64**	**-191**	**-60**	**-4**	**-172**	**-**
3.1 Sales	-112	-112	-	-	-54	-	-2	-
3.2 Reimbursements	-	-	-	-	-2	-	-	-
3.3 Losses recognized in:	-228	-42	-	-186	-3	-4	-9	-
3.3.1 Income statement	-228	-42	-	-186	-	-4	-9	-
- of which capital losses	*-205*	*-42*	*-*	*-163*	*-*	*-4*	*-9*	*-*
3.3.2 Shareholders' equity	-	X	X	X	-3	-	-	-
3.4 Transfers to other levels	-73	-4	-64	-5	-1	-	-	-
3.5 Other decreases	-10	-10	-	-	-	-	-161	-
4. Final amount	**7,283**	**202**	**-**	**7,081**	**318**	**10**	**4,419**	**-**

The captions of transfers between levels of “Financial assets designated at fair value through profit and loss” refer to transfers from level 3 to level 2 for a total of 73 million euro and from level 2 to level 3 for a total of 10 million euro.
The former are transfers of “Financial assets designated at fair value” such as debt securities for 64 million euro, “Financial assets mandatorily measured at fair value” such as loans for 5 million euro and “Financial assets held for trading” such as financial derivatives for 4 million euro.
The latter are transfers of “Financial assets mandatorily measured at fair value” such as debt securities for 5 million euro and “Financial assets held for trading” such as financial derivatives for 5 million euro.
The transfers between levels of debt securities occurred in the first case due to the use in fair value measurement as at 31 December 2018 of parameters that can be observed on the market, and in the second case due to the lack of observability on the market of the reference parameters, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.
For derivative contracts, transfers between levels are due to the variation in the counterparty risk, considering that derivatives with non-performing counterparties are classified in level 3 of the fair value hierarchy of the instrument, due to the use in defining the fair value of parameters which cannot be observed on the market, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

"Transfers to other levels" of “Financial assets designated at fair value through other comprehensive income” mainly refer to transfers of equities held by the bank, mainly from level 2 to level 3, due to the lack of parameters which can be observed on the market to be used in fair value measurement, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

“Other increases” of “Property and equipment” and “Financial assets mandatorily measured at fair value” mainly include business combinations occurred during the year.

A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

(millions of euro)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Initial amount	**105**	**-**	**5**
2. Increases	**6**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses recognised in:	3	-	-
2.2.1 Income statement	3	-	-
- of which capital losses	*3*	-	-
2.2.2 Shareholders' equity	X	-	-
2.3 Transfers from other levels	3	-	-
2.4 Other increases	-	-	-
3. Decreases	**-14**	**-**	**-**
3.1 Reimbursements	-	-	-
3.2 Repurchases	-	-	-
3.3 Gains recognised in:	-13	-	-
3.3.1 Income statement	-13	-	-
- of which capital gains	*-13*	-	-
3.3.2 Shareholders' equity	X	-	-
3.4 Transfers to other levels	-1	-	-
3.5 Other decreases	-	-	-
4. Final amount	**97**	**-**	**5**

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

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level

(millions of euro)

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	Book value	Level 1	Level 2	Level 3	Book value	Level 1	Level 2	Level 3
1. Financial assets measured at amortised cost	409,602	1,040	291,640	118,518	390,468	1,363	296,076	94,974
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and discontinued operations	672	-	-	672	266	-	260	6
Total	**410,274**	**1,040**	**291,640**	**119,190**	**390,734**	**1,363**	**296,336**	**94,980**
1. Financial liabilities measured at amortised cost	447,143	41,782	341,346	61,820	427,290	51,343	306,328	73,118
2. Liabilities associated with non-current assets	-	-	-	-	-	-	-	-
Total	**447,143**	**41,782**	**341,346**	**61,820**	**427,290**	**51,343**	**306,328**	**73,118**

Financial assets and liabilities

For assets and liabilities not measured at fair value (loans and loans represented by securities, amounts due to customers and securities issued), the Bank measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed-rate instruments, the cash flows are those envisaged by the contracts. For floating-rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;

- the book value is calculated as the reasonable approximation of fair value for:
  - demand financial items (assets and liabilities) or financial items with an original maturity equal to or less than 12 months and residual maturity equal to or less than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - non-performing assets, which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

Under IFRS 9, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument at initial recognition is normally the "transaction price", i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy.

Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with.

For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of "on the book" transactions falling under the Bank's activities, the Day-One-Profits earned on level 3 transactions (including in the above "on the book" management) are taken to the income statement when the bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (financial assets measured at fair value through profit or loss, financial liabilities held for trading or designated at fair value). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.

In 2018, no significant amounts to be deferred to income statement were identified which are not attributable to risk factors or commercial margins.

Part B – Information on the Parent Company's balance sheet

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

1.1 Cash and cash equivalents: breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
a) Cash	2,506	1,762
b) On demand deposits with Central Banks	4,857	3,988
Total	**7,363**	**5,750**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 20

2.1 Financial assets held for trading: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	3,090	1,353	4	3,342	1,287	4
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	*3,090*	*1,353*	*4*	*3,342*	*1,287*	*4*
2. Equities	-	-	-	-	-	-
3. Quotas of UCI	5	-	47	177	-	93
4. Loans	-	4	9	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	*4*	*9*	-	-	-
Total (A)	**3,095**	**1,357**	**60**	**3,519**	**1,287**	**97**
B. Derivatives						
1. Financial derivatives	-	13,243	142	-	13,073	149
1.1 trading	-	*13,243*	*142*	-	*13,066*	*149*
1.2 fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	*7*	-
2. Credit derivatives	-	123	-	-	139	-
2.1 trading	-	*123*	-	-	*139*	-
2.2 fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**13,366**	**142**	**-**	**13,212**	**149**
Total (A+B)	**3,095**	**14,723**	**202**	**3,519**	**14,499**	**246**

The caption above includes the debt securities connected with securitisations for a total amount of approximately 245 million euro, of which 243 million euro is senior and 2 million euro is mezzanine.

2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Cash Assets		
1. Debt securities	**4,447**	**4,633**
a) Central Banks	10	86
b) Public administration	2,228	2,667
c) Banks	1,279	991
d) Other financial companies	632	732
of which: insurance companies	-	
e) Non financial companies	298	157
2. Equities	**-**	**-**
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non financial companies	-	-
d) Other issuers	-	-
3. Quotas of UCI	**52**	**270**
4. Loans	**13**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	9	-
of which: insurance companies	-	-
e) Non financial companies	4	-
f) Households	-	-
Total A	**4,512**	**4,903**
B. Derivatives		
a) Central counterparties	-	-
b) Other	13,508	13,361
Total B	**13,508**	**13,361**
TOTAL (A+B)	**18,020**	**18,264**

Amounts referring to "Quotas of UCI" mainly regard hedge fund positions.

2.3 Financial assets designated at fair value: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1.Debt securities	**-**	**198**	**-**	**-**	**138**	**169**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	198	-	-	138	169
2. Loans	**-**	**-**	**-**	**-**	**15**	**-**
2.1 Structured	-	-	-	-	12	-
2.2 Others	-	-	-	-	3	-
Total	**-**	**198**	**-**	**-**	**153**	**169**

The Bank has included in this category debt securities linked to financial instruments measured at fair value through profit and loss, such as financial derivatives. On the basis of the debt securities, no hedges were arranged through credit derivatives or similar instruments to mitigate the relevant credit risk.
The fair value measurement attributable to the measurement of credit risk of financial assets designated at fair value was a positive 3 million euro during the year and a cumulative 9 million euro.

2.4 Financial assets designated at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**198**	**307**
a) Central Banks	-	-
b) Public administration	1	1
c) Banks	197	201
d) Other financial companies	-	105
of which: insurance companies	-	-
e) Non financial companies	-	-
2. Loans	**-**	**15**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	12
d) Other financial companies	-	3
of which: insurance companies	-	*3*
e) Non financial companies	-	-
f) Households	-	-
Total	**198**	**322**

2.5 Other financial assets mandatorily measured at fair value: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**291**	**408**	**-**	**-**	**-**
1.1 Structured securities	-	-	4	-	-	-
1.2 Other debt securities	-	291	404	-	-	-
2. Equities	**-**	**94**	**135**	**-**	**-**	**-**
3. Quotas of UCI	**12**	**-**	**920**	**-**	**-**	**-**
4. Loans	**20**	**162**	**5,618**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	20	162	5,618	-	-	-
Total	**32**	**547**	**7,081**	**-**	**-**	**-**

Debt securities include the securities connected with securitisation transactions for a total amount of approximately 631 million euro, of which 87 million euro is senior, 241 million euro is mezzanine and 303 million euro is junior.

2.6 Other financial assets mandatorily measured at fair value: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Equities	**229**	**-**
of which: banks	-	-
of which: other financial companies	*4*	-
of which: non financial companies	*225*	-
2. Debt securities	**699**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	684	-
of which: insurance companies	*48*	-
e) Non financial companies	15	-
3. Quotas of UCI	**932**	**-**
4. Loans	**5,800**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	2	-
d) Other financial companies	5,385	-
of which: insurance companies	*24*	-
e) Non financial companies	408	-
f) Households	5	-
Total	**7,660**	**-**

The aggregate of quotas of UCI includes 355 million euro in interests held by the bank in the Atlante Fund and in the Italian Recovery Fund (formerly Atlante Fund II), as alternative investment funds to support Italian banks in their recapitalisation transactions and in the management of the bad loans in the sector.

The aggregate of Loans includes credit exposures classified among financial assets mandatorily measured at fair value as they failed the test on the contractual characteristics of cash flows (SPPI Test) required by IFRS 9.

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CAPTION 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Captions	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**28,168**	**627**	**2**	**32,967**	**747**	**588**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	28,168	627	2	32,967	747	588
2. Equities	**557**	**1,451**	**312**	**501**	**1,575**	**483**
3. Loans	**-**	**15**	**4**	**-**	**48**	**3**
Total	**28,725**	**2,093**	**318**	**33,468**	**2,370**	**1,074**

Debt securities include the securities connected with securitisation transactions for a total amount of approximately 10 million euro, of which 8 million euro is senior and 2 million euro is mezzanine.

Financial assets measured at fair value through other comprehensive income (sub-caption "Equities – Level 2) include stakes in the capital of the Bank of Italy. For the related valuation, as in the previous years, the direct transaction method was used, considering the purchases made starting from 2015 and continuing in 2016, 2017 and 2018. Considering that all the main transactions were finalised at nominal value, the use of this approach confirms the recognition value of the stakes held in the financial statements of the Bank. Following the approach taken in the previous year, the use of level 2 inputs (direct transaction price) as the reference for determining fair value for the 2018 financial statements also resulted in the confirmation of the level in the fair value hierarchy.

The book value of equity instruments deriving from the recovery of impaired financial assets amounted to 27 million euro.

3.2 Financial assets measured at fair value through other comprehensive income: borrower/issuer breakdown

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Debt securities	**28,797**	**34,302**
a) Central Banks	-	-
b) Public administration	26,851	31,930
c) Banks	1,398	1,292
d) Other financial companies	460	998
of which: insurance companies	-	-
e) Non financial companies	88	82
2. Equities	**2,320**	**2,559**
a) Banks	1,816	1,747
b) Other issuers:	504	812
- other financial companies	108	137
of which: insurance companies	*5*	*6*
- non financial companies	396	675
- other	-	-
3. Loans	**19**	**51**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	3
d) Other financial companies	-	48
of which: insurance companies	-	-
e) Non financial companies	19	-
f) Household	-	-
Total	**31,136**	**36,912**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	28,772	*8,818*	32	35	-7	-	-35	-
Loans	19	-	-	-	-	-	-	-
Total 31.12.2018	**28,791**	***8,818***	**32**	**35**	**-7**	**-**	**-35**	**-**
Total 31.12.2017	**34,353**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
of which: purchased or originated credit-impaired financial assets	*X*	*X*	-	-	*X*	-	-	-

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST – CAPTION 40

4.1 Financial assets measured at amortised cost: breakdown of amounts due from banks

(millions of euro)

Items	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
A. Due from Central Banks	**32,111**	**-**	**-**	**-**	**32,111**	**-**	**34,305**	**-**	**-**	**-**	**34,305**	**-**
1. Time deposits	1	-	-	X	X	X	7	-	-	X	X	X
2. Compulsory reserve	32,109	-	-	X	X	X	34,298	-	-	X	X	X
3. Repurchase agreements	1	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**122,480**	**-**	**-**	**14**	**93,233**	**28,848**	**123,135**	**-**	**-**	**15**	**105,476**	**17,798**
1. Loans	122,178	-	-	-	92,967	28,848	120,690	-	-		103,247	17,591
1.1 Current accounts and on demand deposits	7,446	-	-	X	X	X	11,824	-	-	X	X	X
1.2. Time deposits	79,085	-	-	X	X	X	71,361	-	-	X	X	X
1.3 Other loans:	35,647	-	-	X	X	X	37,505	-	-	X	X	X
- Reverse repurchase agreements	*7,072*	-	-	*X*	*X*	*X*	*9,206*	-	-	*X*	*X*	*X*
- Finance leases	-	-	-	*X*	*X*	*X*	-	-	-	*X*	*X*	*X*
- Other	*28,575*	-	-	*X*	*X*	*X*	*28,299*	-	-	*X*	*X*	*X*
2. Debt securities	302	-	-	14	266	-	2,445	-	-	15	2,229	207
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	302	-	-	14	266	-	2,445	-	-	15	2,229	207
Total	**154,591**	**-**	**-**	**14**	**125,344**	**28,848**	**157,440**	**-**	**-**	**15**	**139,781**	**17,798**

The sub-caption "Other loans" includes operating loans, i.e. loans for operations granted through the provision of financial activities and services, with no credit facilities, for an amount of 32 million euro (45 million euro as at 31 December 2017). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

(millions of euro)

Transaction type/Amount	31.12.2018						31.12.2017					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired*	Level 1	Level 2	Level 3
1. Loans	**230,123**	**11,048**	***506***	**-**	**156,848**	**87,880**	**205,466**	**13,518**	**743**	**-**	**146,439**	**75,708**
1.1.Current accounts	12,754	1,651	-	X	X	X	10,295	1,950	8	X	X	X
1.2. Reverse repurchase agreements	16,306	-	-	X	X	X	15,872	-	-	X	X	X
1.3. Mortgages	133,232	7,201	*506*	X	X	X	107,622	9,320	734	X	X	X
1.4. Credit card loans, personal loans and transfer of one fifth of salaries	11,991	236	-	X	X	X	10,212	233	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	12	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	51	-	-	X	X	X
1.7. Other loans	55,840	1,960	-	X	X	X	61,402	2,015	1	X	X	X
2. Debt securities	**13,796**	**44**	**-**	**1,026**	**9,448**	**1,790**	**14,003**	**41**	**-**	**1,348**	**9,856**	**1,468**
2.1. Structured securities	-	-	-	-	-	-	10	-	-	-	-	10
2.2. Other debt securities	13,796	44	-	1,026	9,448	1,790	13,993	41	-	1,348	9,856	1,458
Total	**243,919**	**11,092**	***506***	**1,026**	**166,296**	**89,670**	**219,469**	**13,559**	**743**	**1,348**	**156,295**	**77,176**

Loans to customers include loans disbursed on public funds under administration for which the Bank holds the risk in the amount of 88 million euro.

Debt securities include the securities connected with securitisations for a total amount of 536 million euro, of which 518 million euro is senior and 18 million euro is mezzanine.
Moreover, debt securities of 5,094 million euro must be added to this, connected with the securitisation of the vehicle Romulus Funding Corporation, included in the group's scope of consolidation.

Credit-impaired financial assets mainly relate to positions included in securitisations deriving from the former Venetian banks.
During the year, as part of business combinations under common control, non-performing loans of 3,213 million euro were acquired, not recognised under "of which: purchased or originated credit-impaired".

The sub-caption "Other loans" includes operating loans, i.e. loans for operations granted through the provision of financial activities and services, with no credit facilities, for an amount of 468 million euro (380 million euro as at 31 December 2017). Insignificant value adjustments were recorded on those exposures classified as Stage 1.

4.3 Finance leases

Intesa Sanpaolo has no finance leases with banks.

4.4 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

(millions of euro)

Items	31.12.2018			31.12.2017		
	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*	Stage 1 and 2	Stage 3	*of which: purchased or originated credit-impaired assets*
1. Debt securities	**13,796**	**44**	**-**	***14,003***	***41***	**-**
a) Public administration	5,667	25	-	*6,457*	*27*	-
b) Other financial companies	7,189	5	-	*6,424*	-	-
of which: insurance companies	-	-	-	*51*	-	-
c) Non financial companies	940	14	-	*1,122*	*14*	-
2. Loans:	**230,123**	**11,048**	***506***	***205,466***	***13,518***	***743***
a) Public administration	10,812	249	-	*11,520*	*212*	-
b) Other financial companies	32,430	239	*8*	*38,222*	*356*	*13*
of which: insurance companies	*913*	-	-	*902*	-	-
c) Non financial companies	87,960	7,917	*352*	*90,639*	*10,900*	*592*
d) Households	98,921	2,643	*146*	*65,085*	*2,050*	*138*
TOTAL	**243,919**	**11,092**	***506***	***219,469***	***13,559***	***743***

4.5 Financial assets measured at amortised cost: gross amount and total adjustments

(millions of euro)

	Gross amount				Total adjustments			Total partial write-offs
	Stage 1	*of which: Instruments with low credit risk*	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	11,802	*5,302*	2,390	52	-57	-37	-8	**-**
Loans	357,490	*114,950*	28,106	24,417	-417	-767	-13,369	**3,825**
Total 31.12.2018	**369,292**	***120,252***	**30,496**	**24,469**	**-474**	**-804**	**-13,377**	**3,825**
Total 31.12.2017	**361,599**	***107,529***	**-**	**27,483**	**-1,138**	**-**	**-13,965**	**-**
of which: purchased or originated credit-impaired financial assets	*X*	*X*	*26*	*664*	*X*	*-1*	*-209*	**-**

For the approach used to represent the gross value and the total adjustments to impaired financial assets, see the illustration provided in Part A – Accounting policies.

SECTION 5 - HEDGING DERIVATIVES – CAPTION 50

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.
Derivatives are considered listed only if traded on regulated markets.

5.1 Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

	Fair value 31.12.2018			Notional amount	Fair value 31.12.2017			Notional amount
	Level 1	Level 2	Level 3	31.12.2018	Level 1	Level 2	Level 3	31.12.2017
A. Financial derivatives								
1. Fair Value	-	2,868	10	52,051	-	3,809	14	121,929
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**2,868**	**10**	**52,051**	**-**	**3,809**	**14**	**121,929**

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions / Type of hedge	Fair Value							Cash-flow hedges		Foreign investm
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	5	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	47	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	86	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**52**	**-**	**-**	**-**	**-**	**-**	**86**	**-**	**-**	**-**
1. Financial liabilities	2,083	X	285	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	372	X	-	X
Total liabilities	**2,083**	**-**	**285**	**-**	**-**	**-**	**372**	**-**	**-**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to specific fair value hedges of liabilities issued, as well as generic fair value hedges of demand positions under liabilities (core deposits).

SECTION 6 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 60

6.1 Fair value change of hedged assets: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged assets / Amount	31.12.2018	31.12.2017
1. Positive fair value change	**77**	**4**
1.1 of specific portfolios:	77	4
a) financial assets measured at amortised cost	*77*	*4*
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative fair value change	**-**	**-135**
2.1 of specific portfolios:	-	-135
a) financial assets measured at amortised cost	-	*-135*
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**77**	**-131**

The balance of the changes in value of assets subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

SECTION 7 – EQUITY INVESTMENTS – CAPTION 70

7.1 Equity investments: information on equity interests

		Registered office	Place of business	% held	Votes available %
A. WHOLLY-OWNED SUBSIDIARIES					
1	ASSOCIAZIONE STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	Napoli	60.00	25.00
2	AUTOSTRADE LOMBARDE S.P.A. (a)	Brescia	Brescia	55.78	55.78
3	BANCA 5 S.P.A.	Milano	Milano	100.00	100.00
4	BANCA APULIA SPA	San Severo	San Severo	97.12	97.27
5	BANCA COMERCIALA EXIMBANK S.A.	Chișinău	Chișinău	100.00	100.00
6	BANCA CR FIRENZE SPA	Firenze	Firenze	100.00	100.00
7	BANCA IMI SPA	Milano	Milano	100.00	100.00
8	BANCA INTESA JOINT-STOCK COMPANY (b)	Moscow	Moscow	46.98	46.98
9	BANCA PROSSIMA S.p.A.	Milano	Milano	100.00	100.00
10	BANK OF ALEXANDRIA (c)	Cairo	Cairo	80.00	70.25
11	BANKA INTESA SANPAOLO D.D. (d)	Koper	Koper	48.07	48.07
12	CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA S.p.A. (b)	Pistoia	Pistoia	25.05	25.05
13	CASSA DI RISPARMIO IN BOLOGNA SPA	Bologna	Bologna	100.00	100.00
14	CIB BANK LTD	Budapest	Budapest	100.00	100.00
15	CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Roma	Roma	67.50	67.50
16	EURIZON CAPITAL SGR SPA	Milano	Milano	100.00	100.00
17	FIDEURAM - INTESA SANPAOLO PRIVATE BANKING SPA	Torino	Roma	100.00	100.00
18	FIDEURAM VITA SPA	Roma	Roma	80.01	80.01
19	FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Palermo	Torino	100.00	100.00
20	FONDO PER LA RICERCA E L'INNOVAZIONE S.R.L. - RIF	Torino	Torino	100.00	100.00
21	FONDO SARDEGNA ENERGIA S.R.L.	Cagliari	Cagliari	100.00	100.00
22	IMI FONDI CHIUSI SGR S.P.A.	Bologna	Bologna	100.00	100.00
23	IMMIT - IMMOBILI ITALIANI SRL	Torino	Torino	100.00	100.00
24	IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Milano	Milano	100.00	100.00
25	INTESA SANPAOLO AGENTS4YOU S.P.A.	Torino	Vicenza	100.00	100.00
26	INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	Tirana	100.00	100.00
27	INTESA SANPAOLO BANK IRELAND PLC	Dublin	Dublin	100.00	100.00
28	INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Sao Paulo	Sao Paulo	99.90	99.90
29	INTESA SANPAOLO CASA S.P.A	Milano	Milano	100.00	100.00
30	INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Milano	Milano	100.00	100.00
31	INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Milano	Milano	76.63	76.63
32	INTESA SANPAOLO FORVALUE S.P.A	Milano	Milano	100.00	100.00
33	INTESA SANPAOLO FUNDING LLC	Wilmington Delaware	New York	100.00	100.00
34	INTESA SANPAOLO GROUP SERVICES SOCIETA' CONSORTILE PER AZIONI	Torino	Torino	99.93	99.93
35	INTESA SANPAOLO HIGHLINE SRL	Torino	Torino	100.00	100.00
36	INTESA SANPAOLO HOLDING INTERNATIONAL SA	Luxembourg	Luxembourg	100.00	100.00
37	INTESA SANPAOLO INNOVATION CENTER SOCIETA' CONSORTILE PER AZIONI	Torino	Vicenza	99.97	99.97
38	INTESA SANPAOLO PROVIS S.P.A.	Milano	Milano	100.00	100.00
39	INTESA SANPAOLO RE.O.CO. S.P.A.	Milano	Milano	100.00	100.00
40	INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Bucharest	Bucharest	93.46	93.46
41	INTESA SANPAOLO SEC SA	Luxembourg	Luxembourg	100.00	100.00
42	INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Sao Paulo	Sao Paulo	100.00	100.00
43	INTESA SANPAOLO SMART CARE S.R.L.	Torino	Torino	51.01	51.01
44	INTESA SANPAOLO VITA SPA	Torino	Milano	99.99	99.99
45	INTESA SEC. 3 S.R.L.	Milano	Milano	60.00	60.00
46	INTESA SEC. NPL S.P.A.	Milano	Milano	60.00	60.00
47	INTESA SEC. SRL	Milano	Milano	100.00	100.00
48	ISP CB IPOTECARIO S.R.L.	Milano	Milano	60.00	60.00
49	ISP CB PUBBLICO S.R.L.	Milano	Milano	60.00	60.00
50	ISP OBG S.R.L.	Milano	Milano	60.00	60.00
51	MEDIOCREDITO ITALIANO S.P.A.	Milano	Milano	100.00	100.00
52	OOO INTESA REALTY RUSSIA	Moscow	Moscow	100.00	100.00
53	PRAVEX BANK JOINT-STOCK COMPANY	Kiev	Kiev	100.00	100.00
54	PRIVATE EQUITY INTERNATIONAL S.A.	Luxembourg	Luxembourg	94.39	100.00
55	QINGDAO YICAI WEALTH MANAGEMENT CO. LTD.	Qingdao	Qingdao	55.00	55.00
56	RISANAMENTO S.p.A. (a)	Milano	Milano	48.88	48.88
57	SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO SPA (a) (b)	Brescia	Brescia	0.05	0.05

		Registered office	Place of business	% held	Votes available %
B. COMPANY SUBJECT TO JOINT CONTROL					
1	AUGUSTO SRL	Milano	Milano	5.00	5.00
2	COLOMBO SRL	Milano	Milano	5.00	5.00
3	DIOCLEZIANO SRL	Milano	Milano	5.00	5.00
4	THEMYS INVESTIMENTI S.P.A.	Milano	Milano	50.00	50.00
C. COMPANY SUBJECT TO SIGNIFICANT INFLUENCE					
1	ADRIANO LEASE SEC S.r.l. (e)	Conegliano	Conegliano	5.00	5.00
2	AM INVESTCO ITALY SPA (f)	Milano	Milano	5.56	5.56
3	AUTOSTRADA PEDEMONTANA LOMBARDA SPA	Assago	Assago	17.37	17.37
4	AUTOSTRADE BERGAMASCHE SPA	Bergamo	Bergamo	7.31	7.31
5	BANCOMAT SPA	Roma	Roma	20.28	20.28
6	BERICA 10 RESIDENTIAL MBS S.R.L. (e)	Vicenza	Vicenza	5.00	5.00
7	BERICA ABS 2 S.R.L. (e)	Vicenza	Vicenza	5.00	5.00
8	BERICA ABS 3 S.R.L. (e)	Vicenza	Vicenza	5.00	5.00
9	BRERA SEC S.R.L. (e)	Conegliano	Conegliano	5.00	5.00
10	CAF S.P.A.	Roma	Roma	49.00	49.00
11	CASSA DI RISPARMIO DI FERMO SPA	Fermo	Fermo	33.33	33.33
12	CLARIS FINANCE 2005 S.R.L. (e)	Roma	Roma	5.00	5.00
13	COMPAGNIA AEREA ITALIANA SPA	Roma	Fiumicino	27.49	27.49
14	DESTINATION ITALIA S.P.A.	Milano	Milano	38.00	38.00
15	EMISYS CAPITAL S.G.R. SPA	Milano	Milano	35.00	35.00
16	EQUITER SPA	Torino	Torino	32.88	32.88
17	EUROMILANO SPA	Milano	Milano	43.43	43.43
18	EUSEBI HOLDINGS B.V.	Amsterdam	Amsterdam	47.00	47.00
19	EXPERIENTIA GLOBAL S.A.	Lausanne	Lausanne	20.00	20.00
20	FOCUS INVESTMENTS SPA	Milano	Milano	8.33	25.00
21	GEXTRA SRL	Bologna	Bologna	49.00	49.00
22	INDACO VENTURE PARTNERS SGR SPA	Milano	Milano	24.50	24.50
23	INTRUM ITALY S.P.A.	Milano	Milano	49.00	49.00
24	ISM INVESTIMENTI SPA	Mantova	Mantova	27.36	27.36
25	ITALCONSULT SPA	Roma	Roma	10.00	10.00
26	LEONARDO TECHNOLOGY S.R.L.	Milano	Milano	26.60	26.60
27	MARKETWALL SRL	Milano	Milano	33.00	33.00
28	NETWORK IMPRESA S.P.A UNDER ARRANGEMENT WITH CREDITORS	Limena	Limena	28.95	28.95
29	PIETRA S.R.L.	Milano	Milano	22.22	22.22
30	PORTOCITTA' SRL	Trieste	Trieste	25.00	25.00
31	RAINBOW	Verona	Verona	43.20	0.00
32	RCN FINANZIARIA S.p.A.	Mantova	Mantova	23.96	23.96
33	SICILY INVESTMENTS S.A.R.L.	Luxembourg	Luxembourg	25.20	25.20
34	SOLAR EXPRESS S.R.L.	Firenze	Firenze	40.00	40.00
35	TRINACRIA CAPITAL S.A.R.L.	Luxembourg	Luxembourg	25.20	25.20
36	BERICA 5 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00
37	BERICA 6 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00
38	BERICA 8 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00
39	BERICA 9 RESIDENTIAL MBS S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00
40	BERICA ABS S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00

		Registered office	Place of business	% held	Votes available %
41	BERICA RESIDENTIAL MBS 1 S.R.L. IN LIQUIDATION (e)	Vicenza	Vicenza	5.00	5.00
42	CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDATION)	Roma	Roma	38.49	38.49
43	EUROPROGETTI & FINANZA S.R.L. IN LIQUIDATION	Roma	Roma	15.97	15.97
44	INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. IN LIQUIDATION	Arquà Polesine	Arquà Polesine	20.00	20.00

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

(b) Company included among significant equity investments as, in total, the Group holds a controlling share.

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

(d) Minority shareholders are subject to a legal commitment to purchase the remaining 0.75% of share capital.

(e) Intesa Sanpaolo holds 5% of the share capital; these are vehicles used for securitisation transactions within the Group.

(f) Intesa Sanpaolo enjoys veto rights in the shareholders' meetings and in board of directors' meetings on specific issues, including the dividend policy.

The illustration of the criteria and the methods for the definition of the consolidation area and the motivations which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

The fair value as at 31 December 2018 of the only listed equity investment, Risanamento S.p.A, amounted to 16 million euro.

7.2 Individually material equity investments: book value, fair value and dividends received

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.3 Individually material equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.4 Individually immaterial equity investments: financial information

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.5 Equity investments: annual changes

(millions of euro)

	31.12.2018	31.12.2017
A. Initial amount	**30,558**	**30,589**
B. Increases	**1,141**	**1,510**
B.1 purchases	670	1,025
of which business combinations	*60*	*476*
B.2 write-backs	-	1
B.3 revaluations	225	422
B.4 other changes	246	62
C. Decreases	**-5,441**	**-1,541**
C.1 sales	-5,126	-327
of which business combinations	-4,816	-
C.2 impairment losses [(a)]	-296	-290
C.3 write-downs	-	-
C.3 other changes	-19	-924
D. Final amount	**26,258**	**30,558**
E. Total revaluations	**251**	**26**
F. Total impairment losses	**-11,353**	**-13,390**

(a) Includes 14 million euro due to losses on investments in associates and companies subject to joint control carried at equity.

Subcaption B.1 "Purchases" primarily includes the following transactions:
- subscription to a share capital increase of Intesa Sanpaolo Provis S.p.A. for 130 million euro;
- subscription to a share capital increase of Am Investco Italy S.p.A. for 100 million euro;
- purchase, as part of the Savoy transaction, of 49% of CAF S.p.A. and the same percentage of Gextra S.r.l. for 65 million euro and 4 million euro, respectively;
- purchase of shares of Autostrade Lombarde S.p.A. for 62 million euro;
- subscription to a share capital increase of Intesa Sanpaolo Romania S.A. Commercial Bank for 58 million euro;
- purchase of shares of Cassa dei Risparmi di Forlì e della Romagna S.p.A. for 52 million euro, following the incorporation of the company during the year;
- subscription to a share capital increase of Intesa Sanpaolo Innovation Center S.C.P.A. for 50 million euro;
- purchase of shares of Banca Prossima S.p.A. for 43 million euro;
- increase in the equity investment in Intesa Sanpaolo Bank Albania Sh.A. for 30 million euro as a result of the incorporation of Veneto Banka SH.A therein;
- purchase of shares of Banca Apulia S.p.A. for 17 million euro;
- purchase of shares of Rainbow for 15 million euro, following the incorporation of Banco di Napoli S.p.A. during the year.

Sub-caption B.3 "Revaluations" refers to the revaluation at fair value of the residual stake of 49% in Intrum S.p.A. (formerly Tersia S.p.A.).

Sub-caption B.4 "Other changes" refers mainly to profits on disposal relating to the Tangenziale Esterna S.p.A. and Tangenziali Esterne di Milano S.p.A. transaction and the Savoy transaction. For details refer to the contents of Section 15 - Part C of these Financial Statements.

Subcaption C.1 "Sales" essentially includes the following transactions:
- Incorporations during the year of:
  - Banco di Napoli S.p.A. for 1,793 million euro;
  - Cassa di Risparmio del Veneto S.p.A. for 1.385 million euro;
  - Imi Investimenti S.p.A. for 883 million euro;
  - Cassa dei Risparmi di Forlì e della Romagna S.p.A. for 317 million euro;
  - Cassa di Risparmio del Friuli Venezia Giulia S.p.A. for 293 million euro;
  - Banca Nuova S.p.A. for 115 million euro;
- disposal of 51% of Intrum S.p.A. as part of the Savoy transaction, for 206 million euro, including accessory charges and purchase price adjustments;
- sale of the shares of Tangenziale Esterna S.p.A. and Tangenziali Esterne di Milano S.p.A. for 51 million euro.

7.6 Commitments referred to investments in companies subject to joint control

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.7 Commitments referred to investments in companies subject to significant influence

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.8 Significant restrictions

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

7.9 Other information

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

Impairment tests of equity investments

As required under IAS/IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two classes of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected, the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

With regard to investments in associates or companies subject to joint control, impairment testing led to the need to adjust the values of certain companies. The main impairment losses regarded the investments in Cassa di Risparmio di Fermo (4 million euro) and Rainbow (2 million euro).

Individual investments in subsidiaries, while material as individual assets from an accounting standpoint, do not present independent cash flow generation and governance capacity, given the organisational model, which calls for CGUs larger than the individual legal entities. Accordingly, investments in subsidiaries are not individually material for the purposes of conducting impairment tests in the financial statements of the Parent Company, but rather are aggregated (along with the operating activities conducted directly by the Parent Company) into CGUs consistent with those identified at the level of the consolidated financial statements. This approach is tied to the organisational model applied by the Group. According to that model, individual investments belonging to a given CGU are not capable of generating cash flows independently from the other investments. Therefore, their recoverable amounts cannot be calculated individually, as required by IAS 36.

In view of the consistency that must be preserved between the impairment tests conducted in the consolidated financial statements and the Parent Company's financial statements, in addition to the homogeneity of the composition of CGUs, the correlation between the items tested in the two sets of financial statements must be carefully considered: the goodwill attributed to the various CGUs in the consolidated financial statements and the Parent Company's financial statements partly reflects the goodwill associated solely with the Parent Company and partly the carrying amounts of investments in subsidiaries. The goodwill associated with the latter is implicit in the carrying amounts of the equity investments in the financial statements of the Parent Company and emerges in the consolidated financial statements following the consolidation process on the basis of the values determined during the purchase process pursuant to IFRS 3.

If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests on Cash Generating Units did not lead to the need to recognise in the consolidated financial statements impairment of goodwill, accordingly no impairment losses were recognised in relation to investments in subsidiaries.

Companies that did not present goodwill values in the consolidated financial statements but that closed 2018 with a loss were treated differently. For such companies, it was prudentially verified that the latter result was due to contingent or structural factors; from this analysis the need emerged to make some write-downs, aligning the carrying amount of the investment to the proportional share of equity of the subsidiaries. The main write-downs refer to Intesa Sanpaolo Provis for 175 million euro, Banca Apulia for 66 million euro and Risanamento for 23 million euro.

SECTION 8 – PROPERTY AND EQUIPMENT – CAPTION 80

(millions of euro)

	31.12.2018	31.12.2017
1. Property and equipment used in operations measured at cost	179	163
2. Investment property measured at cost	-	-
3. Property and equipment used in operations, revalued	4,273	4,158
4. Investment property measured at fair value	146	79
5. Inventories of property and equipment governed by IAS 2	-	-
Total Property and equipment caption 80	**4,598**	**4,400**

8.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

Assets/Amounts	31.12.2018	31.12.2017
1. Property and equipment owned	**179**	**163**
a) land	-	-
b) buildings	-	-
c) furniture	122	102
d) electronic equipment	51	53
e) other	6	8
2. Property and equipment acquired under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
Total	**179**	**163**
of which: resulting from the enforcement of guarantees	-	-

8.2 Investment property: breakdown of assets measured at cost

There was no investment property measured at cost.

8.3 Property and equipment used in operations: breakdown of revalued assets

(millions of euro)

Assets/Amounts	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**4,260**	**-**	**-**	**4,143**
a) land	-	-	1,840	-	-	1,746
b) buildings	-	-	2,158	-	-	2,135
c) valuable art assets	-	-	262	-	-	262
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**13**	**-**	**-**	**15**
a) land	-	-	4	-	-	4
b) buildings	-	-	9	-	-	11
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**4,273**	**-**	**-**	**4,158**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-

8.4 Investment property: breakdown of assets measured at fair value

(millions of euro)

Assets/Amounts	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Property and equipment owned	**-**	**-**	**144**	**-**	**-**	**79**
a) land	-	-	42	-	-	28
b) buildings	-	-	102	-	-	51
2. Property and equipment acquired under finance lease	**-**	**-**	**2**	**-**	**-**	**-**
a) land	-	-	1	-	-	-
b) buildings	-	-	1	-	-	-
Total	**-**	**-**	**146**	**-**	**-**	**79**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-

With regard to the provisions of IAS 40, paragraph 75, letters c), g) and h), there was not information worth mentioning.

8.5 Inventories of property and equipment governed by IAS 2: breakdown

As at 31 December 2018 this case was not present.

8.6 Property and equipment used in operations: annual changes

(millions of euro)

Captions	Land	Buildings	Furniture	Electronic equipment	Valuable art assets	Other	Total
A. Gross initial carrying amount	**1,750**	**2,146**	**1,128**	**1,641**	**262**	**59**	**6,986**
A.1 Total net adjustments	-	-	-1,026	-1,588	-	-51	-2,665
A.2 Net initial carrying amount	**1,750**	**2,146**	**102**	**53**	**262**	**8**	**4,321**
B. Increases:	**107**	**165**	**47**	**26**	**-**	**2**	**347**
B.1 Purchases	69	150	47	26	-	2	294
of which: business combinations	*65*	*142*	*20*	*8*	-	*2*	*237*
B.2 Capitalised improvement costs	-	15	-	-	-	-	15
B.3 Recoveries	-	-	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-	-
a) net equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-	-
B.6 Transfer from investment property	-	-	X	X	X	X	-
B.7 Other changes	38	-	-	-	-	-	38
C. Decreases:	**-13**	**-144**	**-27**	**-28**	**-**	**-4**	**-216**
C.1 Sales	-	-4	-	-1	-	-1	-6
of which: business combinations	-	*-4*	-	*-1*	-	-	*-5*
C.2 Depreciation	-	-70	-26	-27	-	-2	-125
C.3 Impairment losses recognised in	-	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-	-
C.4 Negative fair value differences recognised in	-1	-	-	-	-	-	-1
a) shareholders' equity	-	-	-	-	-	-	-
b) income statement	*-1*	-	-	-	-	-	*-1*
C.5 Negative foreign exchange differences	-	-	-	-	-	-	-
C.6 Transfer to:	-12	-35	-	-	-	-	-47
a) investment property	*-12*	*-35*	X	X	X	X	*-47*
b) non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-
C.7 Other changes	-	-35	-1	-	-	-1	-37
D. Net final carrying amount	**1,844**	**2,167**	**122**	**51**	**262**	**6**	**4,452**
D.1 Total net adjustments	-	-96	-1,146	-1,786	-	-55	-3,083
D.2 Gross final carrying amount	**1,844**	**2,263**	**1,268**	**1,837**	**262**	**61**	**7,535**
E. Measurement at cost	**1,087**	**1,454**	**-**	**-**	**59**	**-**	**2,541**

With regard to "Land", "Buildings" and "Valuable art assets" the Bank applies the revaluation method, while for the remaining property and equipment, it applies the cost criterion.

Sub-caption "E - Measurement at cost" is measured only for property and equipment measured according to the revaluation method, in compliance with the instructions set out in Circular 262 of the Bank of Italy.

8.7 Investment property: annual changes

(millions of euro)

Captions	Lands	Buildings
A. Initial carrying amount	**28**	**51**
B. Increases	**24**	**62**
B.1 Purchases	11	24
of which: business combinations	*8*	*14*
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	1	2
B.4 Recoveries	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	12	35
B.7 Other changes	-	1
C. Decreases	**-9**	**-10**
C.1 Sales	-	-2
of which: business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative fair value differences	-6	-2
C.4 Impairment losses	-	-
C5 Negative foreign exchange differences	-	-
C.6 Transfer to:	-3	-6
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	*-3*	*-6*
C.7 Other changes	-	-
D. Final amount	**43**	**103**
E. Fair value measurement	**-**	**-**

Investment property is measured at fair value, in compliance with IAS 40.

8.8 Inventories of property and equipment governed by IAS 2: annual changes

As at 31 December 2018 this case was not present.

8.9 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2018 amounted to approximately 5 million euro.

SECTION 9 – INTANGIBLE ASSETS - CAPTION 90

9.1 Intangible assets: breakdown by type of asset

(millions of euro)

Captions	31.12.2018		31.12.2017	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**1,160**	**X**	**859**
A.2 Other intangible assets	**101**	**1,507**	**88**	**1,507**
A.2.1 Assets measured at cost	101	1,507	88	1,507
a) internally generated intangible assets	-	-	*1*	-
b) other assets	*101*	*1,507*	*87*	*1,507*
A.2.2 Assets measured at fair value	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**101**	**2,667**	**88**	**2,366**

Other intangible assets and goodwill with an indefinite useful life essentially reflect components from the purchase price allocation process, as per IFRS 3, as part of the merger by incorporation of Sanpaolo IMI into Banca Intesa finalised on 1 January 2007 and the subsequent business combinations under common control.

Sub-caption A.2 "Other intangible assets" with a "Finite useful life" mainly refers to the "intangibles" identified within the purchase price allocation for the price paid in business combinations. IFRS 3 requires that an acquisition that is part of a business combination must be recognised using the purchase method and that the price paid must be allocated to the assets acquired and the liabilities assumed, measured at their respective fair values. The "intangibles" identified, which express the value of the relationships acquired, are amortised over the estimated duration of their benefit.

9.2 Intangible assets: annual changes

(millions of euro)

Captions	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Initial carrying amount	**6,203**	**13**	**-**	**1,676**	**2,009**	**9,901**
A.1 Total net adjustments	-5,344	-12	-	-1,589	-502	-7,447
A.2 Net initial carrying amount	**859**	**1**	**-**	**87**	**1,507**	**2,454**
B. Increases	**301**	**-**	**-**	**57**	**-**	**358**
B.1 Purchases	301	-	-	56	-	357
- of which: business combinations	*301*	-	-	-	-	*301*
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	*X*	-	-	-	-	-
- income statement	*X*	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	1	-	1
C. Decreases	**-**	**-1**	**-**	**-43**	**-**	**-44**
C.1 Sales	-	-	-	-	-	-
- of which: business combinations	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-15	-	-15
- Amortisation	*X*	-	-	*-15*	-	*-15*
- Write-downs recognised in	-	-	-	-	-	-
+ shareholders' equity	*X*	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	*X*	-	-	-	-	-
- income statement	*X*	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-1	-	-28	-	-29
D. Net final carrying amount	**1,160**	**-**	**-**	**101**	**1,507**	**2,768**
D.1 Total net adjustments	6,087	-	-	1,688	502	8,277
E. Gross final carrying amount	**7,247**	**-**	**-**	**1,789**	**2,009**	**11,045**
F. Measurement at cost	-	-	-	-	-	-

9.3 Intangible assets: other information

There were no commitments to purchase intangible assets as at 31 December 2018.

Information on intangible assets and goodwill

Intangible assets and goodwill recognised to the Intesa Sanpaolo balance sheet derive mainly from the merger between Banca Intesa and Sanpaolo IMI completed on 1 January 2007.
During 2018 the acquisition of the business line of Nexi Payments relating to the activities of acquiring transactions carried out using payment cards for customers of the former Venetian banks was finalised. This resulted in the recognition of new intangible assets. Specifically, intangible assets connected with the value of the customer portfolio included in the business line acquired, based on the contracts for special arrangements in force at the acquisition date were recognised, for an amount of 21 million euro. That amount was allocated to a specific intangible asset linked to the relationship with the acquired customers, fully allocated to the Banca dei Territori CGU.
Intangible assets recognised include intangible assets linked to customers, represented by the measurement of insurance portfolio accounts (for the value components attributable to distribution), whose value increased in 2018 due to the merger by incorporation of Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio del Friuli Venezia Giulia and Cassa dei Risparmi di Forlì e della Romagna.
Intangible assets relating to asset management accounts (for the value components attributable to distribution), increased in 2018, following the merger by incorporation of Banca Nuova.
The value of goodwill also increased due to the merger by incorporation in 2018 of Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio del Friuli Venezia Giulia and Cassa dei Risparmi di Forlì e della Romagna.

Reference should be made to Part B – Information on the consolidated balance sheet – Assets of the consolidated financial statements for further details of the various components and measurement criteria.
The following table summarises the different values recorded for changes occurring during 2018.

(millions of euro)

	Financial statements as at 31.12.2017	Amortisation	Other changes (1)	Adjustments	Financial statements as at 31.12.2018
BANCA DEI TERRITORI					
- Intangible assets insurance - distribution	12	-2	4	-	14
- Intangible asset management - distribution	67	-6	5	-	66
- Customer-related intangible	-	-	21	-	21
- Intangible brand name	1,507	-	-	-	1,507
- Goodwill	859	-	301	-	1,160
CORPORATE AND INVESTMENT BANKING					
- Intangible brand name	-	-	-	-	-
- Goodwill	-	-	-	-	-
TOTAL	**2,445**	**-8**	**331**		**2,768**
- Intangible assets insurance - distribution	12	-2	4	-	14
- Intangible asset management - distribution	67	-6	5	-	66
- Customer-related intangible	-	-	21	-	21
- Intangible brand name	1,507	-	-	-	1,507
- Goodwill	859	-	301	-	1,160

(1) Other changes refer to:

- Insurance intangible: recognised in the financial statements of Banco di Napoli, CariVeneto, Friulcassa and Cariromagna, which have been merged into Intesa Sanpaolo

- Asset management intangible: recognised in the financial statements of Banca Nuova, which has been merged into in Intesa Sanpaolo

- Customer-related intangible: value resulting from the acquisition of the Nexi business unit

- Goodwill: value recognised in the financial statements of Banco di Napoli, CariVeneto, Friulcassa and Cariromagna, which have been merged into Intesa Sanpaolo

The intangible assets with a finite life are originally measured by discounting the income margin cash flows over a period representing the residual life, contractual and estimated, of relationships existing at the time of the business combination. The brand name, an intangible asset linked to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.
For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under "190. Net adjustments to/recoveries on intangible assets") for a total of 8 million euro.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. For intangible assets with a finite useful life, impairment must be calculated each time there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.

Lastly, it should be mentioned that IAS 36, for the purpose of calculating the Value in use of intangibles subject to impairment testing, states that reference must be made to cash flows for the intangible asset in its current condition (as at the impairment

test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those deriving from later changes, improvements or developments since its acquisition. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others. This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3. As in previous financial statements, given the instability of the financial markets and the available market values for calculation of the recoverable amount, which generally remain depressed, values in use were used in the impairment tests for the 2018 financial statements.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2018.

Impairment testing of intangibles

Insurance portfolio

For the 2018 financial statements, the amortisation of the asset for the year was recognised to the income statement.
The amortisation for the year, which for the insurance portfolio is calculated on a variable basis corresponding to the residual lives of the policies, came to 2 million euro gross of the tax effect, equal to about 17% of the value of the asset recognised at the end of 2017.
The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since in 2018 the performance of the insurance business did not present any particular critical issues or indicators of impairment deriving from the performances of the various variables subject to constant monitoring on a periodic basis.

Asset management portfolio

As part of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca under compulsory administrative liquidation, in 2017 the intangible assets linked to assets under administration and assets under management (AUM) deriving from the acquired Aggregate Set were calculated, represented by the capacity of the relationships existing at the acquisition date to generate cash flows over the residual useful life of those relationships. Those intangible assets increased in 2018, following the merger by incorporation of Banca Nuova.
For the purpose of the impairment test as at 31 December 2018, no specific problems arose in relation to the strength of the value recorded, taking account of the recent valuation and the fact, also specified above, that the valuation for the purpose of impairment testing should not be limited only to the cash flows deriving from the asset acquired, but should also take account of all the cash flows linked to the assets of the specific CGU, which were significantly higher than the new assets acquired.

Other intangible assets with a finite life

The third quarter of 2018 saw the finalisation of the acquisition of the business unit regarding acquiring of payment card transactions connected to international networks (VISA and Mastercard), carried out by Nexi (former ICBPI Group) in favour of customers of the former Venetian banks, now customers of Intesa Sanpaolo. The comparison of the consideration transferred and the balance sheet imbalance of the business unit acquired showed a residual difference to be allocated, amounting to 21 million euro. That difference, specifically connected with the value of the customer portfolio included in the business unit acquired, based on the contracts for special arrangements in force, was allocated to a specific intangible asset attributable to the relationship with the acquired customers.
The measurement of the intangible assets recognised, carried out by an independent third party, was based on the present value of the cash flows that could be generated over a specific forecast time horizon. Taking account of the lifting curve (probability of closing) of the contractual relationships in force at the acquisition date, a period of projection of cash flows of 18 years was considered in the measurement. As a result, the intangible asset is amortised on a straight-line basis over a period of 18 years, starting from the acquisition date. Net revenues attributable to the business unit were calculated considering the fee and commission income applied to merchants, net of fee and commission expense due to the international networks, operating costs and taxes.
That intangible asset was allocated to the Banca dei Territori CGU.

The value of the intangible asset was not subject to specific analyses of indicators of impairment, taking account of the recent valuation and the fact that the valuation for the purpose of impairment testing must not be limited only to the cash flows deriving from the asset acquired, but should also take account of all the cash flows linked to the customer assets of the specific CGU.

For more details, reference is made to Part B - Information on the Consolidated balance sheet – Assets.

Brand name

IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process for business combinations.
For this purpose, please note that the term "brand” is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.
The value recorded in the Intesa Sanpaolo financial statements refers to the Sanpaolo IMI brand recognised at the time of the Banca Intesa-Sanpaolo IMI merger.

As this intangible asset has no independent cash flows, for impairment testing purposes for the 2018 financial statements, similarly to previous financial statements, it was included in the verification of the retention of goodwill for the various CGUs. No need for impairment was identified on the basis of the verification conducted.

Impairment testing of CGUs and goodwill

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them. In IAS/IFRS terminology such business units are known as Cash-Generating Units (CGUs).
Specifically, the allocation of goodwill as at the date of the business combination takes into account the benefits produced by the synergies expected from the combination.
At the Intesa Sanpaolo Group level, the following CGUs have been identified:

- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks.
- Bank of Alexandria;
- Pravex Bank;
- Autostrade Lombarde.

For a description of the criteria relating to the definition of the Group's CGUs reference is made to Part B - Information on the Consolidated financial statements – Assets. More specifically, goodwill recognised to the Intesa Sanpaolo Financial Statements has been allocated to the Banca dei Territori CGU.
As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.
Furthermore, as illustrated in the Accounting Policies, investments in subsidiaries are not treated, for impairment test purposes, as single assets to be individually subjected to testing. Considering the organisational model adopted by Intesa Sanpaolo, CGUs are defined without regard to the structure of legal entities, inasmuch as investments are aggregated, along with the operating activities performed directly by the Parent Company, into CGUs of greater size or different structure. Accordingly, the impairment test performed at the consolidated level is also relevant at the Parent Company's financial statements level.
For an illustration of impairment tests for this caption, reference should be made to Part B - Information on the consolidated balance sheet - Assets of the consolidated financial statements.
If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, no value adjustments were identified at the CGU level in the consolidated financial statements. Therefore, on the basis of the results of the impairment test conducted at the level of the consolidated financial statements, there was no need for adjustments recognised in the Parent Company's financial statements.

SECTION 10 – TAX ASSETS AND LIABILITIES – CAPTION 100 OF ASSETS AND CAPTION 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

(millions of euro)

	31.12.2018		31.12.2017	
Corresponding caption in income statement	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
A. Temporary deductible differences				
Adjustment to/Impairment of loans deductible in future years	3,130	403	1,841	208
of which pertaining to countries of foreign branches	*9*	-	*4*	-
Provisions for future charges	497	66	567	82
Higher tax value of equity investments, securities and other assets	142	61	212	66
Extraordinary charges for incentive-driven exit plans	242	47	247	48
Goodwill, trademarks and other intangible assets	3,979	786	3,976	781
Other	1,459	12	1,674	64
of which pertaining to countries of foreign branches	*4*	-	*4*	-
B. Taxable temporary differences				
Costs deducted off balance sheet	-	-	-	-
Capital gains in instalments	-	-	-	-
Lower tax value of equity investments, securities and other assets	51	5	298	44
Other	15	2	5	-
TOTAL	**9,383**	**1,368**	**8,214**	**1,205**
Corresponding caption in Shareholders' equity	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
Cash flow hedge	316	62	355	71
Recognition of actuarial gains/losses	105	-	175	-
Financial assets measured at fair value	86	18	38	5
Property and equipment	-	-	-	-
TOTAL	**507**	**80**	**568**	**76**
Total deferred tax assets	**9,890**	**1,448**	**8,782**	**1,281**

10.2 Deferred tax liabilities: breakdown

(millions of euro)

	31.12.2018		31.12.2017	
Corresponding caption in income statement	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
A. Taxable temporary differences				
Costs deducted off balance sheet	401	73	335	61
Lower tax value of securities and other assets	284	35	198	19
of which pertaining to countries of foreign branches	-	-	-	-
Other	4	-	6	-
B. Temporary deductible differences				
Adjustment to/Impairment of loans deductible in future years	-	-	-	-
Higher tax value of securities and other assets	-	-	-	-
Other	-	-	-	-
TOTAL	**689**	**108**	**539**	**80**
Corresponding caption in Shareholders' equity	**IRES (27.5%)**	**IRAP (5.56%)**	**IRES (27.5%)**	**IRAP (5.56%)**
Cash flow hedge	-	-	-	-
Recognition of actuarial gains/losses	-	-	-	-
Financial assets measured at fair value	31	12	30	7
Property and equipment	450	81	444	82
TOTAL	**481**	**93**	**474**	**89**
Total deferred tax liabilities	**1,170**	**201**	**1,013**	**169**

10.3 Changes in deferred tax assets (through profit or loss)

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Initial amount	**9,419**	**7,248**
2. Increases	**2,394**	**3,264**
2.1 Deferred tax assets recognised in the period	298	1,100
a) related to previous years	*7*	*5*
b) due to changes in accounting criteria	*-*	*5*
c) recoveries	*-*	*-*
d) other	*291*	*1,090*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	1,204	199
2.4 Business combinations	892	1,965
3. Decreases	**-1,062**	**-1,093**
3.1 Deferred tax assets eliminated in the period	-462	-699
a) reversals	*-440*	*-679*
b) write-offs	*-*	*-*
c) due to changes in accounting criteria	*-*	*-*
d) other	*-22*	*-20*
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-600	-394
a) changes into tax credits pursuant to Law no. 214/2011	*-397*	*-46*
b) other	*-203*	*-348*
3.4 Business combinations	-	-
4. Final amount	**10,751**	**9,419**

Other increases refer to write-off of netting against deferred tax liabilities, applied as at 31 December 2017, amounting to 347 million euro.
"Other decreases – other" as at 31 December 2018 include 73 million euro attributable to the netting against deferred tax liabilities for the year.
As a result of the 2019 Budget Act (Law 145 of 30 December 2018) – which provided for the deduction in instalments over ten tax periods of adjustments to loans to customers made on first-time adoption of IFRS 9 – in the final quarter of the year the current tax originally recognised, equal to 803 million euro, was transferred to deferred tax assets and it also became possible to recognise additional ineligible IRAP DTAs of 115 million euro arising from the greater recoverability of the IRAP resulting from the deduction in instalments.

10.3.1 Changes in deferred tax assets pursuant to Law 214/2011

(millions of euro)

Items	31.12.2018	31.12.2017
1. Initial amount	**7,172**	**6,758**
2. Increases	**662**	**827**
- of which: business combinations	662	457
3. Decreases	**-397**	**-413**
3.1 Reversals	-	-366
3.2 Changes into tax credits	-397	-46
a) from losses for the year	-	-
b) from fiscal losses	-397	-46
3.3 Other decreases	-	-1
4. Final amount	**7,437**	**7,172**

10.4 Changes in deferred tax liabilities (through profit or loss)

(millions of euro)

Items	31.12.2018	31.12.2017
1. Initial amount	**619**	**565**
2. Increases	**493**	**428**
2.1 Deferred tax liabilities recognised in the period	83	79
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*83*	*79*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	364	155
2.4 Business combinations	46	194
3. Decreases	**-315**	**-374**
3.1 Deferred tax liabilities eliminated in the period	-34	-24
a) reversals	*-12*	*-13*
b) due to changes in accounting criteria	-	-
c) other	*-22*	*-11*
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-281	-350
3.4 Business combinations	-	-
4. Final amount	**797**	**619**

Other increases refer to write-off of netting against deferred tax assets performed as at 31 December 2017, amounting to 347 million euro.
Other decreases as at 31 December 2018 include 73 million euro attributable to the netting against deferred tax assets for the year.

10.5 Changes in deferred tax assets (recorded in equity)

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Initial amount	**644**	**778**
2. Increases	**137**	**139**
2.1 Deferred tax assets recognised in the period	108	139
a) related to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	*108*	*139*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
2.4 Business combinations	29	-
3. Decreases	**-194**	**-273**
3.1 Deferred tax assets eliminated in the period	-156	-272
a) reversals	*-156*	-272
b) write-offs	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-38	-1
3.4 Business combinations	-	-
4. Final amount	**587**	**644**

10.6 Changes in deferred tax liabilities (recorded in equity)

(millions of euro)

Captions	31.12.2018	31.12.2017
1. Initial amount	**563**	**56**
2. Increases	**152**	**753**
2.1 Deferred tax liabilities recognised in the period	116	753
a) related to previous years	-	-
b) due to changes in accounting criteria	-	*527*
c) other	*116*	*226*
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
2.4 Business combinations	36	-
3. Decreases	**-141**	**-246**
3.1 Deferred tax liabilities eliminated in the period	-85	-246
a) reversals	*-85*	*-246*
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases:	-56	-
3.4 Business combinations	-	-
4. Final amount	**574**	**563**

Probability test on deferred taxation

For information concerning the probability test on deferred taxation, refer to the contents of Part B – Assets of the Notes to the consolidated financial statements.

The test performed showed a taxable base that was more than sufficient and adequate to allow recovery of the deferred taxes carried in the financial statements as at 31 December 2018.

10.7 Other information

There is no other information to be provided in addition to that already contained in this Section.

SECTION 11 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 110 OF ASSETS AND CAPTION 70 OF LIABILITIES

11.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Non-current assets held for sale		
A.1 Financial assets	658	260
A.2 Investments in associates and companies subject to joint control	-	-
A.3 Property and equipment	14	6
of which: resulting from the enforcement of guarantees	-	-
A.4 Intangible assets	-	-
A.5 Other	-	-
Total A	**672**	**266**
of which measured at cost	14	6
of which Fair value level 1	-	-
of which Fair value level 2	-	260
of which Fair value level 3	658	-
B. Discontinued operations		
B.1 Financial assets measured at fair value through profit or loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Investments in associates and companies subject to joint control	-	-
B.5 Property and equipment	-	-
of which: resulting from the enforcement of guarantees	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	-	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-
C. Liabilities associated with non-current assets held for sale		
C.1 Debts	-	-
C.2 Securities	-	-
C.3 Other	-	-
Total C	**-**	**-**
of which measured at cost	-	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Allowances	-	-
D.5 Other	-	-
Total D	**-**	**-**
of which measured at cost	-	-
of which Fair value level 1	-	-
of which Fair value level 2	-	-
of which Fair value level 3	-	-

The caption "Financial assets" is comprised of high-risk loans deriving from the former Venetian banks, for an amount of 556 million euro and non-performing credit exposures subject to disposal, which will be finalised during 2019 for 102 million euro.

"Property and equipment" is mainly composed of real estate for which a preliminary sales agreement has been signed.

11.2 Other information

There is no other significant information to note as at 31 December 2018.

SECTION 12 – OTHER ASSETS – CAPTION 120

12.1 Other assets: breakdown

(millions of euro)

Captions	
Amounts to be credited and items under processing	802
Due from Group companies on fiscal consolidation	543
Bank cheques drawn on third parties to be settled	399
Cheques and other instruments held	70
Leasehold improvements	64
Prepayments, deferrals and sundry items	1,110
TOTAL 31.12.2018	**2,988**
TOTAL 31.12.2017	**3,278**

The sub-caption "Prepayments, deferrals and sundry items" includes operating loans, i.e. loans for operations granted through the provision of non-financial activities and services, for an amount of 143 million euro (256 million euro as at 31 December 2017).

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - CAPTION 10

1.1 Financial liabilities measured at amortised cost: breakdown of amounts due to banks

(millions of euro)

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**62,178**	**X**	**X**	**X**	**64,369**	**X**	**X**	**X**
2. Due to banks	**99,541**	**X**	**X**	**X**	**109,341**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	19,919	X	X	X	24,866	X	X	X
2.2 Time deposits	60,893	X	X	X	74,275	X	X	X
2.3 Loans	17,453	X	X	X	8,718	X	X	X
2.3.1 Repurchase agreements	*14,659*	*X*	*X*	*X*	*5,529*	*X*	*X*	*X*
2.3.2 Other	*2,794*	*X*	*X*	*X*	*3,189*	*X*	*X*	*X*
2.4 Debts for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other debts	1,276	X	X	X	1,482	X	X	X
Total	**161,719**	**-**	**104,683**	**56,116**	**173,710**	**-**	**111,155**	**63,301**

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.
Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Financial Statements.

1.2 Financial liabilities measured at amortised cost: breakdown of amounts due to customers

(millions of euro)

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on demand deposits	**189,644**	**X**	**X**	**X**	**142,789**	**X**	**X**	**X**
2. Time deposits	**7,872**	**X**	**X**	**X**	**12,605**	**X**	**X**	**X**
3. Loans	**6,089**	**X**	**X**	**X**	**9,371**	**X**	**X**	**X**
3.1 Repurchase agreements	*4,783*	*X*	*X*	*X*	*6,950*	*X*	*X*	*X*
3.2 Other	*1,306*	*X*	*X*	*X*	*2,421*	*X*	*X*	*X*
4. Debts for commitments to repurchase own equity instruments	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
5. Other debts	**4,927**	**X**	**X**	**X**	**6,149**	**X**	**X**	**X**
Total	**208,532**	**-**	**202,819**	**5,657**	**170,914**	**-**	**161,189**	**9,758**

Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section E of the Notes to the Financial Statements.
Other debts include 153 million euro regarding the exposure on the sale of loans related to the Sec 3 securitisation, 3 million euro regarding the K-Equity securitisation and 763 million euro regarding the Claris, Berica and Norma securitisations deriving from the acquisition of the former Venetian banks. For additional details, see Part E - Section C of the Notes to the financial statements.

1.3 Financial liabilities measured at amortised cost: breakdown of securities issued

(millions of euro)

Transaction type/Amount	31.12.2018				31.12.2017			
	Book value	Fair Value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. bonds	74,246	41,782	31,202	43	79,497	51,343	30,815	59
1.1 structured	*636*	*-*	*569*	*43*	*1,009*	*209*	*744*	*59*
1.2 other	*73,610*	*41,782*	*30,633*	*-*	*78,488*	*51,134*	*30,071*	*-*
2. other	2,646	-	2,642	4	3,169	-	3,169	-
2.1 structured	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
2.2 other	*2,646*	*-*	*2,642*	*4*	*3,169*	*-*	*3,169*	*-*
Total	**76,892**	**41,782**	**33,844**	**47**	**82,666**	**51,343**	**33,984**	**59**

1.4 Details of subordinated debts/securities

At the reporting date, Intesa Sanpaolo has subordinated securities issued of 10,873 million euro, while it has no subordinated debts to banks.

1.5 Details of structured debts

At the reporting date, Intesa Sanpaolo has structured debts totalling 202 million euro.

1.6 Finance lease payables

As at 31 December 2018, Intesa Sanpaolo has finance lease payables of 3 million euro, of which 1 million euro maturing within one year and 2 million euro maturing within 1 to 5 years.

Finance lease payables comprise 2 million euro referring to bank counterparties and 1 million euro to customer counterparties.

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 20

2.1 Financial liabilities held for trading: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018					31.12.2017				
	Nominal or notional amount	Fair value			Fair Value (*)	Nominal or notional amount	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
A. Cash liabilities										
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Due to customers	**595**	**599**	**-**	**-**	**599**	**586**	**554**	**-**	**-**	**554**
3. Debt securities	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**	**X**
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.1.2 Other bonds	-	-	-	-	*X*	-	-	-	-	*X*
3.2 Other	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	*X*	-	-	-	-	*X*
3.2.2 Other	-	-	-	-	*X*	-	-	-	-	*X*
Total A	**595**	**599**	**-**	**-**	**599**	**586**	**554**	**-**	**-**	**554**
B. Derivatives										
1. Financial derivatives	**X**	**-**	**13,736**	**97**	**X**	**X**	**-**	**13,699**	**105**	**X**
1.1 Trading	X	-	13,638	3	X	X	-	13,556	1	X
1.2 Fair value option	X	-	8	-	X	X	-	11	-	X
1.3 Other	X	-	90	94	X	X	-	132	104	X
2. Credit derivatives	**X**	**-**	**128**	**-**	**X**	**X**	**-**	**222**	**-**	**X**
2.1 Trading	X	-	128	-	X	X	-	222	-	X
2.2 Fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**13,864**	**97**	**X**	**X**	**-**	**13,921**	**105**	**X**
Total (A+B)	**595**	**599**	**13,864**	**97**	**X**	**X**	**554**	**13,921**	**105**	**X**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

The changes in fair value recorded during the year due to the change in its own credit rating were positive by 29 million euro and related entirely to derivatives.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities held for trading.

2.3 Breakdown of "Financial liabilities held for trading": structured debts

Intesa Sanpaolo has no structured debts classified under Financial liabilities held for trading.

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – CAPTION 30

3.1 Financial liabilities designated at fair value: breakdown

(millions of euro)

Transaction type/Amount	31.12.2018					31.12.2017				
	Nominal value	Fair value			Fair value (*)	Nominal value	Fair value			Fair value (*)
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**4**	**-**	**5**
1.1 Structured	-	-	-	-	X	5	-	4	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
2. Due to customers	**5**	**-**	**5**	**-**	**5**	**7**	**-**	**5**	**-**	**7**
2.1 Structured	5	-	5	-	X	7	-	5	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
- financial guarantees given	-	*X*	*X*	*X*	*X*	-	*X*	*X*	*X*	*X*
3. Debt securities	**1,850**	**-**	**1,816**	**-**	**1,850**	**-**	**-**	**-**	**-**	**-**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	1,850	-	1,816	-	X	-	-	-	-	X
Total	**1,855**	**-**	**1,821**	**-**	**1,855**	**12**	**-**	**9**	**-**	**12**

(*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date

The Bank has classified the LECOIP for the employment agreements, terminated early, of employees of Group companies and life policies connected to social initiatives, managed by the Bank based on fair value, under amounts "Due to customers".
"Debt securities" reported under "Other" refer to bond issues of the Bank fully subscribed by the subsidiary Banca IMI, which are part of operations relating to financial instruments among financial income statement measured at fair value through profit and loss, and specifically, to the reduction of volatility in the income statement deriving from measurement of the Funding Value Adjustment (FVA) included in the fair value measurement of derivative contracts. Considering the described accounting mismatch, the gains and losses referring to the measurement of their own credit rating included in the fair value measurement of the bond issues in question are recognised through profit and loss, not in equity.
The fair value changes attributable to the change in its own credit rating, both during the year and cumulative, were a positive 35 million euro, and are attributable to the aggregate of Debt Securities.

3.2 Breakdown of "Financial liabilities designated at fair value": subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities designated at fair value.

SECTION 4 – HEDGING DERIVATIVES – CAPTION 40

4.1. Hedging derivatives: breakdown by type of hedge and level

(millions of euro)

Captions	Notional value	Fair value	31.12.2018		Notional value	Fair value	31.12.2017	
	31.12.2018	Level 1	Level 2	Level 3	31.12.2017	Level 1	Level 2	Level 3
A) Financial derivatives	**102,980**	**-**	**5,353**	**5**	**84,898**	**-**	**5,550**	**5**
1) Fair value	96,208	-	3,906	5	76,756	-	3,946	5
2) Cash flows	6,772	-	1,447	-	8,142	-	1,604	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**102,980**	**-**	**5,353**	**5**	**84,898**	**-**	**5,550**	**5**

4.2. Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

Transactions/Type of hedge	Fair Value							Cash flow		Foreign invest.
	Specific						Generic			
	debt securities and interest rates	equities and stock indices	Foreign exchange rates and gold	credit risk	commodities	other		Specific	Generic	
1. Financial assets measured at fair value through other comprehensive income	215	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	2,242	X	222	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	924	X	4	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**2,457**	**-**	**222**	**-**	**-**	**-**	**924**	**-**	**4**	**-**
1. Financial liabilities	243	X	65	-	-	-	X	5	X	X
2. Portfolio	X	X	X	X	X	X	-	X	1,438	X
Total liabilities	**243**	**-**	**65**	**-**	**-**	**-**	**-**	**5**	**1,438**	**-**
1. Forecast transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.
These mainly refer to specific fair value hedges of loans disbursed and generic cash flow hedge derivatives of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.

SECTION 5 – FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS – CAPTION 50

5.1. Fair value change of financial liabilities in hedged portfolios: breakdown by hedged portfolios

(millions of euro)

Fair value change of hedged liabilities/Group members	31.12.2018	31.12.2017
1. Positive fair value change of financial liabilities	382	323
2. Negative fair value change of financial liabilities	-	-
Total	**382**	**323**

The balance of the changes in value of assets subject to macrohedging against interest rate risk is recorded in this caption. For the application the Bank took advantage of the option envisaged by IFRS 9 to continue to apply the provisions permitted by the IAS 39 carve out.

SECTION 6 – TAX LIABILITIES – CAPTION 60

For information on this section, see Section 10 of Assets.

SECTION 7 – LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 70

There are no liabilities associated with non-current assets held for sale and discontinued operations as at the reporting date.

SECTION 8 – OTHER LIABILITIES – CAPTION 80

8.1 Other liabilities: breakdown

(millions of euro)

Captions	
Amounts to be credited and items under processing	2,009
Amounts to be credited and items under processing	1,428
Due to tax authorities	903
Due to suppliers	669
Amounts due to third parties	293
Due to Group companies on fiscal consolidation	177
Due to social security entities	138
Personnel charges	89
Accruals, deferrals and sundry items	646
TOTAL 31.12.2018	**6,352**
TOTAL 31.12.2017	**6,983**

As required by paragraph 116 a) of IFRS 15, liabilities arising from contracts with customers, which are included under the sub-caption "Accruals, deferrals and sundry items", amounted to 87 million euro, while at the end of 2017 they amounted to 86 million euro.

SECTION 9 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 90

9.1 Employee termination indemnities: annual changes

(millions of euro)

Captions	31.12.2018	31.12.2017
A. Initial amount	**767**	**736**
B. Increases	**427**	**203**
B.1 Provisions in the year	12	9
B.2 Other	415	194
- of which business combinations	*231*	*82*
C. Decreases	**-349**	**-172**
C.1 Benefits paid	-128	-50
C.2 Other	-221	-122
- of which business combinations	-	-
D. Final amount	**845**	**767**
Total	**845**	**767**

C.1 refers to benefits paid during the year.

9.2 Other information

There is no information further to that already provided in the previous sections.

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 100

10.1 Allowances for risks and charges: breakdown

(millions of euro)

Captions/Components	31.12.2018	31.12.2017
1. Allowances for credit risk associated with commitments and financial guarantees given	**350**	**212**
2. Allowances on other commitments and other guarantees given	**-**	**-**
3. Post-employment benefits	**223**	**884**
4. Other allowances for risks and charges	**2,861**	**3,017**
4.1 legal disputes	608	309
4.2 personnel charges	1,358	1,268
4.3 other	895	1,440
Total	**3,434**	**4,113**

The contents of 4. Other allowances for risks and charges are illustrated in point 10.6 below.

10.2 Allowances for risks and charges: annual changes

(millions of euro)

Captions	Allowances on other commitments and other guarantees given	Post-employment benefits	Other allowances for risks and charges	Total
A. Initial amount	**311**	**884**	**3,017**	**4,212**
B. Increases	**137**	**100**	**825**	**1,062**
B.1 Provisions in the year	81	5	369	455
B.2 Time value changes	-	4	7	11
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other	56	91	449	596
- of which business combinations	*55*	*88*	*404*	*547*
C. Decreases	**-98**	**-761**	**-981**	**-1,840**
C.1 Uses in the year	-91	-752	-776	-1,619
C.2 Changes due to discount rate variations	-	-	-2	-2
C.3 Other	-7	-9	-203	-219
- of which business combinations	-	-	*-9*	*-9*
D. Final amount	**350**	**223**	**2,861**	**3,434**

Point A. Initial amount under Allowances on other commitments and other guarantees given includes the effect of transition to IFRS 9.

Other allowances for risks and charges include net provisions of 50 million euro to caption 170, letter b) of the income statement and net provisions to other income statement captions.

For the Post-employment benefits, the sub-caption C.1 Uses in the year, includes around 745 million euro for the disbursements made following acceptance of the Capitalisation Offer for the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino, as further detailed in section 10.5 below.

10.3 Allowances for credit risk associated with commitments and financial guarantees given

(millions of euro)

Captions	Allowances for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	**Total**
1. Commitments to disburse funds	37	28	28	93
2. Financial guarantees given	25	30	202	257
Total	**62**	**58**	**230**	**350**

10.4 Allowances on other commitments and other guarantees given

This caption is not filled in.

10.5 Post-employment defined benefit plans

1. Illustration of the characteristics of the funds and related risks

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 "Employee Benefits", is determined via the "projected unit credit method" by an independent actuary.

The defined benefit plans, in which Intesa Sanpaolo S.p.A. is jointly responsible, can be distinguished in:
- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:
- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service.

External funds include:
- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino", a fund with legal status, full economic independence and independent asset management;
- Supplementary pension fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A", an entity with legal status and independent asset management. The Fund includes several separate management assets and Intesa Sanpaolo is jointly responsible for: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio di Bologna, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Complementary pension fund for the employees of the Banco di Napoli in 2004; current and retired employees of the Banca Popolare dell'Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell'Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of the former Carive internal Fund, transferred to the Fund on 1 January 2008; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A.; retired employees formerly enrolled in the Pension Fund for Key Managers, former Key Managers and entitled parties of former Comit; retired employees formerly enrolled in the "Casse del Centro" Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016. It is necessary to specify that if the Fund, after approval of the financial

statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible; retired employees formerly enrolled in the Pension Fund for the employees of former Cassa di Risparmio di Prato transferred to the Fund in question on 1 May 2018; retired employees formerly enrolled in the defined benefit Fund of the former Cassa di Risparmio di Fabriano e Cupramontana transferred to the Fund in question on 1 May 2018.

- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be accrued even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section. This fund has legal status, full economic independence pursuant to article 12 of the Italian Civil Code and is independently managed;
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to the bank's employees in service as at 31 December 1990 and already enrolled in the former "contracted-out" fund.

On 5 December 2017, Intesa Sanpaolo S.p.A., also in its capacity as Parent Company, signed an agreement with the Trade Unions, as Fund Founders, for the integration of the Supplementary Pension Fund for the Personnel of Istituto Bancario San Paolo di Torino into the Supplementary Pension Fund for the Personnel of Banco di Napoli - Section A (which from 1 January 2019 changed its name to the "Fondo pensione a prestazione definita del Gruppo Intesa Sanpaolo", with registered office in Torino). This agreement also provided for the formulation of an individual capitalisation offer for the supplementary benefits to be made to the participants, which was completed in the second half of 2018: the subscriptions received led to a decrease in the obligation of around 1,676 million euro, partly covered by the Pension Fund's assets (around 808 million euro) and partly through the use of Funds set up specifically for this purpose by the co-obligated banks, under the guarantee given (around 868 million euro). The share of the Funds used by Intesa Sanpaolo, under the guarantee given, amounts to 745 million euro.

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined, in order to satisfy the pension and profitability objectives as adequately as possible.

2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

(millions of euro)

Pension plan liabilities defined benefit obligations	31.12.2018			31.12.2017		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Initial amount	**767**	**153**	**3,495**	**736**	**152**	**3,452**
Current service costs	3	2	4	2	2	27
Recognised past service costs	-	1	-	-	-	-
Interest expense	9	4	23	7	5	58
Actuarial losses due to changes in financial assumptions	-	-	14	3	-	54
Actuarial losses due to changes in demographic assumptions	2	-	-	1	-	5
Actuarial losses based on past experience	-	-	18	1	-	135
Positive exchange differences	-	-	1	-	-	-
Increases - business combinations	231	-	44	82	5	-
Participants' contributions	X	-	-	X	-	-
Actuarial profits due to changes in financial assumptions	-16	-9	-8	-	-3	-
Actuarial profits due to changes in demographic assumptions	-	-	-35	-	-	-11
Actuarial profits based on past experience	-8	-	-22	-	-	-37
Negative exchange differences	-	-1	-	-	-5	-3
Benefits paid	-128	-6	-146	-50	-3	-185
Decreases - business combinations	-	-	-	-	-	-
Curtailments of the fund	X	-	-1,676	X	-	-
Settlements of the fund	X	-6	-	X	-	-
Other increases	182	-	6	11	-	-
Other decreases	**-197**	**-**	**-**	**-26**	**-**	**-**
Final amount	**845**	**138**	**1,718**	**767**	**153**	**3,495**

Liabilities of the defined benefit obligations pension plan	31.12.2018			31.12.2017		
	Employee termination indemnities	Internal plans	External plans	Employee termination indemnities	Internal plans	External plans
Unfunded plans	845	-	-	767	-	-
Partly funded plans	-	-	-	-	-	-
Wholly funded plans	-	138	1,718	-	153	3,495

The actuarial gains and losses recorded for variations in financial assumptions are due to the changes in the rates. The trend of the EUR Composite AA curve used for calculating the current value of defined benefit obligations showed an average rise of 0.09% for the various maturities, compared to the previous year.

On the basis of actuarial calculations, the present value of the defined benefit obligations, excluding Employee termination indemnities, was as follows.

Internal plans:
- as said before, these refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.;

External plans:
- 269 million euro referred to the Pension fund "Cassa di Previdenza" for employees of Istituto Bancario San Paolo di Torino (246 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 472 million euro referred to the Supplementary Pension Fund for employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A" (407 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 550 million euro referred to the Pension fund for employees of Cariplo, entirely contributed by Intesa Sanpaolo S.p.A.;
- 47 million euro referred to Pension fund for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section, entirely contributed by Intesa Sanpaolo S.p.A;
- 24 million euro referred to defined benefit plans at the New York branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 356 million euro referred to the Pension Fund of Cassa di Risparmio di Firenze (11 million euro pertaining to Intesa Sanpaolo S.p.A.).

3. Information on the fair value of plan assets

(millions of euro)

Plan assets	31.12.2018		31.12.2017	
	Internal plans	External plans	Internal plans	External plans
Initial amount	**118**	**2,543**	**110**	**2,612**
Return on assets net of interest	-7	-59	6	58
Interest income	3	21	3	41
Positive exchange differences	-	1	-	-
Increases - business combinations	-	16	4	-
Employer contributions	6	-	2	-
Participants' contributions	-	-	-	-
Negative exchange differences	-1	-	-4	-3
Decreases - business combinations	-	-	-	-
Benefits paid	-6	-146	-3	-185
Curtailments of the fund	-	-808	-	-
Settlements of the fund	-4	-	-	-
Other changes	-	4	-	20
Final amount	**109**	**1,572**	**118**	**2,543**

The final amount of the internal plans, as said before, refer to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A.

The final amount of external plans was broken down as follows:
- 160 million euro referred to the Pension Fund for employees of the Istituto Bancario San Paolo di Torino;
- 425 million euro referred to the Supplementary Pension Fund for the employees of Banco di Napoli – Section A;
- 535 million euro referred to the Pension fund for employees of Cariplo;
- 18 million euro referred to defined benefit plans at the New York branch;
- 13 million euro referred to Pension fund for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section;
- 421 million euro referred to the Pension fund of Cassa di Risparmio di Firenze.

(millions of euro)

Plan assets: additional information	31.12.2018				31.12.2017			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**56**	**52.0**	**194**	**12.0**	**60**	**51.0**	**446**	**18.0**
- of which level-1 fair value	56		176		60		421	
Mutual funds	**-**	**-**	**99**	**6.0**	**-**	**-**	**252**	**10.0**
- of which level-1 fair value	-		50		-		244	
Debt securities	**45**	**41.0**	**550**	**36.0**	**46**	**39.0**	**1,160**	**46.0**
- of which level-1 fair value	45		550		46		1,160	
Real estate assets and investments in real estate companies	**8**	**7.0**	**461**	**29.0**	**7**	**6.0**	**508**	**20.0**
- of which level-1 fair value	-		-		-		-	
Insurance business	**-**	**-**	**10**	**1.0**	**-**	**-**	**-**	**-**
- of which level-1 fair value	-		-		-		-	
Other assets	**-**	**-**	**258**	**16.0**	**5**	**4.0**	**177**	**6.0**
- of which level-1 fair value	-		-		-		-	
TOTAL	**109**	**100.0**	**1,572**	**100.0**	**118**	**100.0**	**2,543**	**100.0**

(millions of euro)

Plan assets: additional information	31.12.2018				31.12.2017			
	Internal plans	%	External plans	%	Internal plans	%	External plans	%
Equities	**56**	**52.0**	**194**	**12.0**	**60**	**51.0**	**446**	**18.0**
- of which financial companies	56		46		60		107	
- of which non financial companies	-		148		-		339	
Mutual funds	**-**	**-**	**99**	**6.0**	**-**	**-**	**252**	**10.0**
Debt securities	**45**	**41.0**	**550**	**36.0**	**46**	**39.0**	**1,160**	**46.0**
Government bonds	45		389		46		848	
- of which investment grade	*45*		*386*		*46*		*845*	
- of which speculative grade	-		*3*		-		*3*	
Financial companies	-		70		-		144	
- of which investment grade	-		*42*		-		*111*	
- of which speculative grade	-		*28*		-		*33*	
Non Financial companies	-		91		-		168	
- of which investment grade	-		*51*		-		*119*	
- of which speculative grade	-		*40*		-		*49*	
Real estate assets and investments in real estate companies	**8**	**7.0**	**461**	**29.0**	**7**	**6.0**	**508**	**20.0**
Insurance business	**-**	**-**	**10**	**1.0**	**-**	**-**	**-**	**-**
Other assets	**-**	**-**	**258**	**16.0**	**5**	**4.0**	**177**	**6.0**
TOTAL ASSETS	**109**	**100.0**	**1,572**	**100.0**	**118**	**100.0**	**2,543**	**100.0**

The difference between net defined benefit liabilities (Table 10.5.2) and the plan assets (Table 10.5.3) is recognised in the post-employment plans.

4. Description of the main actuarial assumptions

Actuarial assumptions	31.12.2018				31.12.2017			
	Discount rate	Expected yield rates	Expected increase in salaries (a)	Annual inflation rate	Discount rate	Expected yield rates	Expected increase in salaries	Annual inflation rate
EMPLOYEE TERMINATION INDEMNITIES	1.1%	X	2.7%	1.5%	0.9%	X	27.0%	1.5%
INTERNAL PLANS	2.9%	0.0%	2.2%	2.2%	1.4%	0.0%	2.1%	1.7%
EXTERNAL PLANS	1.7%	3.2%	2.7%	1.4%	1.8%	4.0%	2.5%	1.4%

(a) Net of career developments.

Starting from 2013, the Intesa Sanpaolo Group primarily uses the Eur Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, on the one hand, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation, on the other. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The Eur Composite AA curve is obtained daily from Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

5. Information on amount, timing and uncertainty of cash flows

Sensitivity analysis	31.12.2018					
	EMPLOYEE TERMINATION INDEMNITIES		INTERNAL PLANS		EXTERNAL PLANS	
	+50 bps	-50 bps	+50 bps	-50 bps	+50 bps	-50 bps
Discount rate	805	884	135	141	1,632	1,813
Rate of wage rises	843	843	140	137	1,743	1,695
Inflation rate	868	819	139	137	1,789	1,652

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 10.5.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/-50 bps.
The average duration of the defined benefit obligation is 10.43 years for pension funds and 10 years for employee termination indemnities.

Any outflows to be carried out over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the former Banco di Napoli Fund) shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

6. Plans regarding more than one employer

The Group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Complementary Pension Fund for the employees of Banco di Napoli.
The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI S.p.A. (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28 May 1999. Its transfer to Section A of the Complementary Pension Fund for the employees of Banco di Napoli did not modify the guarantees and commitments undertaken by the parties in the past.

7. Defined benefit plans that share risks among entities under joint control

The Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.
The liabilities of each jointly responsible Company are determined by an Independent Actuary through the "projected unit credit method" and are recorded in the financial statements net of the plan assets. Similarly, the current service cost,

which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.
Each jointly responsible company reports in this section, for each table, the total liabilities/assets of the Funds for which it is jointly responsible, highlighting at the bottom of said tables the liability/asset amount under their responsibility.

10.6 Allowances for risks and charges – Other allowances

(millions of euro)

Captions/Components	31.12.2018	31.12.2017
2. Other allowances		
2.1 legal disputes	608	309
2.2 personnel charges	1,358	1,268
incentive-driven exit plans	*1,022*	*1,017*
employee seniority bonuses	*93*	*64*
other personnel expenses	*243*	*187*
2.3 other risks and charges	895	1,440
Total	**2,861**	**3,017**

Other allowances refer to:
- Legal and tax disputes: the allowance was set up mainly to cover expected outlay for litigation, revocatory action and tax disputes;
- Personnel charges: the allowance includes charges for incentive-driven exit plans, charges for employee seniority bonuses, calculated on the basis of actuarial assumptions, provisions for annual bonuses and other charges;
- Other risks and charges: these refer to provisions to cover charges for integration of the Venetian banks, frauds and other litigation charges.

SECTION 11 – REDEEMABLE SHARES – CAPTION 120

11.1 Redeemable shares: breakdown

This caption is not present for Intesa Sanpaolo.

SECTION 12 – PARENT COMPANY'S SHAREHOLDERS' EQUITY – CAPTIONS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and Treasury shares: breakdown

As at 31 December 2018, the Bank's portfolio amounts to 16,230,033 treasury shares fully paid in.
For information on this section, see point 12.3 below.

12.2 Share capital – Parent Company's number of shares: annual changes

(millions of euro)

	Ordinary	Other
A. Initial number of shares	**15,859,786,585**	**932,490,561**
- fully paid-in	15,859,786,585	932,490,561
- not fully paid-in	-	-
A.1 Treasury shares (-)	**-10,127,350**	**-**
A.2 Shares outstanding: initial number	**15,849,659,235**	**932,490,561**
B. Increases	**1,652,877,960**	**-**
B.1 New issues	1,649,570,381	-
- for consideration	510,626,591	-
business combinations	*2,717,826*	-
conversion of bonds	-	-
exercise of warrants	-	-
other	*507,908,765*	-
- for free	1,138,943,790	-
in favour of employees	*169,153,670*	-
in favour of directors	-	-
other (conversion of savings shares)	*969,790,120*	-
B.2 Sale of treasury shares	3,307,579	-
B.3 Other	-	-
C. Decreases	**-9,410,262**	**-932,490,561**
C.1 Annulment	-	-932,490,561
C.2 Purchase of treasury shares	-9,035,838	-
C.3 Disposal of companies	-	-
C.4 Other	-374,424	-
D. Shares outstanding: final number	**17,493,126,933**	**-**
D.1 Treasury shares (+)	16,230,033	-
D.2 Final number of shares	17,509,356,966	-
- fully paid-in	17,509,356,966	-
- not paid-in	-	-

12.3 Share capital: other information

The share capital of the Bank as at 31 December 2018 amounted to 9,085 million euro, divided into 17,509,356,966 ordinary shares, with no par value. Each ordinary share gives the right to one vote in the Shareholders' Meeting. At the date of this document, the share capital was fully paid-in.

Entries made in accordance with IFRS 3 regarding the merger between Banca Intesa and SANPAOLO IMI, finalised on 1 January 2007, generated a reserve of 23,734 million euro as at 31 December 2018, equal to the difference between the acquisition cost of the Sanpaolo IMI Group and the nominal value of the shares issued to service the exchange. In the 2007 financial statements, it was reported under share premium reserve, based on the opinions expressed by legal experts. This reserve will be reported differently should the Law or Supervisory Authorities indicate a different solution.

Note that in 2018, the following changes in share capital occurred:

- as a result of a free capital increase and an increase with payment, as part of the long-term incentive plan "LECOIP 2.0", for a total of 1,187 million euro, of which 352 million euro to increase share capital and 835 million euro to increase the share premium reserve, and, specifically:
  - a free share capital increase – pursuant to Art. 2349, paragraph 1 of the Italian Civil Code – for 87,959,908 euro, with the issue of 169,153,670 ordinary Intesa Sanpaolo shares with a nominal value of 0.52 euro;
  - a share capital increase with payment – with the exclusion of option rights, in favour of Intesa Sanpaolo Group employees pursuant to Art. 2441, paragraph 8 of the Italian Civil Code – for a total of 264,112,558 euro, with the issue of 507,908,765 ordinary Intesa Sanpaolo shares at a price of 2.1645 euro, of which 0.52 euro as the nominal value and 1.6445 euro as share premium;
- the compulsory conversion of the outstanding savings shares into newly issued ordinary shares of the Bank, with the same characteristics as the ordinary shares outstanding at the conversion date. This conversion took place at a conversion ratio of 1.04 ordinary shares for each savings share converted (without payment of a cash adjustment) with concurrent removal of the indication of the par value of all of the shares of Intesa Sanpaolo S.p.A. outstanding

as at the effective date, in order for the share capital to remain unchanged and be divided solely into ordinary shares. As a result of this conversion, the share capital was increased through the issue of 969,790,120 new ordinary shares, against the cancellation of 932,490,561 outstanding savings shares.
- an increase of 1,413,270 euro with the issue of 2,717,826 new ordinary shares, with no nominal value, assigned to shareholders of Cassa dei Risparmi di Forlì e della Romagna as a share exchange as part of the merger by incorporation of said subsidiary into the Parent Company Intesa Sanpaolo.

For the purpose of completeness, note that in 2018, the following changes in the share premium reserve occurred:
- use of 2,065,450,089 euro for the extraordinary distribution of reserves approved by the Shareholders' Meeting of 27 April 2018;
- an increase of 835,255,964 euro for the share capital increase with payment in favour of Intesa Sanpaolo Group employees pursuant to Art. 2441, paragraph 8 of the Italian Civil Code, as part of the above-mentioned long-term incentive plan "LECOIP 2.0";
- the allocation of the loss on the sale of treasury shares as part of said conversion of savings shares into ordinary shares, for a net negative total of 3,711,802 euro;
- the allocation of directly attributable accessory costs connected with said conversion of savings shares into ordinary shares, net of the related tax effects, for a net negative total of 4,270,444 euro.

12.4 Reserves from retained earnings: other information

Reserves amounted to 4,370 million euro and included: legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, Art. 7, par. 3, and Law 218 of 30 July 1990, Art. 7) and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated through mandatory allocation of at least one twentieth of net income for the year. Concentration reserves under Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.
Other reserves included reserves pertaining to branches abroad and other reserves set up in the past following specific legal provisions.
Valuation reserves amounted to 1,081 million euro and included reserves of financial assets measured at fair value through other comprehensive income, reserves for cash flow hedge derivatives, and revaluations of net defined benefit liabilities (assets), as well as legally-required revaluation reserves and revaluation reserves of properties and valuable art assets.
Note that in 2018, the following changes in the reserves occurred:
- allocation to the Extraordinary reserve of the residual income for 2017, equal to 3,517,649,758 euro, as per the resolution of the Ordinary Shareholders' Meeting of 27 April 2018;
- allocation to the Extraordinary Reserve of the total net negative amount of 170,947,708 euro relating to the merger and exchange differences arising from the cancellation of the shares of the subsidiaries merged during the year (Banca Nuova S.p.A., Cassa di Risparmio del Veneto S.p.A., Cassa di Risparmio del Friuli Venezia Giulia S.p.A., IMI Investimenti S.p.A., Cassa di Risparmio di Forlì e della Romagna S.p.A., Banco di Napoli S.p.A. and Intesa Sanpaolo Securitisation Vehicle S.r.l.). In this regard it should be noted that, pursuant to Article 172, paragraph 5, of the Consolidated Law on Income Taxes, in relation to the aforementioned merger differences, Suspended Tax Reserves will be re-established for an amount of 14,425 euro;
- allocation to the Extraordinary reserve of the total net negative amount of 2,277,349,892 euro as a result of the application of IFRS 9, determined on calculating the opening balances of the balance sheet as at 1 January 2018, also including the portions relating to the abovementioned companies merged by incorporation;
- allocation to the Extraordinary reserve of the total net negative amount of 241,893,851 euro connected with the realignment of the IAS 19 revaluation reserve for the portion corresponding to the obligation extinguished following the acceptance of the voluntary lump-sum conversion offer made to participants in the supplementary pension fund "Cassa di Previdenza Integrativa per il Personale dell'Istituto Bancario San Paolo di Torino";
- transfer from the Extraordinary reserve to Share capital of the amount of 87,959,908 euro for the free share capital increase – pursuant to Art. 2349, paragraph 1 of the Italian Civil Code – as part of the long-term incentive plan "LECOIP", with the issue of 169,153,670 ordinary Intesa Sanpaolo shares with a nominal value of 0.52 euro;
- allocation to Other reserves of the total net negative amount of 198,290,674 euro for the coupons paid to subscribers of the Additional Tier 1 instruments, net of the related taxes;
- the adjustment of the reserve dedicated to the Equity Settled Share Based Payment plans LECOIP, LECOIP 2.0 and POP, for a total net positive amount of 132,042,102 euro;
- the adjustment of the reserve dedicated to the plan of free assignment of the Bank's shares to Group employees in compliance with the remuneration and incentive policies and according to the terms authorised by the Shareholders' Meeting of 27 April 2018, for a positive amount of 20,668,937 euro;
- allocation to Other reserves of the charge relating to the novation agreement set out in the "Performance-based Option Plan" (POP), targeted to the Top Management, Risk Takers and Key Managers of the Bank, for a negative amount of 160,196,226 euro;
- allocation to Other reserves of the charge relating to the treasury shares assigned to Top Management as part of the Group personnel incentive plans, for a negative amount of 7,730,096 euro;
- transfer to Other reserves of the Valuation reserves for the gains/losses realised on Financial assets measured at fair value through other comprehensive income, on Property and equipment measured at fair value and on Defined benefit pension plans, for a total net negative amount of 2,331,134 euro;
- allocation to the Extraordinary reserve of the dividends collected on treasury shares held, as well as forfeited dividends, for a total positive amount of 1,864,850 euro;
- other effects, for a total net positive amount of 1,028,905 euro.

(millions of euro)

	Amount as at 31.12.2018	Principal	Portion of net income	Portion of net income subject to a suspended tax regime (a)	Portion available (b)	Uses in the past three years
Shareholders' equity						
– Share capital	9,085	6,563	1,335	1,187	-	-
Equity instruments	4,103	4,134	-31	-	-	-
– Share premium reserve (c)	24,926	12,493	11,921	512	A, B, C	3,409
– Legal reserve	2,065	520	1,545	-	A(1), B, C(1)	-
– Extraordinary reserve	1,751	61	1,690	-	A, B, C	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7, par. 3)	232	-	-	232	A, B(2), C(3)	-
– Concentration reserve (Law 218 of 30/7/1990, art. 7)	302	-	-	302	A, B(2), C(3)	-
Other reserves, of which:						
Legal Reserve Branches abroad	*16*	-	*16*	-	*A, B, C*	-
Reserve for stock option plans	*41*	-	*41*	-	*A*	-
Reserve for transactions Under Common Control	*64*	-	*64*	-	*A, B, C*	-
FTA tax rate revision reserve on property	*25*	-	*25*	-	*A, B, C*	-
Reserve for contribution to LECOIP 2014-2018 incentive plan	*306*	-	*306*	-	*A, B, C*	-
Reserve for contribution to LECOIP 2.0/POP incentive plans	*110*	-	*110*	-	*A*	-
Reserve for POP incentive plan novation agreement	*-160*	-	*-160*	-	-	-
Reserve for AT1 equity instruments coupons	*-434*	-	*-434*	-	-	-
Reserves: other	*52*	-	*49*	*3*	*A*	-
Valuation reserves						
Revaluation reserve (Law 576 of 2/12/1975)	*4*	-	-	*4*	*A, B(2), C(3)*	-
Revaluation reserve (Law 72 of 19/3/1983)	*146*	-	-	*146*	*A, B(2), C(3)*	-
Revaluation reserve (Law 408 of 29/12/1990)	*9*	-	-	*9*	*A, B(2), C(3)*	-
Revaluation reserve (Law 413 of 30/12/1991)	*380*	-	-	*380*	*A, B(2), C(3)*	-
Revaluation reserve (Law 342 of 22/11/2000)	*457*	-	-	*457*	*A, B(2), C(3)*	-
FVOCI revaluation reserve	*-19*	-	*-19*	-	-	-
Property and equipment and intangible assets valuation reserve	*1,154*	-	*1,154*	-	*(4)*	-
CFH valuation reserve	*-772*	-	*-772*	-	-	-
Defined benefit plans valuation reserve	*-278*	-	*-278*	-	-	-
– Treasury shares	-40	-40	-	-	-	-
Total Capital and Reserves	**43,525**	**23,731**	**16,562**	**3,232**	(5)	-
Non-distributable portion (d)	7,500	-	-	-	-	-

(a) The portion of restricted reserves for tax purposes pursuant to art. 109, par. 4 of the Combined Tax Regulations as amended by Legislative Decree no. 247/2005 amounts to 0.2 million euro.

(b) A = capital increase; B = loss coverage; C = distribution to shareholders.

(c) The reserve for 23,734 million euro derives from the merger between Banca Intesa and Sanpaolo IMI, as a result of the application of IFRS 3 relating to business combinations. Pending the issue of legal measures concerning the qualitification of the reserve posted in application of said financial reporting standard, the reserve is considered unavailable up to the amount of goodwill and intangible assets recognised in the financial statements.

(d) The non-distributable portion mainly refers to the revaluation reserves, the other suspended tax reserves, a protion of the share premium reserve for 2,284 million euro, the valuation reserves established as a direct balancing entry for the fair value measurement of property and equipment, the share of net income corresponding to capital gains recognised in the income statement of the previous year, net of the related tax charge, arising from application of the fair value criterion, pursuant to art. 6, par. 1, letter a) of Legislative Decree no. 38/2005, and the portion of the legal reserve corresponding to one fifth of the share capital pursuant to Article 2430 of the Italian Civil Code.

(1) May be used to increase capital (A) and for distribution to shareholders (C) for the portion exceeding one fifth of the share capital.

(2) In case of use of the reserve to cover losses, net income may not be distributed unless the reserve is integrated or correspondingly reduced.

(3) The reserve, if it is not recorded under shareholders' equity, may be reduced only in compliance with the provisions of par. 2 and 3 of art. 2445 of the Italian Civil Code. If it is distributed to shareholders, it is recorded in the Company's taxable income.

(4) The reserve is unavailable pursuant to art. 6 of Legislative Decree no. 38/2005.

(5) Pursuant to art. 47, par. 1 of the Combined Tax Regulations, the portion of net income includes retained earnings reserves for 4,208 million euro classified for tax purposes as capital reserves.

The valuation reserves have been included under retained earnings reserves given that these are either reserves destined to be reversed to the income statement at the time of sale or discharge of the corresponding assets or liabilities, i.e. reserves essentially similar to retained earnings reserves.

The proposal for allocation of net income for the year 2018 is reported in the specific separate chapter of these financial statements.

12.5 Equity instruments: breakdowns and annual changes

During 2018 this caption showed no changes. In 2017, Intesa Sanpaolo launched two Additional Tier 1 issues of, respectively, 1.25 billion euro and 750 million euro, targeted at the international markets. The standalone instruments have characteristics in line with CRD IV provisions.

In addition to these securities, two Additional Tier 1 instruments, one issued in 2016 for the amount of 1.25 billion euro and the other in 2015 for U.S.$1 billion targeted at the US and Canadian markets and with characteristics in line with CRD IV provisions, were launched.

12.6 Other information

There is no other information to be provided in addition to that already contained in this Section.

OTHER INFORMATION

1. Commitments and financial guarantees given (other than those designated at fair value)

(millions of euro)

	Nominal value on financial release obligations and guarantees			31.12.2018	31.12.2017
	First stage	Second stage	Third stage		
1. Commitment to supply funds	**238,703**	**8,979**	**1,368**	**249,050**	**44,227**
a) Central Banks	1,175	-	-	1,175	-
b) Public Administration	5,700	1,168	3	6,871	-
c) Banks	82,636	744	-	83,380	848
d) Other financial companies	48,032	1,734	59	49,825	-
e) Non-financial companies	97,222	4,758	1,288	103,268	43,379
f) Families	3,938	575	18	4,531	-
2. Financial release guarantees	**52,802**	**2,897**	**817**	**56,516**	**60,429**
a) Central Banks	-	-	-	-	-
b) Public Administration	1,372	40	-	1,412	-
c) Banks	16,970	60	-	17,030	22,113
d) Other financial companies	2,588	62	2	2,652	-
e) Non-financial companies	31,601	2,709	810	35,120	38,316
f) Families	271	26	5	302	-

In this table - in accordance with the instructions of Circular 262 - the "commitments to disburse funds" include the commitments that can give rise to credit risk subject to the rules for determining the expected loss in accordance with IFRS 9, including revocable margins available on credit lines granted to customers and banks (for a total amount of 201,508 million euro in 2018). However, the column with the comparison figures shows the amounts published in the 2017 Financial Statements that only referred to "irrevocable commitments to disburse funds", in accordance with the instructions of the 4th update of Circular 262.

For the purpose of completeness, note that this table no longer includes several items included up to the 2017 Financial Statements, for example underlying commitments on credit derivatives deriving from protection sales.

2. Other commitments and other guarantees given

This caption is not present for Intesa Sanpaolo.

3. Assets pledged as collateral of liabilities and commitments

(millions of euro)

Portfolios	31.12.2018	31.12.2017
1. Financial assets measured at fair value through profit or loss	885	1,436
2. Financial assets measured at fair value through other comprehensive income	21,721	25,959
3. Financial assets measured at amortised cost	102,780	79,634
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

4. Information on operating leases

As at 31 December 2018, there are no longer any operating leases relating to motor vehicles, office machines or central and peripheral software.

In view of the application of IFRS 16, which took place on 1 January 2019, it is noted that the future lease payments for non-cancellable property contracts amounted to 1.1 billion euro.

5. Management and dealing on behalf of third parties

Type of service	31.12.2018	31.12.2017
1. Trading on behalf of customers		
a) Purchases	-	407
1. settled	-	407
2. to be settled	-	-
b) Sales	-	560
1. settled	-	560
2. to be settled	-	-
2. Portfolio management		
a) individual	-	-
b) collective	-	-
3. Custody and afministration of securities		
a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management)	-	-
1. securities issued by companies included in the consolidation area	-	-
2. other securities	-	-
b) third party securities held in deposit	338,487	297,483
1. securities issued by companies included in the consolidation area	7,435	10,287
2. other securities	331,052	287,196
c) third party securities deposited with third parties	334,455	291,966
d) portfolio securities deposited with third parties	75,386	63,284
4. Other	**57,306**	**41,978**

Note regarding contractual clauses of financial payables

For details, reference should be made to the relevant section of the Notes to the Consolidated Financial Statements.

6. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets presented in the balance sheet (c = a-b)	Related amounts not subject to offsetting in the balance sheet		Net amounts 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	13,482	-	13,482	11,657	1,322	503	567
2. Repurchase agreements	22,417	-	22,417	22,363	51	3	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2018	**35,899**	**-**	**35,899**	**34,020**	**1,373**	**506**	**X**
TOTAL 31.12.2017	**34,970**	**-**	**34,970**	**32,916**	**1,487**	**X**	**567**

7. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types		Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities presented in the balance sheet (c=a-b)	Related amounts not subject to offsetting in the balance sheet		Net amount 31.12.2018 (f=c-d-e)	Net amount 31.12.2017
					Financial instruments (d)	Cash deposits pledged as collateral		
1. Derivatives		17,848	-	17,848	11,657	5,341	850	964
2. Repurchase agreements		10,434	-	10,434	10,416	-	18	20
3. Securities lending		-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-
TOTAL	**31.12.2018**	**28,282**	**-**	**28,282**	**22,073**	**5,341**	**868**	**X**
TOTAL	**31.12.2017**	**28,418**	**-**	**28,418**	**22,492**	**4,942**	**X**	**984**

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, Intesa Sanpaolo does not have any netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements.
In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRAs (for repurchase agreements).

With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2018.

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:
- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits pledged as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value.
- derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

8. Securities lending transactions

The banking service accessory securities lending, offered by Intesa Sanpaolo to customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract envisages transfer of the ownership exclusively of government securities, with the obligation for Intesa Sanpaolo to return them, paying a consideration amount as remuneration for their availability. The transaction has no speculative purposes. As at 31 December 2018, the collateral of transactions amounted to 106 million euro.

9. Disclosure on joint-control assets

Intesa Sanpaolo has no joint-control assets.

Part C – Information on the Parent Company's income statement

SECTION 1 – INTEREST – CAPTIONS 10 AND 20

1.1. Interest and similar income: breakdown

(millions of euro)

Captions	Debt securities	Loans	Other transactions	2018	2017
1. Financial assets measured at fair value through profit or loss	**90**	**12**	**-**	**102**	**61**
1.1 Financial assets held for trading	73	-	-	73	57
1.2 Financial assets designated at fair value	4	-	-	4	4
1.3 Other financial assets mandatorily measured at fair value	13	12	-	25	-
2. Financial assets measured at fair value through other comprehensive income	**210**	**1**	**X**	**211**	**191**
3. Financial assets measured at amortised cost	**186**	**6,848**	**X**	**7,034**	**5,553**
3.1 Due from banks	22	650	X	672	653
3.2 Loans to customers	164	6,198	X	6,362	4,900
4. Hedging derivatives	**X**	**X**	**-770**	**-770**	**251**
5. Other assets	**X**	**X**	**30**	**30**	**402**
6. Financial liabilities	**X**	**X**	**X**	**429**	**-**
Total	**486**	**6,861**	**-740**	**7,036**	**6,458**
of which: interest income on impaired financial assets	*-*	*806*	*-*	*806*	*379*

Interest and similar income also includes interest income on securities relating to repurchase agreements.
Interest income on impaired financial assets fully relate to loans to customers and also include interest due to the passing of time, equal to 403 million euro (time value). Please note that in 2017 the time value component was included under "Net losses/recoveries for credit risk".
Lastly, the caption "Hedging derivatives" includes the differentials on hedging transactions, which adjust interest income recognised on hedged financial instruments, while in 2017 the caption included the positive imbalance of the differentials on hedging transactions reported in table 1.5.
"Financial liabilities" include interest on funding transactions with negative rates.

1.2. Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

As at 31 December 2018, interest income on foreign currency financial assets amounted to 1,113 million euro.

1.2.2 Interest income on finance lease receivables

As at 31 December 2018, interest income on finance leases was immaterial.

1.3 Interest and similar expense: breakdown

(millions of euro)

	Debts	Securities	Other transactions	2018	2017
1. Financial liabilities measured at amortised cost	**879**	**2,138**	X	**3,017**	**3,272**
1.1 Due to Central Banks	72	X	X	72	29
1.2 Due to banks	598	X	X	598	656
1.3 Due to customers	209	X	X	209	106
1.4 Securities issued	X	2,138	X	2,138	2,481
2. Financial liabilities held for trading	**-**	**-**	**19**	**19**	**10**
3. Financial liabilities designated at fair value	**-**	**10**	**-**	**10**	**-**
4. Other liabilities and allowances	**X**	**X**	**3**	**3**	**365**
5. Hedging derivatives	**X**	**X**	**-663**	**-663**	**-**
6. Financial assets	**X**	**X**	**X**	**399**	**-**
Total	**879**	**2,148**	**-641**	**2,785**	**3,647**

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.
It is noted that the caption "Hedging derivatives" includes the differentials on hedging transactions, which adjust interest expense recognised on hedged financial instruments, while in 2017 there was no comparative figure, as the positive imbalance was reported under "Interest and similar income".
"Financial assets" include interest on lending transactions with negative rates.

1.4. Interest and similar expense: other information

1.4.1 Interest expense on foreign currency financial liabilities

Interest and similar expense as at 31 December 2018 included 836 million euro relative to financial liabilities in foreign currency.

1.4.2 Interest expense on finance lease payables

In 2018, interest expense on finance leases was immaterial.

1.5. Differentials on hedging transactions

(millions of euro)

Captions	2018	2017
A. Positive differentials on hedging transactions	2,344	2,537
B. Negative differentials on hedging transactions	-2,451	-2,286
C. Balance (A-B)	**-107**	**251**

SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

(millions of euro)

Type of service/Amounts	2018	2017
a) guarantees given	**296**	**294**
b) credit derivatives	**-**	**-**
c) management, dealing and consultancy services	**2,024**	**1,594**
1. trading in financial instruments	1	1
2. currency dealing	40	25
3. portfolio management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	39	*40*
5. depositary bank	9	*7*
6. placement of securities	942	748
7. reception and transmission of orders	59	56
8. consultancy services	6	1
8.1. on investments	*6*	*1*
8.2. on financial structure	-	-
9. distribution of third party services	928	*716*
9.1. portfolio management	*131*	*117*
9.1.1. individual	*131*	*117*
9.1.2. collective	-	-
9.2. insurance products	*777*	*586*
9.3. other products	*20*	*13*
d) collection and payment services	**325**	***214***
e) servicing related to securitisations	**-**	***1***
f) services related to factoring	**-**	**-**
g) tax collection services	**-**	**-**
h) management of multilateral trading facilities	**-**	**-**
i) management of current accounts	**974**	**639**
j) Other services	**1,310**	**1,052**
Total	**4,929**	**3,794**

Caption J) other services recorded fees on credit and debit cards of 779 million euro, commissions on medium/long-term loans of 368 million euro, commissions on short-term loans of 74 million euro and commissions on sundry services rendered to customers and banks of 89 million euro.

As required by IFRS 15, paragraph 116 b), it is noted that fee and commission income includes the revenues recognised during the year included in the opening balance of liabilities deriving from contracts with customers.
In line with paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 7 million euro.

2.2 Fee and commission income: distribution channels of products and services

(millions of euro)

Channels/Amounts	2018	2017
a) Group branches	**1,869**	**1,464**
1. portfolio management	-	-
2. placement of securities	941	748
3. third party services and products	928	716
b) "Out-of-Branch" offer	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels	**1**	**-**
1. portfolio management	-	-
2. placement of securities	1	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts	2018	2017
a) Guarantees received	**76**	**86**
b) Credit derivatives	**6**	**7**
c) Management, dealing and consultancy services	**31**	**34**
1.trading in financial instruments	1	2
2. currency dealing	3	1
3. portfolio management	-	-
3.1 own portfolio	-	-
3.2 third party portfolio	-	-
4. custody and administration of securities	26	27
5. placement of financial instruments	-	-
6. "out-of-branch" offer of financial instruments, products and services	1	4
d) Collection and payment services	**84**	**51**
e) Other services	**716**	**648**
Total	**913**	**826**

Caption E) Other services includes fees on debit cards of 54 million euro, fees on credit cards and use of international circuits of 424 million euro, securities lending transactions of 2 million euro, services rendered by banks of 32 million euro and intermediation on other banking operations of 204 million euro.

As required by paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 3 million euro.

SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

3.1 Dividend and similar income: breakdown

(millions of euro)

Captions/Income	2018		2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	7	12	-	-
C. Financial assets measured at fair value through other comprehensive income	31	-	29	3
D. Investments in associates and companies subject to joint control	3,441	-	1,857	-
Total	**3,479**	**12**	**1,886**	**3**

D – Equity investments includes the dividends distributed by:
- Eurizon Capital SGR S.p.A. for 1,223 million euro;
- Fideuram Intesa Sanpaolo Private Banking S.p.A. 788 million euro;
- Banca Imi S.p.A. for 643 million euro, including 95 million euro relating to the Tier 1 subordinated instrument;
- Intesa Sanpaolo Vita S.p.A. for 452 million euro;
- Mediocredito Italiano S.p.A. for 209 million euro;
- Intesa Sanpaolo Bank Ireland Plc. for 62 million euro;
- Bank of Alexandria for 38 million euro;
- Intesa Sanpaolo Bank of Albania for 14 million euro;
- Banca 5 S.p.A. for 6 million euro;
- other equity investments for 6 million euro.

SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

4.1 Profits (Losses) on trading: breakdown

(millions of euro)

Transactions/Income components	Revaluations	Profits on trading	Write-downs	Losses on trading	Net result
1. Financial trading assets	**12**	**33**	**-31**	**-27**	**-13**
1.1 Debt securities	11	32	-19	-27	-3
1.2 Equities	-	-	-	-	-
1.3 Quotas of UCI	1	1	-12	-	-10
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-3**	**-**	**-3**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-3	-	-3
3. Financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-59**
4. Derivatives	**3,088**	**5,469**	**-2,865**	**-5,597**	**-5**
4.1 Financial derivatives:	2,935	5,365	-2,790	-5,437	-27
- on debt securities and interest rates	*2,679*	*4,731*	*-2,534*	*-4,804*	*72*
- on equities and stock indexes	*17*	*11*	*-17*	*-12*	*-1*
- on currencies and gold	*X*	*X*	*X*	*X*	*-100*
- other	*239*	*623*	*-239*	*-621*	*2*
4.2 Credit derivatives	153	104	-75	-160	22
of which: natural hedging associated with the fair value option	*X*	*X*	*X*	*X*	*4*
Total	**3,100**	**5,502**	**-2,899**	**-5,624**	**-80**

"Net result" includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.

SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

5.1 Fair value adjustments in hedge accounting: breakdown

(millions of euro)

Income component/Amount	2018	2017
A. Income from:		
A.1 fair value hede derivatives	531	1,742
A.2 financial assets hedged (fair value)	323	27
A.3 financial liabilities hedged (fair value)	880	1,585
A.4 cash flow hedge: derivatives	-	-
A.5 currency assets and liabilities	-	-
Total income from hedging (A)	**1,734**	**3,354**
B. Expenses for		
B.1 fair value hedge derivatives	-1,164	-2,290
B.2 financial assets hedged (fair value)	-109	-959
B.3 financial liabilities hedged (fair value)	-483	-122
B.4 cash flow hedge: derivatives	-	-
B.5 currency assets and liabilities	-	-
Total expense from hedging (B)	**-1,756**	**-3,371**
C. Fair value adjustments in hedge accounting (A - B)	**-22**	**-17**
of which: fair value adjustments in hedge accounting on net positions	**-**	**-**

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the table "5.1 Fair value adjustments in hedge accounting: breakdown", contains no amounts in the row "of which: profits (losses) on hedges of net positions" envisaged for parties that apply IFRS 9 also to hedges.

SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

Captions/Income components	2018			2017		
	Profits	Losses	Net result	Profits	Losses	Net result
A. Financial assets						
1. Financial assets measured at amortised cost	20	-84	-64	85	-96	-11
1.1 Due from banks	*12*	*-1*	*11*	*12*	*-*	*12*
1.2 Loans to customers	*8*	*-83*	*-75*	*73*	*-96*	*-23*
2. Financial assets measured at fair value through other comprehensive income	246	-31	215	301	-89	212
2.1 Debt securities	*246*	*-31*	*215*	*301*	*-89*	*212*
2.2 Loans	*-*	*-*	*-*	*-*	*-*	*-*
Total assets	**266**	**-115**	**151**	**386**	**-185**	**201**
B. Financial liabilities measured at amortised cost						
1. Due to banks	3	-31	-28	-	-3	-3
2. Due to customers	1	-	1	1	-	1
3. Securities issued	3	-26	-23	3	-21	-18
Total liabilities	**7**	**-57**	**-50**	**4**	**-24**	**-20**

SECTION 7 – PROFITS (LOSSES) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110

7.1 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**-**	**-**	**-4**	**-**	**-4**
1.1 Debt securities	-	-	-4	-	-4
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**35**	**-**	**-1**	**-**	**34**
2.1 Securities issued	35	-	-	-	35
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-1	-	-1
3. Foreign currency financial assets and liabilities: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**35**	**-**	**-5**	**-**	**30**

The gains recorded in the aggregate "2.1 Securities issued" all refer to the fair value changes attributable to the change in the Bank's credit rating during the year, recognised through profit and loss.
For information on the methods used to determine credit spread, reference should be made to Part A.4 - Information on fair value of the Notes to the financial statements.

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

(millions of euro)

Transactions/Income components	Revaluations	Gains on disposal	Write-downs	Losses on trading	Net result
1. Financial assets	**82**	**311**	**-126**	**-16**	**251**
1.1 Debt securities	33	13	-79	-3	-36
1.2 Equities	2	268	-11	-	259
1.3 Quotas of UCI	26	-	-20	-	6
1.4 Loans	21	30	-16	-13	22
2. Financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	**-**
Total	**82**	**311**	**-126**	**-16**	**251**

Realised gains on equities classified under financial assets mandatorily measured at fair value through profit or loss fully refer to the disposal of the interest in Nuovo Trasporto Viaggiatori (NTV).

SECTION 8 – NET LOSSES/RECOVERIES FOR CREDIT RISK – CAPTION 130

8.1 Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2018	2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Credit to banks	**-13**	**-**	**-**	**23**	**-**	**10**	**-62**
- Loans	-13	-	-	21	-	8	-14
- Debt securities	-	-	-	2	-	2	-48
of which: acquired or originated deteriorated credits	-	-	-	-	-	-	-
B. Credit to clients	**-250**	**-177**	**-3,917**	**399**	**2,113**	**-1,832**	**-1,479**
- Loans	-227	-177	-3,917	370	2,107	-1,844	-1,533
- Debt securities	-23	-	-	29	6	12	54
of which: acquired or originated impaired credits	-	-	-	-	*1*	*1*	*-63*
C. Total	**-263**	**-177**	**-3,917**	**422**	**2,113**	**-1,822**	**-1,541**

8.2 Net adjustments for credit risk associated with financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Transactions/Income components	IMPAIRMENT LOSSES			RECOVERIES		2018	2017
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	**-13**	**-**	**-**	**13**	**1**	**1**	**-476**
B. Loans	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
C. Total	**-13**	**-**	**-**	**13**	**1**	**1**	**-476**

SECTION 9 – PROFITS/LOSSES FROM CHANGES IN CONTRACTS WITHOUT DERECOGNITION – CAPTION 140

9.1 Profits (Losses) from changes in contracts: breakdown

As part of profits (losses) from changes in contracts without derecognition, losses of -16 million euro were recognised.

SECTION 10 - ADMINISTRATIVE EXPENSES - CAPTION 160

10.1 Personnel expenses: breakdown

(millions of euro)

Type of expense	2018	2017
1) Employees	**3,704**	**3,741**
a) wages and salaries	2,514	1,883
b) social security charges	666	507
c) termination indemnities	32	27
d) supplementary benefits	-	-
e) provisions for termination indemnities	12	9
f) provisions for post employment benefits	9	37
- defined contribution plans	-	-
- defined benefit plans	*9*	*37*
g) payments to external pension funds	223	158
- defined contribution plans	*223*	*158*
- defined benefit plans	-	-
h) costs from share based payments	94	80
i) other benefits in favour of employees	154	1,040
2) Other non-retired personnel	**4**	**4**
3) Directors and statutory auditors	**8**	**6**
4) Early retirement costs	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**-90**	**-61**
6) Reimbursement of expenses for third party employees seconded to the company	**44**	**85**
Total	**3,670**	**3,775**

Provisions to employee termination indemnities determined on the basis of Art. 2120 of the Italian Civil Code amounted to 20 million euro.

10.2 Average number of employees by categories

	2018	2017
Personnel employed	**45,112**	**34,143**
a) managers	615	574
b) total officers	19,310	15,141
c) other employees	25,187	18,428
Other personnel	**42**	**42**
TOTAL	**45,154**	**34,185**

10.3 Post-employment defined benefit plans: costs and revenues

(millions of euro)

	2018			2017		
	Employee Termination Indemnities	Internal plans	External plans	Employee Termination Indemnities	Internal plans	External plans
Current service cost	-3	-2	-4	-2	-2	-27
Interest expense	-9	-4	-23	-7	-5	-58
Interest income	-	3	21	-	3	41
Reimbursement from third parties	-	-	-	-	-	-
Past service cost	-	-1	-	-	-	-
Curtailment of the fund	X	-	-	X	-	-
Settlement of the fund	X	-	-	X	-	-

10.4 Other benefits in favour of employees

The balance of this caption as at 31 December 2018 amounted to 154 million euro, of which 37 million euro referred to charges for exit incentives, mainly relating to the agreements resulting from the integration of the former Venetian banks (35 million euro). The residual 117 million euro essentially refer to contributions for health assistance, lunch and restaurant vouchers and provisions for seniority bonuses.

10.5 Other administrative expenses: breakdown

(millions of euro)

Type of expense/Amount	2018	2017
Expenses for maintenance of information technology and electronic equipment	60	47
Telephonic, teletransmission and transmission expenses	8	6
Information technology expenses	**68**	**53**
Rentals and service charges - real estate	192	146
Security services	24	15
Cleaning of premises	29	21
Expenses for maintenance of real estate assets furniture and equipment	50	49
Energy costs	61	43
Property costs	6	-
Management of real estate assets expenses	**362**	**274**
Printing, stationery and consumables expenses	18	15
Transport and related services expenses (including counting of valuables)	72	53
Information expenses	30	28
Postal and telegraphic expenses	35	30
Other rental charges	**-**	**-**
General structure costs	**155**	**126**
Expenses for consultancy fees	170	180
Legal and judiciary expenses	114	93
Insurance premiums - banks and customers	30	25
Professional and legal expenses	**314**	**298**
Advertising and promotional expenses	**94**	**81**
Services rendered by third parties	**137**	**107**
Indirect personnel costs	**34**	**31**
Other costs	**1,358**	**1,065**
Other costs	**336**	**204**
Recovery of taxes and duties	**530**	**421**
Recovery of other expenses	**-42**	**-50**
Total	**3,346**	**2,610**

Other expenses include 265 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the National Interbank Deposit Guarantee Fund gross of the tax effect, allocated to the caption "Levies and other charges concerning the banking industry" for the purpose of the reclassified income statement.

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 170

11.1 Net provisions for credit risk associated with loan commitments and financial guarantees given: breakdown

(millions of euro)

Captions	Provision	Reallocations	Net provision
Stage 1	-17	22	5
Stage 2	-9	14	5
Stage 3	-75	75	-
Total	**-101**	**111**	**10**

11.2 Net provisions associated with commitments and other guarantees given: breakdown

This caption is not present for Intesa Sanpaolo.

11.3 Net provisions for other risks and charges: breakdown

(millions of euro)

	Provisions	Reallocations	Net provision
Net provisions for legal disputes	-96	36	-60
Net provisions for other personnel charges	-	-	-
Net provisions for risks and charges	-51	61	10
Total	**-147**	**97**	**-50**

"Net provisions for other risks and charges", which amounted to 50 million euro, includes the provisions allocated during the year that mainly regarded litigation, including revocatory actions and other disputes.

The sub-caption Provisions for sundry risks and charges includes provisions for the sale of investments (15 million euro) mainly for transaction fees, and for compensation to subordinated bondholders of the former Venetian banks (13 million euro). Reallocations mainly regard releases of allowances made in previous years for charges for integration of the former Venetian banks (49 million euro).

The above provisions include the interest expense due to time value for 3 million euro.

SECTION 12 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT - CAPTION 180

12.1 Net adjustments to property and equipment: breakdown

(millions of euro)

Assets/Income component	Depreciation	Impairment losses	Recoveries	Net result
A. Property and equipment				
A.1 Owned	-125	-	-	-125
- used in operations	*-125*	-	-	*-125*
- investment	-	-	-	-
- inventories	*X*	-	-	-
A.2 Acquired through finance lease	-	-	-	-
- used in operations	-	-	-	-
- investment	-	-	-	-
Total	**-125**	**-**	**-**	**-125**

The result of the measurement of property and equipment classified as held for sale, pursuant to IFRS 5, was insignificant.

SECTION 13 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 190

13.1 Net adjustments to intangible assets: breakdown

(millions of euro)

Assets/Income component	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-15	-	-	-15
- internally generated	-	-	-	-
- other	*-15*	-	-	*-15*
A.2 Acquired under finance lease	-	-	-	-
Total	**-15**	**-**	**-**	**-15**

SECTION 14 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 200

14.1 Other operating expenses: breakdown

(millions of euro)

Type of expense/Amount	
Other expenses for consumer credit and leasing transactions	-
Settlements for legal disputes	7
Amortisation of leasehold improvements	27
Other non-recurring expenses	43
Other	23
Total 2018	**100**
Total 2017	**64**

14.2 Other operating income: breakdown

(millions of euro)

Recovery of insurance costs	2
Recovery of other expenses	8
Rentals and recovery of expenses on real estate	39
Recovery of services rendered to third parties	72
Recovery of taxes and duties	441
Other	56
Total 2018	**618**
Total 2017	**5,392**

Please note that the 2017 figure included 3,500 million euro concerning the government contribution received to offset the impacts on the capital ratios resulting from the acquisition of certain assets, liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, as well as the additional public contribution to Intesa Sanpaolo amounting to 938 million euro to cover integration and rationalisation charges in relation to the abovementioned acquisition. This caption also included 355 million euro of badwill generated within that transaction.

As required by paragraph 116 c) of IFRS 15, revenues deriving from performance obligations satisfied in the previous years are included, amounting to 68 million euro.

SECTION 15 – PROFITS (LOSSES) ON EQUITY INVESTMENTS - CAPTION 220

15.1 Profits (Losses) on equity investments: breakdown

(millions of euro)

Income component/Amount	2018	2017
A. Revenues	**424**	**457**
1. Revaluations	225	422
2. Profits on disposal	199	34
3. Recoveries	-	1
4. Other	-	-
B. Charges	**-297**	**-290**
1. Write-downs	-	-
2. Impairment losses	-296	-290
3. Losses on disposal	-1	-
4. Other	-	-
Net result	**127**	**167**

Sub-caption A.2. "Profits on disposal" mainly refers to the disposals:
- of the majority stake in Intrum S.p.A. (51%), for 189 million euro, net of the related ancillary costs;
- of the shares held in Tangenziali Esterne di Milano S.p.A. and in Tangenziale Esterna S.p.A. for a total of 9 million euro. The transaction was finalised on 31 December 2018 through the sale of the shares in Tangenziale Esterna S.p.A. and Tangenziali Esterne di Milano S.p.A., with the concurrent purchase of shares of Autostrade Lombarde S.p.A. In substance, this was a single swap transaction with an adjustment in cash: the profits on the disposal (21 million euro) were represented net of the alignment to the fair value at inception of the newly acquired shares in Autostrade Lombarde S.p.A. (12 million euro).

Sub-caption A.1 "Revaluations" refers to the fair value measurement of the residual stake of 49% retained in Intrum S.p.A. (formerly Tersia S.p.A.).

Sub-caption B.2. "Impairment losses" refers to Intesa Sanpaolo Provis S.p.A. for 175 million euro, Banca Apulia S.p.A for 66 million euro, Risanamento S.p.A. for 23 million euro, Veneto Banka D.D. for 11 million euro, Intesa Sanpaolo Re.o.co. S.p.A. for 6 million euro, Cassa di Risparmio di Fermo for 4 million euro, Rainbow for 2 million euro and other minor companies for 9 million euro.

SECTION 16 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 230

16.1 Valuation differences on property, equipment and intangible assets measured at fair value or estimated realisable value: breakdown

(millions of euro)

Assets/Income component	Revaluations	Write-downs	Foreign exchange differences		Net result
			Positive	Negative	
A. Property and equipment	**3**	**-9**	**-**	**-**	**-6**
A.1 Owned	3	-9	-	-	-6
- used in operations	*-*	*-1*	*-*	*-*	*-1*
- investment	*3*	*-8*	*-*	*-*	*-5*
- inventories	*-*	*-*	*-*	*-*	*-*
A.2 Acquired under finance lease	-	-	-	-	-
- used in operations	*-*	*-*	*-*	*-*	*-*
- investment	*-*	*-*	*-*	*-*	*-*
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned	-	-	-	-	-
B.1.1 internally generated	*-*	*-*	*-*	*-*	*-*
B.1.2 other	*-*	*-*	*-*	*-*	*-*
B.2 Acquired under finance lease	-	-	-	-	-
Total	**3**	**-9**	**-**	**-**	**-6**

SECTION 17 – GOODWILL IMPAIRMENT - CAPTION 240

17.1 Goodwill impairment: breakdown

During the year, no impairment of goodwill was recognised.
For a description of the impairment testing methods for goodwill, reference should be made to Part B of – Assets Section 9 – Intangible Assets.

SECTION 18 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 250

18.1 Profits (Losses) on disposal of investments: breakdown

(millions of euro)

Income component/Amount	2018	2017
A. Real estate assets	**-**	**77**
- profits on disposal	-	102
- losses on disposal	-	-25
B. Other assets	**1**	**-**
- profits on disposal	-	-
- losses on disposal	1	-
Net result	**1**	**77**

SECTION 19 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 270

19.1 Taxes on income from continuing operations: breakdown

(millions of euro)

	2018	2017
1. Current taxes (-)	222	414
2. Changes in current taxes of previous years (+/-)	19	47
3. Reduction in current taxes of the year (+)	13	-
3. bis Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	397	46
4. Changes in deferred tax assets (+/-)	-561	350
5. Changes in deferred tax liabilities (+/-)	-49	-55
6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**41**	**802**

19.2 Reconciliation of theoretical tax charge to total income tax expense for the period

(millions of euro)

	2018	2017
Income before tax from continuing operations	3,645	4,080
Income (Loss) before tax from discontinued operations	-	-
Theoretical taxable income	**3,645**	**4,080**

(millions of euro)

	Taxes	%
Income taxes - theoretical tax charge [(a)]	**1,205**	**33.1**
Increases of taxes	**159**	**4.3**
Greater IRAP taxable income	-	-
Other non-deductible costs (loss on investments, out-of-period items, fines, IMU property tax)	132	3.6
Other	27	0.7
Decreases of taxes	**-1,405**	**-38.5**
Lower IRAP taxable income	-74	-2.0
Non-taxed capital gains on equity investments	-185	-5.1
Capital gains subject to substitute tax	-	-
Tax-exempt portion of dividends	-970	-26.6
ACE Benefit - Aid for Economic Growth	-	-
Other	-176	-4.8
Total change in taxes	**-1,246**	**-34.2**
Total income tax expense for the period	**-41**	**-1.1**
of which: - effective tax expense (income) from continuing operations	**-41**	**-1.1**
- effective tax expense (income) from discontinued operations	**-**	**-**

(a) Includes IRES ordinary tax 24%, IRES additional rate 3.5% and IRAP weighted average rate 5.56%

SECTION 20 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 290

20.1 Income (Loss) after tax from discontinued operations: breakdown

This caption is not present for Intesa Sanpaolo.

20.2 Breakdown of taxes on discontinued operations

This caption is not present for Intesa Sanpaolo.

SECTION 21 – OTHER INFORMATION

There is no information further to that already provided in the previous sections.

SECTION 22 – EARNINGS PER SHARE

For details, reference should be made to the relevant section of the Notes to the consolidated financial statements.

Part D – Comprehensive income

(millions of euro)

	Statement of comprehensive income	2018	2017
10	**Net income (loss)**	**3,686**	**4,882**
	Other comprehensive income that may not be reclassified to the income statement	**352**	**954**
20	Equity instruments measured at fair value through other comprehensive income	104	-123
	a) fair value changes	*102*	*-123*
	b) transfer to other components of shareholders' equity	*2*	-
30	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
	a) fair value changes	-	-
	b) transfer to other components of shareholders' equity	-	-
40	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50	Property and equipment	2	1,614
60	Intangible assets	-	-
70	Defined benefit plans	353	-16
80	Non-current assets held for sale and discontinued operations	-	-
90	Share of valuation reserves connected with investments carried at equity	-	-
100	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	-107	-521
	Other comprehensive income that may be reclassified to the income statement	**-122**	**245**
110	Hedges of foreign investments:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
120	Foreign exchange differences:	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
130	Cash flow hedges:	139	318
	a) fair value changes	*387*	*589*
	b) reclassification to the income statement	*-248*	*-271*
	c) other changes	-	-
	of which: gains (losses) on net positions	-	-
140	Hedging instruments (not designated elements)	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
150	Financial assets (other than equities) measured at fair value through other comprehensive income	-316	47
	a) fair value changes	*-102*	*-224*
	b) reclassification to the income statement	*-214*	*271*
	- adjustments for credit risk	-	*534*
	- gains/losses on disposals	*-214*	*-263*
	c) other changes	-	-
160	Non-current assets held for sale and discontinued operations	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
170	Share of valuation reserves connected with investments carried at equity:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	- impairment losses	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
180	Income taxes associated with other comprehensive income that may be reclassified to the income statement	55	-120
190	**Total other comprehensive income**	**230**	**1,199**
200	**Comprehensive income (Captions 10+190)**	**3,916**	**6,081**

Part E – Information on risks and relative hedging policies

INTRODUCTION

This part of the Notes to the Parent Company's financial statements provides the quantitative information on risks relative to the Parent Company, Intesa Sanpaolo. or qualitative information regarding the methods whereby risks are managed and monitored, the organisation of the Bank's risk governance, the associated processes and key functions, the culture of risk-awareness at the Bank and the methods whereby it is ensured that this culture is spread, the main risks associated with the Bank's business model, the risk appetite and the methods whereby such risks are managed and the use of stress tests within risk governance strategies, refer to Part E of the Notes to the consolidated financial statements.
The qualitative and quantitative disclosure is presented according to the order established by Bank of Italy Circular 262, which specifically regulates not only the format of the tables but also the sequence of the various topics, except for the section relating to market risks in relation to the application of internal models.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

Qualitative information on Intesa Sanpaolo's credit quality is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI.
As previously indicated, the Group has exercised the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. As a result, in this chapter, certain information for comparison, referring to 31 December 2017, strictly correlated to the new IFRS 9 categories, such as those referring to the various credit risk stages, is not provided.
Starting from the 2018 Financial Statements, the tables below also include the revocable commitments in the off-balance sheet exposures.

A.1 Performing and non-performing credit exposures: amounts, adjustments, changes, and economic breakdown

A.1.1. Breakdown of financial assets by portfolio classification and credit quality (book values)

(millions of euro)

Portfolios/quality			Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets measured at amortised cost			4,392	6,439	261	2,159	396,351	409,602
2. Financial assets measured at fair value through other comprehensive income			-	-	-	-	28,816	28,816
3. Financial assets designated at fair value			-	-	-	-	198	198
4. Other financial assets mandatorily measured at fair value			-	84	2	-	6,413	6,499
5. Non-current financial assets held for sale			15	643	-	-	-	658
	Total	**31.12.2018**	**4,407**	**7,166**	**263**	**2,159**	**431,778**	**445,773**
	Total	**31.12.2017**	**6,454**	**7,136**	**228**	**3,130**	**407,752**	**424,700**

A.1.2. Breakdown of financial assets by portfolio classification and credit quality (gross and net values)

(millions of euro)

Portfolios/quality	IMPAIRED ASSETS				NOT IMPAIRED ASSETS			TOTAL (net exposition)
	Gross exposure	Overall writedowns of value	Net exposure	Overall partial write-off	Gross exposure	Overall writedowns of value	Net exposure	
1. Financial assets valued to amortized cos	24,469	-13,377	11,092	3,825	399,788	-1,278	398,510	409,602
2. Financial assets valued to fair value with impact on overall profitability	35	-35	-	-	28,823	-7	28,816	28,816
3. Financial assets designated to fair value	-	-	-	-	X	X	198	198
4. Other financial assets mandatorily valuated to fair value	104	-18	86	-	X	X	6,413	6,499
5. Financial assets as held for sale	835	-177	658	3	-	-	-	658
Total 31.12.2018	**25,443**	**-13,607**	**11,836**	**3,828**	**428,611**	**-1,285**	**433,937**	**445,773**
Total 31.12.2017	**27,833**	**-14,015**	**13,818**	**n.a.**	**411,406**	**-741**	**410,882**	**424,700**

(millions of euro)

Portfolios/quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-34	41	17,927
2. Hedging derivatives	-	-	2,878
Total 31.12.2018	**-34**	**41**	**20,805**
Total 31.12.2017	**31**	**41**	**21,776**

The tables above include purchased credit-impaired financial assets, mainly relating to positions included in securitisations following the integration of the former Venetian banks. The purchase price (to be understood as the initial recognition amount) of these assets was 445 million euro compared to an original gross value of 572 million euro.

A.1.3. Breakdown of financial assets by past-due brackets (book value)

(millions of euro)

Portfolios/risk stages	STAGE 1			STAGE 2			STAGE 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	337	159	501	274	282	606	172	124	7,967
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31.12.2018	**337**	**159**	**501**	**274**	**282**	**606**	**172**	**124**	**7,967**

A.1.4. Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS							
	Stage 1 assets				Stage 2 assets			
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	*of which: individual impairment losses*	*of which: collective impairment losses*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	*of which: individual impairment losses*	*of which: collective impairment losses*
A. Initial amount	**504**	**10**	***514***	**-**	**769**	**7**	***776***	**-**
Increases in purchased or originated financial assets	74	2	*76*	-	9	-	*9*	-
Derecognition other than write-offs	-70	-	*-70*	-	-70	-	*-70*	-
Net losses/recoveries for credit risk	-102	-	*-102*	-	-54	-	*-54*	-
Changes in contracts without derecognition	-	-	-	-	1	-	*1*	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	68	-5	*63*	-	149	-7	*142*	-
- of which: business combinations	*61*	-	*61*	-	*153*	-	*153*	-
Final amount	**474**	**7**	***481***	**-**	**804**	**-**	***804***	**-**
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-18	-	*-18*	-

(millions of euro)

Reasons/risk stages	TOTAL ADJUSTMENTS					TOTAL PROVISIONS ON COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN			TOTAL
	Stage 3 assets				Purchased or originated credit-impaired financial assets				
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	*of which: individual writedowns*	*of which: collective writedowns*		Stage 1	Stage 2	Stage 3	
A. Initial amount	**15,605**	**31**	***15,636***	**-**	**547**	**71**	**45**	**196**	**17,238**
Increases in purchased or originated financial assets	-	-	-	-	-	2	4	-	91
Derecognition other than write-offs	-6,724	-	*-6,724*	-	-257	-2	-1	-	-6,867
Net losses/recoveries for credit risk	1,823	-1	*1,822*	-	-1	-4	-10	-	1,652
Changes in contracts without derecognition	-26	-	*-26*	-	-	-	-	-	-25
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-
Write-offs	-1,985	-	*-1,985*	-	-72	-	-	-	-1,985
Other changes	4,684	5	*4,689*	-	-8	-5	20	34	4,943
- of which: business combinations	*4,947*	-	*4,947*	-	-	*8*	*6*	*42*	*5,217*
Final amount	**13,377**	**35**	***13,412***	**-**	**209**	**62**	**58**	**230**	**15,047**
Recoveries on collection of financial assets previously written off	41	-	*41*	-	-	-	-	-	41
Write-offs recognised directly through profit or loss	-177	-	*-177*	-	-	-	-	-	-195

Intesa Sanpaolo does not use the simplified method for the valuation of the loss allowance in relation to trade receivables, contract assets and lease receivables (method envisaged by IFRS 9, paragraph 5.5.15).

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between stages of credit risk (gross and nominal amounts)

(millions of euro)

Portfolios/risk stages	GROSS AMOUNTS/NOMINAL VALUE					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
1. Financial assets measured at amortised cost	27,447	22,825	2,326	928	1,014	393
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	9,463	9,446	275	64	126	37
Total 31.12.2018	**36,910**	**32,271**	**2,601**	**992**	**1,140**	**430**

A.1.6. On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Impairment	Non impairment			
A. On-balance sheet exposures					
a) Bad loans	4	X	-4	-	4
- of which: forborne exposures	-	*X*	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	*X*	-	-	-	-
e) Other performing exposures	X	157,594	-117	157,477	-
- of which: forborne exposures	*X*	*100*	*-1*	*99*	-
Total (A)	**4**	**157,594**	**-121**	**157,477**	**4**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	107,226	-8	107,218	-
Total (B)	**-**	**107,226**	**-8**	**107,218**	**-**
Total (A+B)	**4**	**264,820**	**-129**	**264,695**	**4**

A.1.7. On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	14,322	X	-9,915	4,407	3,328
- of which: forborne exposures	*1,577*	*X*	*-1,020*	*557*	*83*
b) Unlikely to pay	10,765	X	-3,600	7,165	485
- of which: forborne exposures	*4,455*	*X*	*-1,397*	*3,058*	*378*
c) Non-performing past due exposures	352	X	-89	263	11
- of which: forborne exposures	*23*	*X*	*-4*	*19*	-
d) Performing past due exposures	X	2,238	-78	2,160	-
- of which: forborne exposures	*X*	*263*	*-18*	*245*	-
e) Other performing exposures	X	279,852	-1,091	278,761	-
- of which: forborne exposures	*X*	*5,864*	*-252*	*5,612*	-
Total (A)	**25,439**	**282,090**	**-14,773**	**292,756**	**3,824**
B. Off-balance sheet exposures					
a) Non-performing	2,187	X	-231	1,956	-
b) Performing	X	209,680	-112	209,568	-
Total (B)	**2,187**	**209,680**	**-343**	**211,524**	**-**
Total (A+B)	**27,626**	**491,770**	**-15,116**	**504,280**	**3,824**

During the year, as part of business combinations under common control, net exposures related to non-performing loans of 3,213 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

A.1.8. On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 inflows from performing exposures	-	-	-
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	-	-	-
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 profits on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposure categories	-	-	-
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Final gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-

A.1.8. Bis On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Description/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Initial gross exposure	**-**	**-**
- of which: exposures sold not derecognised	-	-
B. Increases	**-**	**101**
B.1 inflows from non-forborne performing exposures	-	24
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 other increases	-	77
C. Decreases	**-**	**-1**
C.1 outflows towards non-forborne performing exposures	X	-
C.2 outflows towards forborne performing exposures	-	X
C.3 outflows towards non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**-**	**100**
- of which: exposures sold not derecognised	-	-

A.1.9. On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

Reasons/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**17,971**	**9,561**	**286**
- of which: exposures sold not derecognised	*188*	*544*	*25*
B. Increases	**8,064**	**6,076**	**1,723**
B.1 inflows from performing exposures	24	1,813	1,572
B.2 inflows from purchased or originated credit-impaired financial assets	-	-	-
B.3 transfers from other non-performing exposures categories	1,811	1,262	32
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	6,229	3,001	119
C. Decreases	**-11,713**	**-4,872**	**-1,657**
C.1 outflows to performing exposures	-33	-974	-318
C.2 write-offs	-1,945	-209	-1
C.3 collections	-1,049	-1,482	-139
C.4 profits on disposal	-2,196	-105	-
C.5 losses on disposal	-10	-31	-
C.6 transfers to other non-performing exposure categories	-103	-1,807	-1,195
C.7 changes in contracts without derecognition	-	-14	-
C.8 other decreases	-6,377	-250	-4
D. Final gross exposure	**14,322**	**10,765**	**352**
- of which: exposures sold not derecognised	*57*	*83*	*2*

The “other increases” mainly include the increases in the amounts for charges and the increase in the amounts in foreign currency due to changes in the exchange rate.
During the year, as part of business combinations under common control, gross exposures related to non-performing loans of 8,160 million euro were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.
“Other decreases” mainly include the exposures of the sale to Intrum of the “Savoy” bad loans.

A.1.9. Bis On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

(millions of euro)

Reasons/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance (gross amount)	**5,077**	**4,461**
- Sold but not derecognised	-	-
B. Increases	**3,235**	**4,707**
B.1 Transfers from performing not forborne exposures	123	2,703
B.2. Transfers from performing forborne exposures	525	X
B.3. Transfers from impaired forborne exposures	X	652
B.4 other increases	2,587	1,352
C. Decreases	**-2,257**	**-3,041**
C.1 Transfers to performing not forborne exposures	X	-1,261
C.2 Transfers to performing forborne exposures	-652	X
C.3 transfers to impaired exposures not forborne	X	-525
C.4 write-offs	-136	-1
C.5 recoveries	-752	-1,198
C.6 sales proceeds	-175	-
C.7 losses on disposals	-	-
C.8 other decreases	-542	-56
D. Closing balance (gross amounts)	**6,055**	**6,127**
- Sold but not derecognised	*35*	*62*

For the non-performing forborne exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The “other decreases” include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans.
During the year, as part of business combinations under common control, gross forborne exposures of 1,686 million euro (non-performing) and of 741 million euro (performing) were acquired. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.

A.1.10. Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

(millions of euro)

Reasons/Categories	BAD LOANS		UNLIKELY TO PAY		NON-PERFORMING PAST DUE EXPOSURES	
	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*	Total	*of which: forborne exposures*
A. Initial total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	-	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other non-performing exposures categories	-	-	-	-	-	-
B.5 changes in contracts without derecognition	-	*X*	-	*X*	-	*X*
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 changes in contracts without derecognition	-	*X*	-	*X*	-	*X*
C.7 other decreases	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-	-	-	-

A.1.11. Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

(millions of euro)

Description/Category	NON-PERFORMING LOANS		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	*off wich: forborne exposures*	Total	*off wich: forborne exposures*	Total	*off wich: forborne exposures*
A. Opening balance overall amount of writedowns	**12,704**	***850***	**2,936**	***1,095***	**61**	***3***
- Sold but not derecognised	*91*	*-*	*101*	*-*	*3*	*-*
B. Increases	**7,329**	***701***	**2,604**	***1,085***	**329**	***40***
B.1 impairment losses on acquired or originated assets	-	*X*	-	*X*	-	*X*
B. 2 other value adjustments	2,259	*209*	1,483	*505*	308	*36*
B.3 losses on disposal	10	*2*	24	*16*	-	*-*
B.4 transfer from other impaired exposure	751	*142*	345	*67*	10	*1*
B. 5 contractual changes without cancellations	-	*X*	9	*X*	-	*X*
B.6 other increases	4,309	*348*	743	*497*	11	*3*
C. Reductions	**-10,118**	***-531***	**-1,940**	***-783***	**-301**	***-39***
C.1 write-backs from assessments	-1,275	*-78*	-455	*-289*	-7	*-*
C.2 write-backs from recoveries	-194	*-9*	-68	*-36*	-2	*-*
C.3 gains on disposal	-1	*-*	-6	*-2*	-	*-*
C.4 write-offs	-1,945	*-47*	-209	*-89*	-1	*-*
C.5 transfers to other impaired exposures	-75	*-19*	-749	*-141*	-282	*-38*
C. 6 contractual changes without cancellations	-	*X*	-35	*X*	-	*X*
C.7 other decreases	-6,628	*-378*	-418	*-226*	-9	*-1*
D. Closing overall amount of writedowns	**9,915**	***1,020***	**3,600**	***1,397***	**89**	***4***
- Sold but not derecognised	*25*	*2*	*14*	*5*	*-*	*-*

The “other increases” mainly include the collections of loans already derecognised in full (through “recoveries on repayments”) and increases in the balances of allowances in foreign currency due to changes in the exchange rate.
During the year, as part of business combinations under common control, adjustments to non-performing financial assets of 4,947 million euro were made. For those transactions, as a general rule, the Intesa Sanpaolo Group adopts the principle of consistency for recognition in the separate financial statements of the companies involved in the business combination.
The “other decreases” mainly include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance, the decrease in allowances in foreign currency due to changes in the exchange rate and the reduction in the allowances for adjustment due to the passing of time.

A.2. Classification of financial assets, commitments to disburse funds and financial guarantees given based on internal and external rating

A.2.1. Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross amounts)

Intesa Sanpaolo uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings.
In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.
For the mapping of the risk classes and agency ratings employed, see the corresponding section of the Notes to the consolidated financial statements.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	Class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**12,039**	**5,411**	**178,673**	**7,608**	**2,143**	**349**	**218,034**	**424,257**
- Stage 1	11,898	4,975	175,259	6,100	1,884	74	169,101	369,291
- Stage 2	141	436	3,414	1,508	259	66	24,673	30,497
- Stage 3	-	-	-	-	-	209	24,260	24,469
B.Financial assets measured at fair value through other comprehensive income	**6,622**	**8,599**	**13,510**	**-**	**1**	**13**	**113**	**28,858**
- Stage 1	6,622	8,571	13,510	-	-	-	88	28,791
- Stage 2	-	28	-	-	1	-	3	32
- Stage 3	-	-	-	-	-	13	22	35
Total (A+B)	**18,661**	**14,010**	**192,183**	**7,608**	**2,144**	**362**	**218,147**	**453,115**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*689*	*689*
C. Commitments to disburse funds and financial guarantees given								
- Stage 1	**8,316**	**22,070**	**143,315**	**12,168**	**3,467**	**57**	**102,112**	**291,505**
- Stage 2	20	181	274	523	443	19	10,416	11,876
- Stage 3	-	-	-	-	-	281	1,904	2,185
Total (C)	**8,336**	**22,251**	**143,589**	**12,691**	**3,910**	**357**	**114,432**	**305,566**
Total (A+B+C)	**26,997**	**36,261**	**335,772**	**20,299**	**6,054**	**719**	**332,579**	**758,681**

A.2.2. Breakdown of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross amounts)

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

(millions of euro)

Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortised cost	**45,805**	**29,531**	**245,026**	**61,015**	**13,299**	**1,681**	**27,901**	**424,258**
- Stage 1	45,493	29,195	238,498	48,055	5,748	107	2,196	369,292
- Stage 2	312	336	6,528	12,960	7,551	1,170	1,640	30,497
- Stage 3	-	-	-	-	-	404	24,065	24,469
B. Financial assets measured at fair value through other comprehensive income	**7,192**	**7,808**	**13,479**	**33**	**1**	**3**	**342**	**28,858**
- Stage 1	7,192	7,780	13,479	33	-	-	307	28,791
- Stage 2	-	28	-	-	1	-	3	32
- Stage 3	-	-	-	-	-	3	32	35
Total (A+B)	**52,997**	**37,339**	**258,505**	**61,048**	**13,300**	**1,684**	**28,243**	**453,116**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	689	689
C. Commitments and financial guarantees given								
- Stage 1	21,553	41,396	193,147	30,320	3,610	62	1,417	291,505
- Stage 2	11	79	904	6,748	1,690	336	2,108	11,876
- Stage 3	-	-	-	-	-	312	1,873	2,185
Total (C)	**21,564**	**41,475**	**194,051**	**37,068**	**5,300**	**710**	**5,398**	**305,566**
Total (A+B+C)	**74,561**	**78,814**	**452,556**	**98,116**	**18,600**	**2,394**	**33,641**	**758,682**

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Guaranteed on- and off-balance sheet credit exposures to banks

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Personal guarantees (*) (2)	
							Credit derivatives	
			Real estate assets - mortgages	Real estate assets - finance leases	Securities	Other	CLN	Other derivatives
								Central counterparties
1.Guaranteed on-balance sheet credit exposures:	**6,908**	**6,908**	**-**	**-**	**6,643**	**-**	**-**	**-**
1.1 totally guaranteed	6,819	6,819	-	-	6,643	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	89	89	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**1,475**	**1,475**	**-**	**-**	**72**	**1,044**	**-**	**-**
2.1 totally guaranteed	260	260	-	-	72	68	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,215	1,215	-	-	-	976	-	-
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							TOTAL (*)
	Credit derivatives			Commitments				
	Other derivatives			Public Administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**16**	**184**	**-**	**40**	**6,883**
1.1 totally guaranteed	-	-	-	16	152	-	8	6,819
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	32	-	32	64
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**31**	**115**	**-**	**57**	**1,319**
2.1 totally guaranteed	-	-	-	2	107	-	11	260
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	29	8	-	46	1,059
- of which non-performing	-	-	-	-	-	-	-	-

(*) Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Guaranteed on- and off-balance sheet credit exposures to customers

(millions of euro)

	Gross exposure	Net exposures	Collaterals (*) (1)				Guarantees (*) (2)	
							Credit derivatives	
			Property, Mortgages	Financial leasing property	Securities	Other assets	CLN	Other derivatives
								Central counterparties
1. Guaranteed on-balance sheet credit exposures:	**173,239**	**164,483**	**103,259**	**-**	**17,797**	**3,395**	**-**	**-**
1.1 totally guaranteed	158,011	151,281	101,919	-	17,574	2,708	-	-
- of which non-performing	*13,287*	*7,263*	*5,372*	-	*34*	*135*	-	-
1.2 partly guaranteed	15,228	13,202	1,340	-	223	687	-	-
- of which non-performing	*3,293*	*1,321*	*714*	-	*7*	*11*	-	-
2. Guaranteed off-balance sheet credit exposures:	**24,020**	**23,936**	**1,879**	**-**	**786**	**781**	**-**	**-**
2.1 totally guaranteed	19,934	19,876	1,497	-	722	504	-	-
- of which non-performing	*474*	*436*	*177*	-	*2*	*4*	-	-
2.2. partly guaranteed	4,086	4,060	382	-	64	277	-	-
- of which non-performing	*198*	*180*	*40*	-	*1*	*11*	-	-

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1. Guaranteed on-balance sheet credit exposures	**-**	**-**	**-**	**10,062**	**424**	**1,712**	**20,114**	**156,763**
1.1 totally guaranteed	-	-	-	9,449	308	1,499	17,824	151,281
- of which non-performing	-	-	-	*93*	*1*	*433*	*1,195*	*7,263*
1.2 partly guaranteed	-	-	-	613	116	213	2,290	5,482
- of which non-performing	-	-	-	*14*	*4*	*118*	*220*	*1,088*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**763**	**324**	**404**	**17,336**	**22,273**
2.1 totally guaranteed	-	-	-	716	260	355	15,822	19,876
- of which non-performing	-	-	-	*1*	-	*38*	*214*	*436*
2.2. partly guaranteed	-	-	-	47	64	49	1,514	2,397
- of which non-performing	-	-	-	-	*26*	*20*	*33*	*131*

(*) Fair value of the guarantee or, if difficult to determine, its contractual value; as required by the regulations, the latter is stated up to the net exposure value.

A.4. Financial assets and non-financial assets resulting from the enforcement of guarantees

As at 31 December 2018 there are no financial and non-financial assets resulting from the enforcement of guarantees. As already highlighted at the foot of table “3.1 Financial assets measured at fair value through other comprehensive income: breakdown” of Part B “Assets” of the Notes to the financial statements, as at 31 December 2018 the Bank has recognised, in that caption, equites deriving from the recovery of impaired financial assets for 27 million euro (book value).

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

The significant increase in off-balance sheet credit exposures compared to 31 December 2017 is mainly attributable to the inclusion in the off-balance sheet credit exposures (starting from the 2018 Financial Statements) of revocable commitments.

B.1. Breakdown of on- and off-balance sheet credit exposures to customers by sector

(millions of euro)

Exposures/Counterparts	Public administration		Financial companies		Financial companies (of which: insurance companies)	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures						
A.1 Bad loans	172	-70	56	-198	-	-
- of which: forborne exposures	-	-	*4*	*-17*	-	-
A.2 Unlikely to pay	102	-33	197	-139	-	-
- of wich: forborne exposures	*40*	*-20*	*118*	*-108*	-	-
A.3 Non-performing past due exposures	-	-	6	-3	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	45,560	-62	46,790	-45	986	-
- of wich: forborne exposures	*411*	*-1*	*134*	*-1*	-	-
Total (A)	**45,834**	**-165**	**47,049**	**-385**	**986**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	3	-	61	-1	-	-
B.2 Performing exposures	9,073	-1	56,856	-21	3,141	-
Total (B)	**9,076**	**-1**	**56,917**	**-22**	**3,141**	**-**
Total (A+B) 31.12.2018	**54,910**	**-166**	**103,966**	**-407**	**4,127**	**-**
Total (A+B) 31.12.2017	**56,736**	**-89**	**55,810**	**-339**	**2,259**	**-**

(millions of euro)

Exposures/Counterparts	Non-financial companies		Households	
	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures				
A.1 Bad loans	2,935	-7,606	1,244	-2,041
- of which: forborne exposures	*417*	*-903*	*136*	*-100*
A.2 Unlikely to pay	5,411	-2,889	1,455	-539
- of which: forborne exposuress	*2,385*	*-1,173*	*515*	*-96*
A.3 Non-performing past due exposures	109	-36	148	-50
- of which: forborne exposures	*12*	*-2*	*7*	*-2*
A.4 Performing exposures	89,645	-631	98,926	-431
- of which: forborne exposures	*4,141*	*-232*	*1,171*	*-36*
Total (A)	**98,100**	**-11,162**	**101,773**	**-3,061**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	1,873	-227	19	-3
B.2 Performing exposures	138,826	-79	4,813	-11
Total (B)	**140,699**	**-306**	**4,832**	**-14**
Total (A+B) 31.12.2018	**238,799**	**-11,468**	**106,605**	**-3,075**
Total (A+B) 31.12.2017	**175,209**	**-12,592**	**67,614**	**-1,830**

B.2. Breakdown of on- and off-balance sheet credit exposures to customers by geographical area

(millions of euro)

Exposure/Geographical areas	Italy		Other european countries	
	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures				
A.1 Non-performing loans	4,397	-9,809	10	-79
A.2 Unlikely to pay	6,983	-3,443	95	-60
A.3 Non-performing past due exposures	263	-89	-	-
A.4 Performing exposures	226,478	-1,101	31,151	-30
Total (A)	**238,121**	**-14,442**	**31,256**	**-169**
B. Off-balance sheet exposure				
B.1 Non-performing exposures	1,931	-230	10	-1
B.2 Performing exposures	108,982	-82	40,622	-23
Total (B)	**110,913**	**-312**	**40,632**	**-24**
Total (A+B) 31.12.2018	**349,034**	**-14,754**	**71,888**	**-193**
Total (A+B) 31.12.2017	**254,430**	**-14,460**	**69,469**	**-227**

(millions of euro)

Exposure/Geographical areas	America		Asia		Rest of the world	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures						
A.1 Non-performing loans	-	-21	-	-6	-	-
A.2 Unlikely to pay	62	-88	25	-9	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
A.4 Performing exposures	16,686	-30	5,087	-4	1,519	-4
Total (A)	**16,748**	**-139**	**5,112**	**-19**	**1,519**	**-4**
B. Off-balance sheet credit exposures						
B.1 Non-performing exposures	11	-	3	-	1	-
B.2 Performing exposures	53,591	-4	5,455	-3	918	-
Total (B)	**53,602**	**-4**	**5,458**	**-3**	**919**	**-**
Total (A+B) 31.12.2018	**70,350**	**-143**	**10,570**	**-22**	**2,438**	**-4**
Total (A+B) 31.12.2017	**23,522**	**-131**	**5,368**	**-19**	**2,580**	**-13**

B.2.Bis Breakdown of relations with customers resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	North West		North East		Centre		South and islands	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	1,424	-3,640	877	-1,895	833	-1,827	1,263	-2,447
A.2 Unlikely to pay	2,991	-1,238	1,439	-704	1,403	-871	1,150	-630
A.3 Non-performing past due exposures	90	-33	47	-13	43	-13	83	-30
A.4 Performing exposures	77,841	-440	44,937	-210	66,400	-209	37,300	-242
Total A	**82,346**	**-5,351**	**47,300**	**-2,822**	**68,679**	**-2,920**	**39,796**	**-3,349**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	568	-51	486	-65	720	-104	157	-10
B.2 Performing exposures	52,585	-34	21,312	-14	27,062	-24	8,023	-10
Total B	**53,153**	**-85**	**21,798**	**-79**	**27,782**	**-128**	**8,180**	**-20**
Total (A+B) 31.12.2018	**135,499**	**-5,436**	**69,098**	**-2,901**	**96,461**	**-3,048**	**47,976**	**-3,369**
Total (A+B) 31.12.2017	**104,352**	**-7,007**	**37,497**	**-1,376**	**90,582**	**-3,264**	**21,992**	**-2,813**

B.3. Breakdown of on- and off-balance sheet credit exposures to banks by geographical area

(millions of euro)

Exposure/Geographical areas		Italy		Other european countries	
		Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures					
A.1 Bad loans		-	-	-	-1
A.2 Unlikely to pay		-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-
A.4 Performing exposures		144,027	-103	9,782	-7
Total (A)		**144,027**	**-103**	**9,782**	**-8**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		15,753	-1	72,061	-6
Total (B)		**15,753**	**-1**	**72,061**	**-6**
TOTAL	**31.12.2018**	**159,780**	**-104**	**81,843**	**-14**
Total (A+B)	**31.12.2017**	**146,367**	**-51**	**33,412**	**-29**

(millions of euro)

Exposures / Geographical Area		America		Asia		Rest of the world	
		Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposuress							
A.1 Bad loans		-	-	-	-3	-	-
A.2 Unlikely to pay		-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		1,553	-2	1,655	-1	460	-4
Total (A)		**1,553**	**-2**	**1,655**	**-4**	**460**	**-4**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		-	-	-	-	-	-
B.2 Performing exposures		6,157	-	10,362	-	2,651	-1
Total (B)		**6,157**	**-**	**10,362**	**-**	**2,651**	**-1**
Total (A+B)	**31.12.2018**	**7,710**	**-2**	**12,017**	**-4**	**3,111**	**-5**
Total (A+B)	**31.12.2017**	**2,696**	**-19**	**3,218**	**-13**	**696**	**-5**

B.3.Bis Breakdown of relations with banks resident in Italy by geographical area

(millions of euro)

Exposure/Geographical areas	NORTH WEST		NORTH EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments	Net exposures	Total adjustments
A. On-balance sheet exposures								
A.1 Bad loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	108,350	-54	1,840	-48	33,628	-1	209	-
TOTAL A	**108,350**	**-54**	**1,840**	**-48**	**33,628**	**-1**	**209**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	11,855	-	1,343	-1	2,329	-	226	-
TOTAL B	**11,855**	**-**	**1,343**	**-1**	**2,329**	**-**	**226**	**-**
TOTAL (A+B) 31.12.2018	**120,205**	**-54**	**3,183**	**-49**	**35,957**	**-1**	**435**	**-**
TOTAL (A+B) 31.12.2017	**98,880**	**-2**	**6,234**	**-48**	**37,637**	**-1**	**1,202**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	326,946
b) Weighted value (millions of euro)	22
b) Number	4

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of the entity's eligible capital. In that regard, it is noted that the table above includes exposures to Intesa Sanpaolo Group companies, whose book value amounted to 241,168 million euro which, in line with prudential regulations, have a weighted value of zero.

For completeness, it is noted that the table above also includes exposures to the Italian Treasury for a book value of 45,235 million euro and a weighted value of 9 million euro, and exposures to the Bank of Italy for 33,142 million euro and a weighted value of 13 million euro.

C. SECURITISATIONS

This section does not include securitisations where the originator is the Bank and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by the Bank. For a description of these types of transactions, see the section on liquidity risk in Part E of the Notes to the Parent Company's financial statements.

Qualitative information

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

C.1. Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**20**	**-**	**244**	**-**	**303**	**1**
- Loans to businesses (including SMEs) (a)	-	-	240	-	294	-
– Consumer credit	20	-	4	-	9	1
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**10,891**	**-13**	**150**	**-1**	**764**	**-**
– Loans to businesses (including SMEs) (b)	10,753	-13	27	-	96	-
– Residential mortgage loans	138	-	123	-1	668	-
TOTAL	**10,911**	**-13**	**394**	**-1**	**1,067**	**1**

(a) The entire amount refers to non-performing financial assets associated with the Savoy securitisation.

(b) The exposures include non-performing financial assets amounting to 46 million euro in Senior exposures, 26 million euro in Mezzanine exposures and 41 million euro in Junior exposures, respectively. "Loans to businesses (including SMEs)" also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

The securitisations in point A in the above table also include – in addition to the securitisations that meet the requirements of IFRS 9 for derecognition – those for which the Group has exercised the option of exemption from compliance with IAS/IFRS permitted by IFRS 1 on first-time adoption. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting standards and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

Off-balance sheet

This type of exposure did not exist as at 31 December 2018.

C.2. Breakdown of exposures deriving from main "third-party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

Type of underlying assets/Exposures	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (a)	5,398	11	1	-	-	-
Residential mortgage loans	249	-2	18	-	85	-
Trade receivables	234	-3	-	-	-	-
Loans to businesses (including SMEs) (b)	108	3	44	1	57	-
Securitisations	53	3	-	-3	-	-
Consumer credit	41	-	2	-	-	-
TOTAL	**6,083**	**12**	**65**	**-2**	**142**	**-**

(a) The amount also includes the Romulus securities for 5,094 million euro, held by Intesa Sanpaolo, generally represented among third-party securitisations. For more information regarding the type of underlying assets, reference is made to Section 4 – Risks of other companies, of Part E of the Notes to the consolidated financial statements.

(b) The exposures include non-performing financial assets amounting to 93 million euro in Senior exposures, 44 million euro in Mezzanine exposures and 57 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in. The related Junior Notes were fully written down.

Off-balance sheet

(millions of euro)

Type of underlying assets/Exposures	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo												
- ABCP Conduit transaction	-	-	-	-	-	-	5,608	-11	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**5,608**	**-11**	**-**	**-**	**-**	**-**

C.3. Securitisation vehicles

(millions of euro)

Vehicles	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (f)			LIABILITIES (f)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Intesa Sanpaolo Sec SA (b)	Luxembourg	Consolidated	21	-	302	306	-	16
Intesa Sec 3 Srl	Milano	Consolidated	159	-	108	-	80	121
ISP CB Ipotecario Srl (e)	Milano	Consolidated	19,872	-	4,097		22,975	
ISP CB Pubblico Srl (e)	Milano	Consolidated	3,149	1,958	2,521		7,361	
ISP CB OBG Srl (e)	Milano	Consolidated	32,447	-	5,618		37,791	
Claris Finance 2005 Srl	Roma	Not consolidated (d)	52	-	12	4	24	36
Claris Finance 2007 Srl	Conegliano (TV)	Not consolidated	112	-	13	66	19	40
Claris Finance 2008 Srl (b)	Conegliano (TV)	Not consolidated	118	-	7	-	39	55
Claris RMBS 2014 Srl	Conegliano (TV)	Not consolidated	416	-	16	219	-	213
-	Conegliano (TV)	Not consolidated	872	-	66	651	116	144
Claris SME 2015 Srl (b)	Conegliano (TV)	Not consolidated	629	-	66	-	249	403
Claris SME 2016 Srl	Conegliano (TV)	Not consolidated	421	-	38	72	393	24
Berica ABS 3 Srl	Vicenza	Not consolidated (d)	474	-	18	216	94	143
Berica ABS 4 Srl	Vicenza	Not consolidated	561	-	21	304	123	121
-	Vicenza	Not consolidated	493	-	38	383	60	52
Augusto Srl (c)	Milano	Not consolidated (d)	1	-	2	13	-	-
Colombo Srl	Milano	Not consolidated (d)	1	-	6	-	4	10
Diocleziano Srl (c)	Milano	Not consolidated (d)	4	-	1	52	-	-
Brera Sec Srl (b)	Conegliano (TV)	Not consolidated (d)	11,035	-	972	9,168	-	2,597

(a) Consolidation method referring to the "prudential" scope applied to the Group financial statements.

(b) Self-securitisation vehicle described in Section 4 - Liquidity Risk, Quantitative Information, paragraph 2.

(c) The amounts shown under assets and liabilities refer to the latest financial statement data available (31 December 2017).

(d) Not consolidated line-by-line, but using the equity method.

(e) Vehicles used for covered bond issues. For more information, see Section E.4 "Covered bond transactions" in Part E of these Notes to the Parent Company's financial statements.

(f) The amounts shown under assets and liabilities refer to the overall amounts in the financial statements of the vehicles.

C.4. Unconsolidated securitisation vehicles

The information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

C.5. Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

The Bank does not carry out servicer activities for originated securitisations in which the assets sold have been derecognised pursuant to IFRS 9; therefore, the related information is not provided. For more information, see the corresponding section of the Notes to the consolidated financial statements.

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION VEHICLES)

The qualitative and quantitative information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

E. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables E.1, E.2 and E.3, reference is made to the information shown below the relevant tables.
For operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

E.1. Financial assets sold fully recognised and related financial liabilities: book value

(millions of euro)

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*	*of which: non-performing*	Book value	*of which: securitisations*	*of which: subject to sales contracts with repurchase clauses*
A. Financial assets held for trading	**745**	**-**	***745***	***X***	**744**	**-**	***744***
1. Debt securities	745	-	*745*	*X*	744	-	*744*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	*X*	-	-	-
4. Derivatives	-	-	-	*X*	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**16,297**	**-**	***16,297***	**-**	**16,179**	**-**	***16,179***
1. Debt securities	16,297	-	*16,297*	-	16,179	-	*16,179*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**1,244**	***1,244***	**-**	***103***	**1,091**	***919***	***172***
1. Debt securities	-	-	-	-	172	-	*172*
2. Loans	1,244	*1,244*	-	*103*	919	*919*	-
TOTAL 31.12.2018	**18,286**	***1,244***	***17,042***	***103***	**18,014**	***919***	***17,095***
TOTAL 31.12.2017	**16,537**	***3,334***	***13,203***	***562***	**12,723**	***3,251***	***9,634***

The table above does not include covered bond transactions in which the Bank is both the seller and lender for the vehicle issuing the debt securities.

The aggregates of the sales contracts with repurchase clauses relate to repurchase agreements entered into the by Bank for assets sold and not derecognised. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included in the related financial liabilities.

The aggregates of the securitisations refer to related assets and liabilities recognised for the SEC 3 and K-Equity securitisations, as well as the Claris, Berica and Norma securitisations deriving from the acquisition of the former Venetian banks.

E.2. Financial assets sold partly recognised and related financial liabilities: book value

This type of exposure did not exist as at 31 December 2018.

E.3. Sales with liabilities having recourse exclusively on the assets sold and not fully derecognised: fair value

(millions of euro)

	Fully recognised	Partly recognised	31.12.2018	31.12.2017
A. Financial assets held for trading	**745**	**-**	**745**	**1,245**
1. Debt securities	745	-	745	1,245
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**16,297**	**-**	**16,297**	**8,098**
1. Debt securities	16,297	-	16,297	8,098
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**1,227**	**-**	**1,227**	**7,072**
1. Debt securities	-	-	-	199
2. Loans	1,227	-	1,227	6,873
Total financial assets	**18,269**	**-**	**18,269**	**16,415**
Total related financial liabilities	**18,014**	**-**	**18,014**	**12,727**
Net value 31.12.2018	**255**	**-**	**255**	**X**
Net value 31.12.2017	**3,688**	**-**	**X**	**3,688**

The table above does not include covered bond transactions in which the Bank is both the seller and lender for the vehicle issuing the debt securities.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2018.

E.4. Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section.
Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.
Intesa Sanpaolo has arranged three programmes for the issue of Covered Bonds (CB).

The first programme, launched at the end of July 2009, reached an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold. The last sale (amounting to around 1 billion euro) took place in April 2013.
As at 31 December 2018, loans and securities sold to the vehicle had a book value of 5 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12 billion euro relating to issues purchased by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012).
In 2018, the eleventh series of Covered Bonds reached maturity, with an original nominal value of 1.1 billion euro, already partly early redeemed.
Therefore, as at 31 December 2018 a total nominal amount of 5.6 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP CB Pubblico was outstanding, of which 5.5 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2018, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 2.5 billion euro.
As at 31 December 2018, loans sold to the vehicle had a book value of 20 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 31.7 billion euro (of which 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).
During 2018:

- the fifteenth series of CB reached maturity, with a nominal value of 0.75 billion euro;
- in February, the 23rd series of CB was issued in the form of a floating-rate bond (3-month Euribor +0.29%) for a nominal value of 2 billion euro, with a 12-year maturity, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely subscribed by the Parent Company.
- in July, the 24th series of CB was issued in the form of a fixed-rate bond, with a 7-year maturity, for a nominal value of 1 billion euro, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely placed with institutional investors in the market.

As at 31 December 2018, a total nominal amount of 17.4 billion euro of issues made as part of the covered bond programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 5.4 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages totalling 40 billion euro (the original amount was 30 billion euro). The programme aims to achieve retained issues. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli (merged into Intesa Sanpaolo in November 2018), Cassa di Risparmio del Veneto (merged into Intesa Sanpaolo in July 2018), Cassa di Risparmio in Bologna and, from May 2015, Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). The following sales were carried out: in June 2018 for a total of 4.2 billion euro, in September for a total of 2 billion euro and in November for a total of 1.9 billion euro.
As at 31 December 2018, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 28.3 billion euro.
Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 61.2 billion euro (of which 31.2 billion euro subject to early redemption and reimbursed). During 2018:

- in February, the 11th series of CB reached maturity, with a value of 1.5 billion euro and a residual nominal amount at maturity of 1.375 billion euro;
- in August, the 12th series of CB reached maturity, with a value of 2.35 billion euro and a residual nominal amount at maturity of 2.154 billion euro;
- in March, the 25th series of CB was issued with a nominal value of 1.75 billion euro. This is a 7-year, floating-rate bond;
- in March, the 26th series of CB was issued with a nominal value of 2.15 billion euro. This is a 10-year, floating-rate bond;
- in September, the 27th series of CB was issued with a nominal value of 1.6 billion euro. This is an 11-year, floating-rate bond;
- in September, the 28th series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rate bond;
- in November the 29th series of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;

- in November the 30th series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rat bond;
- in December, the 31st series of CB was issued with a nominal value of 1.275 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and have a DBRS A (High) rating. The characteristics of the issues make them eligible for Eurosystem refinancing operations.
As at 31 December 2018, a total nominal amount of 29.9 billion euro of issues made as part of the Covered Bond programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The main features of the issues are shown in the table below.

(millions of euro)

VEHICLE	NAME	TYPE OF UNDERLYING ASSET	ISSUE	MATURITY	RATING	VEHICLE DATA		SUBORDINATED FINANCING (1)	COVERED BOND ISSUED			
						Total assets	Cumulated write-downs to the securitised portfolio	amount	nominal amount (2)	book value (2)	IAS classification	Valuation
ISP CB PUBBLICO						7,628	8	7,361	147	153		
	Intesa Sanpaolo 11/21 - 5%	Bonds and loans to the public sector	27-Jan-11	27-Jan-21	A3				147	153	Securities issued	Amortised cost
ISP CB IPOTECARIO						24,878	161	22,975	11,963	12,670 (3)		
	Intesa Sanpaolo 11/26 - 5.25%	RMBSs from self-securitisation - Mortgages	17-Feb-11	17-Feb-26	A2				100	126	Securities issued	Amortised cost
	Intesa Sanpaolo 11/31 - 5.375%	RMBSs from self-securitisation - Mortgages	17-Feb-11	17-Feb-31	A2				300	402	Securities issued	Amortised cost
	Intesa Sanpaolo 11/27 - 5.25%	RMBSs from self-securitisation - Mortgages	16-Sep-11	16-Sep-27	A2				210	249	Securities issued	Amortised cost
	Intesa Sanpaolo 12/21 - 5%	Mortgage loans	16-Jul-12	27-Jan-21	A2				1,353	1,510	Securities issued	Amortised cost
	Intesa Sanpaolo 12/19 - 3.75%	Mortgage loans	25-Sep-12	25-Sep-19	A2				1,000	1,020	Securities issued	Amortised cost
	Intesa Sanpaolo 12/22 - 3.625%	Mortgage loans	3-Dec-12	5-Dec-22	A2				1,250	1,320	Securities issued	Amortised cost
	Intesa Sanpaolo 13/25 - 3.375%	Mortgage loans	24-Jan-13	24-Jan-25	A2				1,000	1,106	Securities issued	Amortised cost
	Intesa Sanpaolo 14/26 - 3.25%	Mortgage loans	10-Feb-14	10-Feb-26	A2				1,250	1,422	Securities issued	Amortised cost
	Intesa Sanpaolo 15/22 - 0.625%	Mortgage loans	23-Jan-15	20-Jan-22	Aa2				1,000	1,010	Securities issued	Amortised cost
	Intesa Sanpaolo 15/25 - 1.375%	Mortgage loans	18-Dec-15	18-Dec-25	Aa2				1,250	1,254	Securities issued	Amortised cost
	Intesa Sanpaolo 16/23 - 0.625%	Mortgage loans	23-Mar-16	23-Mar-23	Aa2				1,250	1,248	Securities issued	Amortised cost
	Intesa Sanpaolo 17/27 - 1.125%	Mortgage loans	16-Jun-17	16-Jun-27	Aa2				1,000	996	Securities issued	Amortised cost
	Intesa Sanpaolo 18/25 - 1.125%	Mortgage loans	13-Jul-18	14-Jul-25	Aa2				1,000	1,007	Securities issued	Amortised cost
ISP OBG						38,065 (4)	368 (5)	37,791	-	-		

(1) This caption includes the subordinated loan granted by Intesa Sanpaolo to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with professional investors for almost the entire amount issued.

(4) The assets of the Intesa Sanpaolo vehicle amount to 32,629 million euro; of the remaining: 3,461 million euro is comprised of Cassa di Risparmio di Firenze securitised assets and 1,959 million euro is comprised of Cassa di Risparmio di Firenze securitised assets.

(5) The write-downs to the Intesa Sanpaolo securitised portfolio amount to 352 million euro for Intesa Sanpaolo; of the remaining: 7 million euro relates to assets of Cassa di Risparmio di Bologna and 9 million euro relates to assets of Cassa di Risparmio di Firenze.

The additional information required by IFRS 12 is not provided by banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

At year-end, the expected loss amounted to 0.43% of disbursed loans, down slightly on 0.44% at the end of 2017. These have been restated pro-forma to take account of the mergers of Group banks into Intesa Sanpaolo in 2018. The substantial stability of the risk indicator derived from the offsetting of several elements: the increase resulting from the updating of the time series of the risk parameters was offset by risk mitigation measures and by the improvement of the credit quality of the portfolio.

For the companies included in the roll out plan, the LGD and EAD internal rating models are subject to a second level of control by the Validation function and a third level of control by the Internal Auditing Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.

SECTION 2 – MARKET RISKS

REGULATORY TRADING BOOK

2.1. INTEREST RATE RISK AND PRICE RISK

Qualitative information

Qualitative information on the measurement of financial risks of Intesa Sanpaolo's regulatory trading book is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

Operational quantitative information on Intesa Sanpaolo's market risks is contained in Part E of the Notes to the consolidated financial statements.

BANKING BOOK

2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

Qualitative information

Qualitative information on the measurement of financial risks in Intesa Sanpaolo's banking book is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

Banking book - internal models and other sensitivity analysis methodologies

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 666 million euro, -689 million euro and 1,334 million euro, respectively, at the end of 2018. This latter figure was up compared to the end of 2017, when it was 861 million euro.

The above potential impact would be reflected, in the case of invariance of the other income components, also in the Bank's year-end profit and loss net of tax.

Interest rate risk, generated by Intesa Sanpaolo's banking book, measured through value shift sensitivity (sensitivity of portfolio value to a parallel and uniform shift in the yield curve of +100 basis points), recorded an average of 1,524 million euro during 2018 and amounted to 1,663 million euro at year-end.

Interest rate risk, measured in terms of VaR (99% confidence level, 10-day holding period), amounted to an average of 106 million euro during 2018, with a minimum value of 61 million euro and a maximum value of 143 million euro; the 2018 year-end figure was 112 million euro.

Price risk generated by minority stakes in quoted companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2018 of 60 million euro (64 million euro at the end of 2017), with minimum and maximum values of 52 million euro and 70 million euro respectively; the 2018 year-end figure was 52 million euro.

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock for the abovementioned quoted assets recorded in the HTCS portfolio.

Price risk: impact on Shareholders' Equity

(millions of euro)

		I Quarter 2018 Impact on shareholders' equity at 31.03.2018	II Quarter 2018 Impact on shareholders' equity at 30.06.2018	III Quarter 2018 Impact on shareholders' equity at 30.09.2018	IV Quarter 2018 Impact on shareholders' equity at 31.12.2018	Impact on shareholders' equity at 3.12.2017
Price shock	10%	56	53	48	39	60
Price shock	-10%	-56	-53	-48	-39	-60

2.3. FOREIGN EXCHANGE RISK

Qualitative information

Qualitative information, including hedging activities of foreign exchange risk, is contained in Part E of the Notes to the consolidated financial statements.

Quantitative information

1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

	CURRENCIES				
	US dollar	GB pound	Swiss franc	Yen	Other currencies
A. FINANCIAL ASSETS	**24,000**	**1,363**	**591**	**1,741**	**3,620**
A.1 Debt securities	6,577	541	-	761	413
A.2 Equities	71	-	6	-	544
A.3 Loans to banks	6,852	396	513	153	782
A.4 Loans to customers	10,500	426	72	827	1,881
A.5 Other financial assets	-	-	-	-	-
B. OTHER ASSETS	**4,741**	**31**	**23**	**464**	**77**
C. FINANCIAL LIABILITIES	**30,818**	**978**	**97**	**564**	**1,204**
C.1 Due to banks	12,927	387	32	30	769
C.2 Due to customers	5,767	285	65	80	354
C.3 Debt securities	12,124	306	-	454	81
C.4 Other financial liabilities	-	-	-	-	-
D. OTHER LIABILITIES	**272**	**9**	**-**	**16**	**27**
E. FINANCIAL DERIVATIVES					
- Options					
long positions	*748*	*29*	*-*	*2*	*178*
short positions	*661*	*26*	*-*	*2*	*177*
- Other derivatives					
long positions	*57,170*	*7,793*	*3,127*	*4,999*	*8,407*
short positions	*55,189*	*7,880*	*3,658*	*6,697*	*10,437*
TOTAL ASSETS	**86,659**	**9,216**	**3,741**	**7,206**	**12,282**
TOTAL LIABILITIES	**86,940**	**8,893**	**3,755**	**7,279**	**11,845**
DIFFERENCE (+/-)	**-281**	**323**	**-14**	**-73**	**437**

2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included within the operating procedures and the estimation methodologies of the internal model based on VaR calculations, as described in Part E of the Notes to the consolidated financial statements.

Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 42 million euro as at 31 December 2018. This potential impact would only be reflected in the Shareholders' Equity.

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

The Bank is authorised to use EPE (Expected Positive Exposure) internal approaches to determine the capital requirement for counterparty risk.
These approaches are used for almost the entire trading book (as shown in the table below, as at 31 December 2018 approximately 99% of the total EAD of financial and credit derivatives is measured using EPE models).
Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2018 accounting for approximately 1% of overall EAD) and refer to residual contracts which are not simulated, in compliance with the insignificance of the EBA thresholds.

As a result of the enactment of the new rules of Basel 3, the scope of counterparty risk also includes Exchange Traded Derivatives (ETD) and contracts with central counterparties (CCP).

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

(millions of euro)

Transaction categories	31.12.2018		31.12.2017	
	Mark-to-market approach	EPE Internal Method	Mark-to-market approach	EPE Internal Method
Derivative contracts	46	7,910	75	6,423

Using the EPE internal model, it is possible to consider the collateral collected to mitigate credit exposure and any excess collateral paid in the simulation. The value of guarantees received and included in the calculation of the EAD amounted to 2 billion euro for Intesa Sanpaolo, while the collateral paid amounted to approximately 7 billion euro.

3.1 Trading derivatives

A. FINANCIAL DERIVATIVES

A.1. Financial trading derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	**-**	**461,683**	**43,558**	**-**	**-**	**474,561**	**41,198**	**-**
a) Options	-	7,759	2,676	-	-	9,405	2,955	-
b) Swaps	-	453,924	36,857	-	-	465,156	34,819	-
c) Forwards	-	-	20	-	-	-	-	-
d) Futures	-	-	4,005	-	-	-	3,424	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**794**	**550**	**2**	**-**	**474**	**837**	**27**
a) Options	-	785	536	2	-	457	820	27
b) Swaps	-	9	9	-	-	17	17	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	5	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**121,399**	**11,741**	**-**	**-**	**96,703**	**11,575**	**-**
a) Options	-	3,889	910	-	-	3,291	950	-
b) Swaps	-	31,023	2,404	-	-	23,674	1,541	-
c) Forwards	-	85,505	7,986	-	-	68,345	8,455	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	982	441	-	-	1,393	629	-
4. Commodities	**-**	**3,224**	**802**	**-**	**-**	**3,046**	**574**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**587,100**	**56,651**	**2**	**-**	**574,784**	**54,184**	**27**

The Bank has traded on organised futures markets through direct participants mainly belonging to the Group Investment Bank.

A.2. Financial trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	294	76	-	-	370	81	-
b) Interest rate swaps	-	7,744	2,376	-	-	7,999	2,366	-
c) Cross currency swaps	-	1,416	262	-	-	1,079	302	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	866	60	-	-	682	91	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	217	56	-	-	194	47	-
Total	**-**	**10,537**	**2,830**	**-**	**-**	**10,324**	**2,887**	**-**
2. Negative fair value								
a) Options	-	307	91	-	-	366	122	-
b) Interest rate swaps	-	9,846	628	-	-	10,332	613	-
c) Cross currency swaps	-	1,029	621	-	-	894	540	-
d) Equity swaps	-	2	-	-	-	-	-	-
e) Forwards	-	936	89	-	-	572	124	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	246	38	-	-	205	36	-
Total	**-**	**12,366**	**1,467**	**-**	**-**	**12,369**	**1,435**	**-**

A.3. Over the counter financial trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	12,091	2,357	29,110
- positive fair value	X	824	61	1,555
- negative fair value	X	-494	-1	-175
2) Equities and stock indices				
- notional amount	X	5	48	497
- positive fair value	X	-	-	2
- negative fair value	X	-	-	-38
3) Foreign exchange rates and gold				
- notional amount	X	1,226	669	9,846
- positive fair value	X	8	60	266
- negative fair value	X	-565	-2	-161
4) Commodities				
- notional amount	X	-	11	791
- positive fair value	X	-	1	53
- negative fair value	X	-	-	-31
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	-	444,834	8,097	8,752
- positive fair value	-	7,103	373	468
- negative fair value	-	-9,637	-213	-233
2) Equities and stock indices				
- notional amount	-	775	19	-
- positive fair value	-	38	5	-
- negative fair value	-	-8	-	-
3) Foreign exchange rates and gold				
- notional amount	-	89,405	22,348	9,646
- positive fair value	-	1,729	261	348
- negative fair value	-	-1,527	-174	-342
4) Commodities				
- notional amount	-	2,013	20	1,191
- positive fair value	-	115	1	96
- negative fair value	-	-150	-	-82
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4. Residual maturity of over the counter financial derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	90,440	186,432	228,369	505,241
A.2 Financial derivatives on equities and stock indices	81	1,063	200	1,344
A.3 Financial derivatives on foreign exchange rates and gold	96,428	23,591	13,121	133,140
A.4 Financial derivatives on commodities	2,248	1,778	-	4,026
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**189,197**	**212,864**	**241,690**	**643,751**
Total 31.12.2017	**186,707**	**215,224**	**227,037**	**628,968**

B. CREDIT DERIVATIVES

B.1. Credit trading derivatives: period-end notional amounts

(millions of euro)

Categories of transactions	Trading derivatives	
	single counterparty	more counterparties (basket)
1. Protection purchases		
a) Credit default products	939	7,939
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**939**	**7,939**
Total 31.12.2017	**674**	**4,925**
2. Protection sales		
a) Credit default products	188	8,375
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31.12.2018	**188**	**8,375**
Total 31.12.2017	**146**	**2,688**

As at 31 December 2018, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.2. Credit trading derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Total 31.12.2018	Total 31.12.2017
1. Positive fair value		
a) Credit default products	123	139
b) Credit spread products	-	
c) Total rate of return swap	-	
d) Other	-	
Total	**123**	**139**
2. Negative fair value		
a) Credit default products	128	222
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**128**	**222**

As at 31 December 2018, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.3. Over the counter credit trading derivatives: notional values, gross positive and negative fair value by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Protection purchases				
− notional amount	X	-	-	168
− positive fair value	X	-	-	55
− negative fair value	X	-	-	-
2) Protection sales				
− notional amount	X	-	-	-
− positive fair value	X	-	-	-
− negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Protection purchases				
− notional amount	-	8,047	663	-
− positive fair value	-	9	8	-
− negative fair value	-	-62	-1	-
2) Protection sales				
− notional amount	-	7,710	853	-
− positive fair value	-	51	-	-
− negative fair value	-	-62	-3	-

As at 31 December 2018, none of the contracts shown in the table above were included within the structured credit products reported in the chapter on market risks in the Notes to the consolidated financial statements.

B.4. Residual maturity of over the counter credit trading derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
1. Protection sales	-	8,395	168	8,563
2. Protection purchases	78	8,549	251	8,878
Total 31.12.2018	**78**	**16,944**	**419**	**17,441**
Total 31.12.2017	**-**	**8,075**	**358**	**8,433**

B.5. Credit derivatives associated with the fair value option: annual changes

Intesa Sanpaolo does not hold credit derivatives associated with the fair value option.

3.2. Accounting hedges

Qualitative information

On first-time adoption of IFRS 9, the Intesa Sanpaolo Group exercised its option under the standard to continue to fully apply the rules of IAS 39 for all types of hedges (micro and macro hedges). As a result, the provisions of IFRS 9 on hedging do not apply.

A. Fair value hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve (interest rate risk).

The Group uses both micro fair value hedges and macro fair value hedges.
The micro fair value hedges mainly hedge bonds issued, securities under assets and loans to customers.
The macro fair value hedges are used for:

- core deposits, based on the applicable standards in the carved-out version of IAS 39 in accordance with the option provided by IFRS 9 to make use of the possibility of fully applying the provisions of IAS 39 on hedges;
- the already fixed portion of floating-rate loans, in which the macro fair value hedge is used to hedge the interest rate risk inherent in the floating-rate coupons of the loans granted, when the coupon rate is set;
- a portion of the fixed-rate loans. For this type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

The main types of derivative contracts used are plain and structured interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

B. Cash flow hedging

The hedging carried out by the Intesa Sanpaolo Group is aimed at protecting the Group from the exposure to changes in future cash flows attributable to movements in the interest rate curve, associated with a particular asset/liability, such as variable future interest payments on a debt/loan or a highly probable expected future transaction.

The Group uses both micro cash flow hedges and macro cash flow hedges.
The micro cash flow hedges mainly hedge bonds issued.
The macro cash flow hedges are used for:

- floating-rate funding when it is used to finance fixed-rate loans;
- floating-rate loans to hedge the fixed-rate funding.

The derivatives used are interest rate swaps (IRS) with third parties or with other Group companies, which, in turn, hedge the risk in the market to meet the requirements for the outsourcing of the hedges to third-party counterparties required to qualify the hedges as IAS-compliant in the consolidated financial statements.
The derivatives are not listed on regulated markets but are traded in OTC circuits. The OTC contracts also include contracts brokered through clearing houses.

C. Hedging of foreign investments

In 2018, foreign exchange hedges were implemented against the exchange risk on the cost of funding in foreign currency and on foreign currency gains generated by the Parent Company's international branches.

D. Hedging instruments

The main causes of ineffectiveness of the model adopted by the Group for verifying the effectiveness of the hedges are attributable to the following:

- misalignment between the notional value of the derivative and the hedged underlying recognised at the time of initial designation or generated subsequently, such as in the case of partial repayments of loans or the repurchase of bonds;
- application of different curves on the hedging derivative and hedged item for the purpose of carrying out the effectiveness test on fair value hedges. The derivatives, which are normally collateralised, are discounted on the Eonia curve, while the hedged items are discounted on the indexing curve of the hedging instrument;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

The ineffectiveness of the hedge is promptly recognised for the purposes of:

- the determination of the effect on the income statement;
- the assessment of the possibility of continuing to apply the hedge accounting rules.

The Group does not use dynamic hedges, as defined in IFRS 7, paragraph 23C.

E. Hedged items

The main types of hedged items are:

- debt securities under assets;
- debt securities issued and non-securities funding;
- fixed-rate loans;
- floating-rate loans;
- optional embedded component of floating-rate mortgages;
- already fixed coupon of floating rate-loans;
- modelled on demand deposits.

E.1 Debt securities under assets

These are hedged by micro fair value hedges, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
The Dollar Offset Method is used to verify the hedge effectiveness. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value of the hedging instrument, attributable to the hedged risk, and past changes in the fair value of the hedged item (fair value change), net of accrued interest.

E.2 Debt securities issued and non-securities funding

The Group currently has micro fair value hedges in place on fixed- or structured-rate funding and micro cash flow hedges or macro cash flow hedges on floating-rate funding, using IRS, OIS and CCS as hedging instruments.
The interest rate risk is hedged for the entire duration of the obligation.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method. This method is based on the ratio between the cumulative changes (from the inception of the hedge) in the fair value or the cash flows of the hedging instrument, attributable to the hedged risk, and past changes in the fair value or the cash flows of the hedged item (fair value change), net of accrued interest.
For the macro hedges, the hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to existing and expected floating-rate funding (so-called highly probable future transactions), and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows from funding that will arise over the life of the issues.

E.3 Fixed-rate loans

The Group has designated micro fair value hedges for fixed-rate loans and macro fair value hedges for mortgage loans in the retail segment of the Parent Company and the Network Banks, mainly using IRS as hedging instruments.
The interest rate risk is hedged throughout the life of the underlying.
For the micro hedges, the hedge effectiveness is verified using the Dollar Offset Method.
For the macro hedges, the loan portfolio hedged is open, i.e. it is dynamically composed of fixed-rate instruments managed at aggregate level through hedging derivatives entered into over time.

The effectiveness of the macro hedges on fixed-rate loans is periodically verified through specific prospective and retrospective tests aimed at demonstrating that the hedged portfolio contains an amount of assets whose sensitivity profile and changes in fair value due to interest rate risk reflect those of the derivatives used for the hedge.

E.4 Floating-rate loans

The Group currently has macro cash flow hedges in place on floating-rate loans, mainly using IRS as hedging instruments.
The hedge effectiveness is verified by means of a capacity test. This test involves a comparison of the consistency between the hedged items, referring to the floating-rate loans outstanding, and the hedging instruments, which must always be confirmed throughout the life of the hedging relationship and for each time band. In this case, the hedged item is represented by the expected cash flows originating from the loans that will arise over the life of the assets.

E.5 Optional embedded component of floating-rate mortgages

The optional embedded components (interest rate options) of floating-rate mortgages are hedged by micro fair value hedges, using options (cap, floor, collar) as hedging instruments.
The underlying assets may be partially or totally hedged, over time and in terms of amount.

The Dollar Offset Method is used to verify the hedge effectiveness.

E.6 Already fixed coupon of floating-rate loans

This is hedged by macro fair value hedges, using OIS as hedging instruments.
The purpose of this type of hedge is to neutralise the interest rate risk generated by the coupons already set for floating-rate loans.
The Dollar Offset Method is used to verify the hedge effectiveness, while the actual consistency of the hedged items is verified by a capacity test.

E.7 Modelled on demand deposits.

Modelled on demand deposits are hedged by macro fair value hedges, as required by the “carve out” of IAS 39, using IRS and OIS as hedging instruments.
The purpose of this type of hedge is to protect the net interest income from possible falls in interest rates that reduce the spread generated by the bank’s core deposits.
The model is subject to continuous monitoring and verification by the Financial and Market Risks Head Office Department, in order to promptly incorporate changes in the main characteristics (volumes, stability, reactivity) and make the necessary adjustments where necessary.
The Dollar Offset Method is used to verify the hedge effectiveness.

Quantitative information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: period-end notional amounts

(millions of euro)

Underlying asset/Type of derivative	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	**-**	**152,658**	**11**	**-**	**-**	**203,401**	**1,211**	**-**
a) Options	-	2,888	-	-	-	2,455	-	-
b) Swaps	-	149,770	11	-	-	200,946	1,211	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	**-**	**2,349**	**13**	**-**	**-**	**2,203**	**12**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	2,349	13	-	-	2,203	12	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**-**	**155,007**	**24**	**-**	**-**	**205,604**	**1,223**	**-**

The average notional amount in the year of the financial hedging derivatives was 181,331 million euro.

A.2 Financial hedging derivatives: gross positive and negative fair value – breakdown by product

(millions of euro)

Type of derivative	Positive and negative fair value								Change in value used to calculate hedge effectiveness	
	Total 31.12.2018				Total 31.12.2017					
	Over the counter			Organised markets	Over the counter			Organised markets	Total 31.12.2018	Total 31.12.2017
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements			
Positive fair value										
a) Options	-	47	-	-	-	53	-	-	-169	129
b) Interest rate swap	-	2,546	-	-	-	3,504	-	-	2,044	2,930
c) Cross currency swap	-	285	-	-	-	266	-	-	59	87
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**2,878**	**-**	**-**	**-**	**3,823**	**-**	**-**	**1,934**	**3,146**
Negative fair value										
a) Options	-	4	-	-	-	-	-	-	4	-
b) Interest rate swap	-	5,066	1	-	-	5,206	-	-	4,317	4,119
c) Cross currency swap	-	287	-	-	-	349	-	-	267	301
d) Equity swap	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**5,357**	**1**	**-**	**-**	**5,555**	**-**	**-**	**4,588**	**4,420**

A.3 Over the counter financial hedging derivatives: notional values, gross positive and negative fair values by counterparty

(millions of euro)

Underlying asset	Central counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates				
- notional amount	X	11	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-1	-	-
2) Equities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold				
- notional amount	X	13	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included under netting agreements				
1) Debt securities and interest rates				
- notional amount	-	151,154	1,504	-
- positive fair value	-	2,539	53	-
- negative fair value	-	-4,560	-510	-
2) Equities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold				
- notional amount	-	2,178	170	-
- positive fair value	-	284	1	-
- negative fair value	-	-156	-132	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of over the counter hedging derivatives: notional amounts

(millions of euro)

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 year	Total
A.1 Financial derivatives on debt securities and interest rates	31,762	69,147	51,760	152,669
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	472	1,432	458	2,362
A.3 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**32,234**	**70,579**	**52,218**	**155,031**
Total 31.12.2017	**60,290**	**101,168**	**49,425**	**210,883**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: period-end notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by product

B.3 Over the counter credit hedging derivatives: notional values, gross positive and negative fair values by counterparty

B.4 Residual maturity of over the counter credit hedging derivatives: notional amounts

Intesa Sanpaolo does not hold credit derivatives classified as hedges in its portfolio

C. Non-derivative hedging instruments

C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges). For this reason, the Bank does not hold financial instruments to be shown in table “C.1 Non-derivative hedging instruments: breakdown by accounting portfolio and type of hedge”.

D. Hedged items

Intesa Sanpaolo has exercised the option, provided for on the introduction of IFRS 9, of continuing to fully apply the provisions of IAS 39 on hedge accounting (in the carved-out version endorsed by the European Commission) for each type of hedge (both for micro hedges and macro hedges).

D.1 Fair value hedges

(millions of euro)

	Micro-hedges: book value	Micro-hedges – net positions: book value of assets and liabilities (prior to netting)	Micro-hedges			Macro-hedges: book value
			Cumulative fair value changes (hedged instrument)	Termination of hedging: residual cumulative fair value changes	Changes in value used to assess hedge ineffectiveness	
A. Assets						
1. Financial assets designated at fair value through other comprehensive income – hedging of:	**23,638**	**-**	**159**	**76**	**150**	**-**
1.1 Debt securities and interest rates	23,638	-	159	76	150	x
1.2 Equities and stock indices	-	-	-	-	-	x
1.3 Foreign exchange rates and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	-	-	-	-	-	x
2. FFinancial assets measured at amortised cost - hedging of:	**11,583**	**-**	**2,475**	**28**	**2,572**	**42,166**
1.1 Debt securities and interest rates	11,120	-	2,211	28	2,308	x
1.2 Equities and stock indices	-	-	-	-	-	x
1.3 Foreign exchange rates and gold	-	-	-	-	-	x
1.4 Loans	-	-	-	-	-	x
1.5 Other	463	-	264	-	264	x
Total 31.12.2018	**35,221**	**-**	**2,634**	**104**	**2,722**	**42,166**
Total 31.12.2017	**35,194**	**-**	**3,172**	**18**	**2,812**	**35,318**
B. Liabilities						
1. Financial liabilities measured at amortised cost - hedging of:	**82,221**	**-**	**1,285**	**102**	**1,669**	**6,031**
1.1 Debt securities and interest rates	79,161	-	1,232	102	1,608	x
1.2 Foreign exchange rates and gold	-	-	-	-	-	x
1.3 Other	3,060	-	53	-	61	x
Total 31.12.2018	**82,221**	**-**	**1,285**	**102**	**1,669**	**6,031**
Total 31.12.2017	**88,165**	**-**	**1,953**	**108**	**2,410**	**-**

D.2 Cash flow hedges and hedges of foreign investments

(millions of euro)

			Change in value used to assess hedge ineffectiveness	Hedging reserves	Termination of hedging: residual cumulative value of the hedging reserves
A. Cash flow hedge					
1. Assets			**-**	**-**	**-**
1.1 Debt securities and interest rates			-	-	-
1.2 Equities and stock indices			-	-	-
1.3 Foreign exchange rates and gold			-	-	-
1.4 Loans			-	-	-
1.5 Other			-	-	-
2. Liabilities			**-1,036**	**-1,150**	**-**
1.1 Debt securities and interest rates			-1,036	-1,150	-
1.2 Foreign exchange rates and gold			-	-	-
1.3 Other			-	-	-
Total (A)	**31.12.2018**		**-1,036**	**-1,150**	**-**
Total (A)	**31.12.2017**		**-1,188**	**-1,288**	**-**
B. Hedges of foreign investments			X	-	-
Total (A+B)	**31.12.2018**		**-1,036**	**-1,150**	**-**
Total (A+B)	**31.12.2017**		**-1,188**	**-1,288**	**-**

E. Effects of hedging on shareholders' equity

E.1 Reconciliation of components of shareholders' equity

(millions of euro)

	Cash flow hedging reserve					Reserve for hedging of foreign investments				
	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other	Debt securities and interest rates	Equities and stock indices	Foreign exchange rates and gold	Loans	Other
Initial amount	**-1,289**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	139	-	-	-	-	-	-	-	-	-
Reclassification to the income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	-	-	-	-	-	-	-	-	-	-
of which: transfer to the initial book value of the hedged instruments)	-	-	-	-	-	X	X	X	X	X
Final amount	**-1,150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

3.3. Other information on derivative instruments (trading and hedging)

A. Credit and financial derivatives

A.1 Over the counter credit and financial derivatives: net fair values by counterparty

(millions of euro)

	Central counterparties	Banks	Other financial companies	Other counterparties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	608,090	11,958	37,862
- positive net fair value	-	1,005	87	1,615
- negative net fair value	-	-536	-2	-193
2) Equities and stock indices				
- notional amount	-	780	67	497
- positive net fair value	-	-	-	2
- negative net fair value	-	-	-	-38
3) Foreign exchange rates and gold				
- notional amount	-	92,822	23,187	19,492
- positive net fair value	-	44	71	493
- negative net fair value	-	-585	-13	-175
4) Commodities				
- notional amount	-	2,013	31	1,982
- positive net fair value	-	-	1	53
- negative net fair value	-	-	-	-31
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	881	233	173
- negative net fair value	-	-5,334	-585	-170
B. Credit derivatives				
1) Protection purchases				
- notional amount	-	8,047	663	168
- positive net fair value	-	-	-	54
- negative net fair value	-	-	-	-
2) Protection sales				
- notional amount	-	7,710	853	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in the financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of core deposits and the representation of on-balance sheet items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

Captions/ Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**32,784**	**15,172**	**13,399**	**19,989**	**40,169**	**25,008**	**33,198**	**120,500**	**90,845**	**32,211**
A.1 Government bonds	2	-	-	22	113	1,529	1,948	16,987	4,866	-
A.2 Other debt securities	22	510	2,021	2,638	47	502	269	2,189	5,540	15
A.3 Quotas of UCI	952	-	-	-	-	-	-	-	-	-
A.4 Loans	31,808	14,662	11,378	17,329	40,009	22,977	30,981	101,324	80,439	32,196
- Banks	7,513	4,766	3,169	11,739	29,624	12,661	11,420	26,845	6,022	32,109
- Customers	24,295	9,896	8,209	5,590	10,385	10,316	19,561	74,479	74,417	87
B. Cash liabilities	**210,485**	**13,365**	**3,865**	**7,324**	**8,754**	**10,862**	**15,806**	**117,615**	**26,698**	**742**
B.1 Deposits and current accounts	205,341	1,070	1,409	4,853	6,347	7,799	9,781	23,845	5,604	-
- Banks	18,374	471	1,024	4,108	5,425	7,086	9,224	23,060	5,604	-
- Customers	186,967	599	385	745	922	713	557	785	-	-
B.2 Debt securities	36	27	212	1,826	2,350	2,588	5,569	32,790	18,974	742
B.3 Other liabilities	5,108	12,268	2,244	645	57	475	456	60,980	2,120	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	6,556	3,640	6,383	13,377	5,813	5,991	11,904	5,583	-
- Short positions	61	7,143	2,967	6,240	12,173	5,205	4,984	11,731	6,545	-
C.2 Financial derivatives without exchange of capital										
- Long positions	9,557	29	4	94	202	298	705	-	-	-
- Short positions	9,951	27	24	85	200	399	627	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	16,866	-	-	-	-	-	-	-	-	-
- Short positions	-	16,795	-	-	-	-	-	72	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	157	19,541	4	30	66	471	5,228	15,997	1,589	-
- Short positions	43,132	8	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	33	-	-	3	1	3	28	26	2	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	121	-	-	-	-	-	-	-	-	-
- Short positions	126	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

Captions/ Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. Cash assets	**3,538**	**2,594**	**1,252**	**2,157**	**2,677**	**2,515**	**2,910**	**9,685**	**3,462**	**3**
A.1 Government bonds	1	-	-	4	5	187	445	2,939	543	-
A.2 Other debt securities	11	82	4	183	135	22	479	1,765	1,360	-
A.3 Quotas of UCI	32	-	-	-	-	-	-	-	-	-
A.4 Loans	3,494	2,512	1,248	1,970	2,537	2,306	1,986	4,981	1,559	3
- Banks	1,692	1,219	663	1,387	1,196	1,142	762	683	39	-
- Customers	1,802	1,293	585	583	1,341	1,164	1,224	4,298	1,520	3
B. Cash liabilities	**4,560**	**2,964**	**4,465**	**3,107**	**3,032**	**1,271**	**730**	**6,835**	**7,248**	**-**
B.1 Deposits and current accounts	4,418	1,352	498	1,276	897	399	269	2,830	742	-
- Banks	1,682	533	362	266	486	179	171	2,538	611	-
- Customers	2,736	819	136	1,010	411	220	98	292	131	-
B.2 Debt securities	21	118	1,625	81	273	871	460	3,405	6,506	-
B.3 Other liabilities	121	1,494	2,342	1,750	1,862	1	1	600	-	-
C. Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	317	14,476	4,555	8,408	16,226	8,993	8,656	13,217	7,580	-
- Short positions	5	13,904	5,239	8,557	17,823	9,618	9,746	13,228	6,549	-
C.2 Financial derivatives without exchange of capital										
- Long positions	975	-	161	-	14	48	191	-	-	-
- Short positions	973	-	77	-	52	85	187	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	16	-	-	-	-	-	-	-	-	-
- Short positions	-	12	3	1	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	5	9	20	224	247	907	8,207	402	-
- Short positions	9,991	30	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	2	-	-	-	-	4	1	19	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	2	-	-	-	-	-	-	-	-	-
- Short positions	3	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The securitisations originated by Intesa Sanpaolo, in which it subscribed all the securities issued by the related vehicle (self-securitisations), need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the Parent Company's financial statements.

Intesa Sanpaolo SEC SA

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC S.A., which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Brera Sec Srl

In October 2017, a new self-securitisation was structured, implemented through the sale of five loan portfolios to the vehicle company Brera Sec Srl and originated by the Parent Company and four of the Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio di Bologna, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The Transaction involved the issuance by the vehicle company of two tranches of securities:

– a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) as required by the European Central Bank criteria for eligibility;

- and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition.

Each selling bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo will take care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A..
The total sale consideration was 7.1 billion euro. The sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro.
The securities, which are listed with an Aa2 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:

- Intesa Sanpaolo subscribed 54.30% of the senior (3,271.80 million euro) and junior securities (579.59 million euro);
- Banco di Napoli subscribed 11.25% of the senior (677.66 million euro) and junior securities (120.04 million euro)
- CR Bologna subscribed 9.02% of the senior (543.50 million euro) and junior securities (96.29 million euro)
- CR Forlì e della Romagna subscribed 12.09% of the senior (728.30 million euro) and junior securities (120.04 million euro)
- CR Friuli Venezia Giulia subscribed 13.34% of the senior (803.90 million euro) and junior securities (142.40 million euro).

Following the mergers by incorporation into Intesa Sanpaolo on 23 July 2018 (CR Veneto and CR Friuli Venezia Giulia) and 26 November 2018 (Banco di Napoli and CR Forlì e della Romagna), the loans sold were transferred to the Intesa Sanpaolo portfolio.
As at 31 December 2018, the value of the outstanding subscribed securities amounted to 4,929.21 million euro Senior and 971.02 million euro Junior for Intesa Sanpaolo and 488.74 million euro Senior and 96.29 million euro Junior for CR Bologna.

Brera Sec Srl (SME)

In October 2018, a new self-securitisation was structured, implemented through the sale of three loan portfolios to the vehicle company Brera Sec. Srl and originated by the Parent Company and three of the Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio di Bologna and Cassa di Risparmio di Firenze). The underlying is made up of mortgage loans and other loans to small and medium enterprises and corporates (the latter only if the group turnover is less than 100 million euro).
This transaction is the Group's second Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual selling bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each selling bank without derecognition. Each selling bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
On 26 November 2018, following the merger by incorporation of Banco di Napoli into Intesa Sanpaolo, the loans sold were transferred to the Intesa Sanpaolo portfolio.
The total sale consideration was 5,289.49 million euro. The sale price of each portfolio sold was settled through the issuance of securities on 14 December 2018 for a total of 5,279.72 million euro.
The securities, which are listed with an A1 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:

- Intesa Sanpaolo subscribed 76.47% of the senior (2,867.70 million euro) and junior securities (1169.70 million euro);
- Cassa di Risparmio di Firenze subscribed 12.68% of the senior (475.50 million euro) and junior securities (193.97 million euro)
- Cassa di Risparmio di Bologna subscribed 10.85% of the senior (406.87 million euro) and junior securities (165.97 million euro).

Berica ABS 5 Srl

This is a multi-originator self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:

- senior tranche of 507 million euro (of which 413 million euro subscribed by Intesa Sanpaolo) with an external rating assigned by Fitch ("AA-") and Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2018, securities totalling 384 million euro were still to be repaid;
- mezzanine tranche of 39 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro (fully subscribed by Intesa Sanpaolo and fully redeemable), without rating and indexed to the 3-month Euribor.

Claris RMBS 2016 Srl

In November 2016, Veneto Banca arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:

- class A tranche of 929 million euro, which had a residual amount of 516 million euro as at 31 December 2018 and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class A tranche of 116 million euro, which had a residual amount of 92 million euro as at 31 December 2018 and an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, not redeemed and without rating;
- class J2 tranche of 30 million euro, fully redeemed as at 31 December 2018 and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed proportionally by the parent company Veneto Banca and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 697 million euro.

Claris SME 2015 Srl

In October 2015, Veneto Banca arranged a securitisation of mortgage and other loans, together with Banca Apulia, for a total of 1,953 million euro (1,563 million euro and 390 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.

With respect to the portfolio sold, in October 2015, "Claris SME 2015 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,962.6 million euro, broken down as follows:

- Class A tranche of 1,270 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA+") and by DBRS ("A High");
- Class A tranche of 290 million euro, which had a residual amount of 248 million euro as at 31 December 2018 (subscribed by Intesa Sanpaolo for 190 million euro and Banca Apulia for 58 million euro, respectively) and an external rating assigned by Fitch ("BB+") and DBRS ("BB");
- Class J1 tranche of 321 million euro, which had a residual amount of 321 million euro as at 31 December 2018 (subscribed by Intesa Sanpaolo) and without rating;
- Class J2 tranche of 81 million euro, not redeemed as at 31 December 2018 (subscribed by Banca Apulia) and without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Luxembourg Stock Exchange, were subscribed proportionally by the parent company Veneto Banca and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing operations with the European Central Bank.

The J1 and J2 securities, also denominated in euro and without rating, where subscribed respectively by Veneto Banca and Banca Apulia. Their yield is based on a quarterly floating-rate coupon, subject to the full redemption of higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 625 million euro.

Claris Finance 2008

In 2008, Veneto Banca S.p.A. carried out a securitisation of mortgage loans for a total of 592 million euro. The transaction involved residential and commercial loans totalling 439 million euro and 153 million euro, respectively. The sale, which took place at a price equal to the value of the outstanding principal debt, was completed on 10 June 2008 with financial and legal effects from 1 May 2008.

With respect to the portfolio sold, "Claris Finance 2008 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 592 million euro, broken down as follows:

- Class A Tranche of 492 million euro, fully redeemed as at 31 December 2018 and with an external rating assigned by Fitch ("AA-") and by S&P ("AAA");
- Class B Tranche of 44.5 million euro, which had a residual amount of 39 million euro as at 31 December 2018 and an external rating assigned by Fitch ("BBB") and by S&P ("BBB");
- Class C1 Tranche of 41 million euro, which had a residual amount of 41 million euro as at 31 December 2018 and without rating;
- Class C2 Tranche of 14 million euro, which had a residual amount of 14 million euro as at 31 December 2018 and without rating.

The Class A and B securities are denominated in euro and provide for the payment of a half-yearly floating-rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio starting from December 2009. These bonds, listed on the Dublin Stock Exchange (Ireland), were initially subscribed by Veneto Banca and used for repurchase agreements with the European Central Bank. They were subsequently sold to institutional investors in the fourth quarter of 2013.

The Class C1 and C2 securities, respectively subscribed by Veneto Banca, are denominated in Euro and have not been rated. Their yield is calculated on a residual basis and is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher-class securities.

As at 31 December 2018, the book value of the remaining loans was 118 million euro.

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2018
INTESA SANPAOLO SEC SA				
of which issued in euro				**291**
Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	276
Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD				**32**
Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	30
Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	2
BRERA SEC SRL				
issued in EURO				**5,901**
Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa2	4,930
Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	971
BRERA SEC SRL (SME)				
issued in EURO				**4,037**
Class A RMBS F/R Notes	Senior	Receivables from SME and large corporate customers	Moody's Aa2	2,868
Class B RMBS Fixed Rate and Additional Return Notes	Junior	Receivables from SME and large corporate customers	no rating	1,169
BERICA ABS 5				
issued in EURO				**495**
	Senior	Mortgage loans	Moody's Aa2; Fitch AA-	384
	Mezzanine	Mortgage loans	Moody's A1; Fitch A	39
	Mezzanine	Mortgage loans	Moody's A3; Fitch BBB	20
	Junior	Mortgage loans	no rating	52
CLARIS FINANCE 2008				
issued in EURO				**94**
	Mezzanine	Mortgage loans	no rating	39
	Mezzanine	Mortgage loans	Fitch AA	14
	Junior	Mortgage loans	no rating	41
CLARIS RMBS 2016				
issued in EURO				**723**
	Senior	Mortgage loans	Fitch AA; DBRS AAA	517
	Mezzanine	Mortgage loans	Fitch A-; DBRS Ah	92
	Junior	Mortgage loans	no rating	114
CLARIS SME 2015				
issued in EURO				**520**
	Mezzanine	Mortgage loans	Fitch A+	199
	Junior	Mortgage loans	no rating	321
TOTAL				**12,093**

During 2018, the self-securitisations of Intesa Sanpaolo Securitisation Vehicle S.r.l., Berica Funding 2016 S.r.l, Claris Finance 2006 S.r.l. and Berica PMI 2 S.r.l. were terminated.

SECTION 5 – OPERATIONAL RISK

QUALITATIVE INFORMATION

The qualitative information, including legal risk and the tax litigation, is contained in Part E of the Notes to the consolidated financial statements.

QUANTITATIVE INFORMATION

From 31 December 2010, Intesa Sanpaolo has been using the full AMA Method to determine its capital requirements, and the resulting capital absorption amounted to 747 million euro.

Part F – Information on capital

SECTION 1 – PARENT COMPANY'S SHAREHOLDERS' EQUITY

A. Qualitative information

Qualitative information on capital and capital management policies is contained in Part F of the Notes to the consolidated financial statements.

Own funds, risk-weighted assets (RWA) and the capital ratios at 31 December 2018 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circular 285.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully phased-in, will only have a partial percentage effect on Common Equity Tier 1 capital (CET1). With effect from 2018, these transitional provisions no longer apply, with the exception of the filter on valuation reserves for actuarial gains or losses (IAS 19), for which a specific transitional treatment is still in place, while will expire, in any event, in 2018.
Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. Intesa Sanpaolo has exercised the option provided in EU Regulation 2395/2017 to use the "static" approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any existing shortfall – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022.

Accordingly, the prudential ratios as at 31 December 2018 take account of the adjustments envisaged by the transitional provisions for 2018.

B. Quantitative information

B.1. Parent Company's shareholders' equity: breakdown

(millions of euro)

Captions/Amounts	31.12.2018	31.12.2017
1. Share capital	9,085	8,732
2. Share premium reserve	24,926	26,164
3. Reserves	4,370	3,843
retained earnings:	3,789	3,265
a) legal reserve	1,545	1,545
b) statutory reserve	-	-
c) treasury shares	40	26
d) other	2,204	1,694
other	581	578
4. Equity instruments	4,103	4,103
5. (Treasury shares)	-40	-26
6. Valuation reserves	1,081	774
- Equity instruments measured at fair value through other comprehensive income	162	39
- Hedges of equity instruments measured at fair value through other comprehensive income	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	-181	-26
- Property and equipment	1,154	1,088
- Intangible assets	-	-
- Hedges of foreign investments	-	-
- Cash flow hedges	-772	-862
- Hedging instruments (not designated elements)	-	-
- Foreign exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit plans	-278	-460
- Share of valuation reserves connected with investments carried at equity	-	-
- Legally-required revaluations	996	995
7. Net income (loss)	3,686	4,882
Total	**47,211**	**48,472**

During the year, the compulsory conversion of the outstanding savings shares into newly issued ordinary shares of the Bank, with the same characteristics as the ordinary shares outstanding at the conversion date, was completed. This conversion took place at a conversion ratio of 1.04 ordinary shares for each savings share converted (without payment of a cash adjustment) with concurrent removal of the indication of the par value of all of the shares of Intesa Sanpaolo S.p.A. outstanding as at the effective date, in order for the share capital to remain unchanged and be divided solely into ordinary shares.
As a result of this conversion, the share capital was increased through the issue of 969,790,120 new ordinary shares, against the cancellation of 932,490,561 outstanding savings shares.

B.2. Valuation reserve of financial assets measured at fair value through other comprehensive income: breakdown

(millions of euro)

Assets/values	Total 31.12.2018		Total 31.12.2017	
	Positive reserve	Negative reserve	Riserva positiva	Riserva negativa
1. Debt securities	26	-207	123	-149
2. Equity securities	180	-18	134	-95
3. Loans	-	-	-	-
Total	**206**	**-225**	**257**	**-244**

B.3. Valuation reserve of financial assets measured at fair value through other comprehensive income: annual changes

(millions of euro)

	Debt securities	Equity securities	Loans
1. Opening balance	**33**	**66**	**-**
2. Positive changes	**150**	**114**	**-**
2.1. Fair value increases	141	103	-
2.2. Value adjustments for credit risk	5	-	-
2.3. Transfer to the income statement of negative reserves to be realized	4	-	-
2.4. Transfers to other equity (capital securities)	-	2	-
2.5. Other changes	-	9	-
3. Negative changes	**-364**	**-18**	**-**
3.1. Fair value reductions	-210	-15	-
3.2. Write-backs for credit risk	-5	-	-
3.3. Reclassification throught profit or loss of positive reserves: following disposal	-148	-	-
3.4. Transfers to other equity (capital securities)	-	-	-
3.5. Other changes	-1	-3	-
4. Closing balance	**-181**	**162**	**-**

B.4. Valuation reserves relating to the defined benefit plans: annual changes

During the year, the reserves in question recorded a positive change of 256 million euro (241 million euro of which referring to pension funds and 15 million euro to employee termination indemnities). As at 31 December 2018 there is an overall negative reserve equal to 278 million euro for defined benefit plans.

Please note that the changes during the year include the realignment of 242 euro of the Valuation reserve for the portion corresponding to the obligation extinguished following the acceptance of the voluntary lump-sum conversion offer made to participants in the supplementary pension fund “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino”.

SECTION 2 – OWN FUNDS AND CAPITAL RATIOS

Reference is made to the disclosure on own funds and capital adequacy contained in the public disclosure (“Pillar 3”) of the Intesa Sanpaolo Group.

Part G – Business combinations

SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

Several extraordinary intragroup transactions were carried out during the year, which had no effects on the consolidated financial statements. Such transactions, which are scoped out of IFRS 3, involved the transfer of business lines or legal entities between companies within the Intesa Sanpaolo Group or business combinations between entities under common control.
Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved.

The main intragroup transactions completed during the year concerned:
- the merger by incorporation of IMI Investimenti into Intesa Sanpaolo;
- the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo;
- the merger by incorporation of Banco di Napoli into Intesa Sanpaolo;
- the transfer of a business unit (including the equity investment in Neva Finventures) from Intesa Sanpaolo to Servizi Bancari Scpa;
- the merger by incorporation of Banca Nuova into Intesa Sanpaolo;
- the transfer of minority interests in ISP Innovation Center from Intesa Sanpaolo to Banca IMI and Intesa Sanpaolo Vita;
- the transfer of the investment in Veneto Banka d.d. (Croatia) from Intesa Sanpaolo to PBZ;
- the merger by incorporation of Cassa di Risparmio del Veneto into Intesa Sanpaolo;
- the merger by incorporation of Cassa di Risparmio del Friuli Venezia Giulia into Intesa Sanpaolo;

With reference to the transactions governed by IFRS 3, the acquisition of the Nexi Payments business unit regarding acquiring of payment card transactions connected to international networks (VISA and Mastercard), carried out by the Nexi Group in favour of customers of the former Venetian banks, now customers of Intesa Sanpaolo, became effective on 1 August 2018. No goodwill was recognised in connection with this transaction. For further details, reference is made to Part G of the Notes to the consolidated financial statements.

Annual changes in goodwill

(millions of euro)

	31.12.2018
Initial goodwill	**859**
Increases	**301**
- Goodwill recorded in the year	-
- Intragroup transactions	301
- Other changes	-
Decreases	**-**
- Impairment recorded in the year	-
- Disinvestments	-
- Intragroup transactions	-
- Other changes	-
Final goodwill	**1,160**

The amount indicated in "Intragroup transactions" refers to the incorporation of Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio del Friuli Venezia Giulia and Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo.

SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2018.

For the purpose of completeness, it is noted that the mergers by incorporation of ISGS SCpA, Cassa di Risparmio di Bologna, Cassa di Risparmio di Firenze and Cassa di Risparmio di Pistoia e Lucchesia were completed after the close of the year. As these are transactions "under common control", they are excluded from the scope of application of IFRS 3.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

Part H – Information on compensation and transactions with related parties

A) TRANSACTIONS WITH RELATED PARTIES

1. Procedural features

The Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, the Group Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking.
These Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:
- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.
The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of the total of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as the companies jointly controlled by them; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with, because they meet the conditions of at least two of the following indicators:
- the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies;
- an entity of the Intesa Sanpaolo Group holds a stake in the counterparty exceeding 10% of the voting rights;
- significant credit exposure of the Group to the counterparty.

This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.
The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full or partial exemptions from the application of the regulations is also envisaged.
With regard to the decision-making for transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for persons other than natural persons (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for persons other than natural persons) but lower than or equal to the most significant thresholds indicated below;
- most significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for the Intesa Sanpaolo Group);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies and Art. 148 of the Consolidated Law on Finance. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.
For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.
All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.
The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup less significant transactions carried out at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.
In particular, Article 2391 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2018 – other than those intragroup – amount to a total that is insignificant compared to the size of the Bank's capital base. Likewise, the weight of income and charges with related parties - other than intragroup parties - on the Parent Company's operating margin is insignificant.

	31.12.2018	
	Amount (millions of euro)	Impact (%)
Total financial assets (1)	160,493	32.6
Total other assets (2)	2,685	40.6
Total financial liabilities (3)	88,993	19.2
Total other liabilities (4)	4,534	27.7

(1) Including captions 20, 30, 40 and 70 of the Balance sheet

(2) Including captions 50, 60, 110 and 120 of the Balance sheet

(3) Including captions 10, 20, and 30 of the Balance sheet

(4) Including captions 40, 50, 70, 80, 90 and 100 of the Balance sheet

	31.12.2018	
	Amount (millions of euro)	Impact (%)
Total interest income	102	1.4
Total interest expense	99	3.6
Total fee and commission income	1,923	39.0
Total fee and commission expense	120	13.1
Total operating costs (1)	1,540	21.9

(1) Including caption 160 of the Income statement

During the year, there were net provisions for non-performing loans for 20 million euro on existing loans towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24 (referring to the subsequent paragraph for information relating to compensation to the members of the management and control bodies), with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries also controlled jointly with others, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (currently 3%), as well as with the additional subjects included in the scope set as a form of self-regulation.
With regard to Equity Investments, please see the tables in the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets – Section 7.
The table below does not show the impact of related-party transactions on Group's cash flows, as this was not significant.
For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments issued totalling 93 billion euro, of which 92 billion euro to subsidiaries.

(millions of euro)

	Subsidiaries not consolidated on a line-by-line basis				Companies subject to joint control and their subsidiaries	Associates and their subsidiaries	Board Members and General Managers, Key Managers and their related parties	Pension funds	TOTAL	Shareholders (*)	Companies which the Group has notable investments in and financial links with (**)
	100%-owned subsidiaries belonging to the banking group	*subsidiaries not 100%-owned and belonging to the banking group*	*subsidiaries not belonging to the banking group*	*TOTAL*							
Financial assets measured at fair value through profit or loss	10,860	395	240	11,495	-	143	-	-	11,638	1	504
a) financial assets held for trading	*5,914*	*5*	*140*	*6,059*	-	*1*	-	-	*6,060*	*1*	*462*
b) financial assets designated at fair value	-	-	-	-	-	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	*4,946*	*390*	*100*	*5,436*	-	*142*	-	-	*5,578*	-	*42*
Financial assets measured at fair value through other comprehensive income	391	68	-	459	-	-	-	-	459	-	-
Financial assets measured at amortised cost	111,397	2,619	6,555	120,571	1	291	8	-	120,871	24	738
a) due from banks	110,395	1,289	-	111,684	-	-	-	-	111,684	-	-
b) loans to customers	1,002	1,330	6,555	8,887	1	291	8	-	9,187	24	738
Other assets	2,509	29	62	2,600	-	3	-	2	2,605	-	80
Investments in associates and companies subject to joint control	19,533	1,913	4,208	25,654	2	602	-	-	26,258	-	-
Financial liabilities measured at amortised cost	77,655	798	195	78,648	1	605	10	155	79,419	328	823
a) due to banks	76,843	770	2	77,615	-	2	-	-	77,617	-	659
b) due to customers	812	28	193	1,033	1	603	10	155	1,802	328	164
Financial liabilities held for trading	8,291	-	-	8,291	-	-	-	-	8,291	-	132
Financial liabilities designated at fair value	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	4,225	286	8	4,519	-	9	-	1	4,529	2	3
Guarantees and committments given	103,636	2,675	6,281	112,592	18	476	1	1	113,088	5	786
Guarantees and committments received	404	-	3	407	-	291	21	-	719	1	474
Total	**338,901**	**8,783**	**17,552**	**365,236**	**22**	**2,420**	**40**	**159**	**367,877**	**361**	**3,540**

(*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies, calculated considering only shares owned or under management (currently 3%), as well as entities jointly controlled by them.

(**) Companies that have at least two of the following indicators: i) the counterparty holds a stake in Intesa Sanpaolo's capital with an amount between 1% and the minimum threshold set out in regulations on the communication of significant shareholdings in listed companies; ii) an entity of the ISP Group holds a stake in the counterparty exceeding 10% of the voting rights; iii) significant credit exposure of the Group towards the counterparty. The amounts mainly refer to JP Morgan Chase & Co., with reference to the aggregate investment equal to 6.952%, of which 1.941% with voting rights, reported as per form 120 B updated as at 26 November 2018 and recalculated at 6.951%, of which 1.940% with voting rights, as a result of the change in share capital on 26 November 2018 following the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna. JPMorgan Chase & Co. had submitted the original report on 16 July 2018 (as per form 120 B) as a result of the positions held against the issue of "LECOIP 2.0 Certificate on Intesa Sanpaolo ordinary shares" received by Intesa Sanpaolo Group employees in the context of the 2018-2021 LECOIP 2.0 Long Term Incentive Plan based on financial instruments.

A detailed list of subsidiaries, as well as companies subject to joint control, and companies subject to significant influence as at 31 December 2018 is provided in the Notes to the consolidated financial statements (Part B – Assets – Section 7).
For the illustration of the associated companies and companies under joint control - and the companies controlled by them - most significant at Group level, see the description in the corresponding paragraph of the Notes to the consolidated financial statements.

3. Information on transactions with related parties

Most significant transactions

During the year, the Parent Company did not carry out any transactions that qualified as non-ordinary "most significant transactions" and at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of Transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking – in an obligation to publish a market disclosure document.
Please note the that most significant transactions in the period are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.4 billion euro) or of the other indicators defined by the Consob regulation.
The transactions exempt from said obligation include the multi-originator securitisation transaction to expand the portfolio of retained securities of Intesa Sanpaolo S.p.A. eligible for Eurosystem refinancing operations.
The transaction, which involved various banks of the Group and whose value for Intesa Sanpaolo S.p.A. amounts to 3.4 billion euro, was created via the sale to the vehicle company Brera Sec S.r.l. of loans disbursed to small and medium enterprises.

Most significant intragroup transactions

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – the sales of mortgage portfolios to the vehicle companies ISP OBG S.r.l. and ISP CB Ipotecario S.r.l. took place during the period, for an amount of about 4.2 and 2.5 billion euro respectively.

Other significant transactions

The transactions entered into with related parties fall within the scope of Intesa Sanpaolo's ordinary activities and are usually performed at market or standard conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

Relations between Intesa Sanpaolo and board members and general managers, as well as Key Managers, refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied.
Concerning the transactions with subsidiaries carried out in 2018, please note that these are normal internal business activities of a multifunctional banking group. They are usually regulated at the conditions at which the Parent Company accesses the reference markets, which are not necessarily the same conditions that would be applicable if the Group's counterparties operated independently. These conditions are, in any case, applied in compliance with criteria of substantial correctness and with the aim of creating value for the Group.

Intragroup transactions mainly concerned:
- the support given by Parent Company to the financial needs of the other Group companies by providing risk capital and loans and by subscribing securities issued by the subsidiaries;
- the channelling of foreign funding by specialist Group companies in favour of the Parent Company and, in part, of other subsidiaries;
- the Parent Company's investment of subsidiaries' liquidity;
- structured finance transactions within the Group carried out through Banca IMI;
- outsourcing arrangements, which govern services of an auxiliary nature rendered by the Parent Company and Intesa Sanpaolo Group Services S.c.p.A., primarily to banks of the Banca dei Territori Division and the Parent Company;
- the agreements with Group companies on distribution of products and/or services (certain agreements are extended to some associates/joint ventures) or, more generally, intragroup support and consultancy;
- financial settlements provided for by agreements entered into with Group companies taking part in national fiscal consolidation;
- the setting up of the VAT Group, governed by Articles from 70-bis to 70-duodecies of Presidential Decree no. 633/72.

During 2018 the activities aimed at implementing the strategic options set out in the Business Plan and at rationalising Group structure continued.

The 2018-2021 Business Plan envisages an important simplification in the corporate structure of the Banca dei Territori Division. As part of the activities defined, the achievement of a gradual and notable reduction in the number of legal entities is expected and, with this view, the following transactions were carried out:
- merger by incorporation of Banca Nuova S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Cassa di Risparmio del Friuli Venezia Giulia S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Cassa di Risparmio del Veneto S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Imi Investimenti S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Banco di Napoli S.p.A. into Intesa Sanpaolo S.p.A.;
- merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna S.p.A. into Intesa Sanpaolo S.p.A..

The merger by incorporation of Fideuram Fiduciaria into Società Italiana di Revisione e Fiduciaria S.I.R.E.F. S.p.A. also took place in the period.

The Intesa Sanpaolo Group also reduced the stock of non-performing loans through the sale of loans and the start of a partnership with a company specialised in the recovery of bad loans.

On 16 April 2018, Intesa Sanpaolo S.p.A. received a binding offer - approved at the meeting of the Board of Directors on 17 April 2018 – from the Swedish company Intrum to cooperate on non-performing loans. The project consisted of:
- the carve-out of the loan recovery activities concerning Intesa Sanpaolo Group Services S.c.p.A., Intesa Sanpaolo Provis S.p.A. and Intesa Sanpaolo RE.O.CO. S.p.A., through the partial demerger of three business units of these companies in favour of a NewCo called Tersia S.p.A.;
- the sale to Intrum Justitia of 51% of Tersia S.p.A., subsequently renamed Intrum Italy S.p.A.;
- the sale of a portfolio of bad-loans to a securitisation vehicle (Penelope). The vehicle Penelope was financed via the issue of asset-backed securities;
- the signing with Intrum Italy S.p.A. of a contract for the servicing of the Group's bad-loan portfolio, set to expire on 31 December 2028, with terms and conditions in line with market standards.

As part of the operations of the international subsidiary banks, the following non-recurring transactions were carried out:
- merger by incorporation of Veneto Banka Sh.A. (Albania) into Intesa Sanpaolo Bank Albania Sh.A.;
- merger by incorporation of Veneto Banka DD (Croatia) into Privredna Banka Zagreb DD, subject to the acquisition by the latter of the entire share capital of Veneto Banka DD held by Intesa Sanpaolo S.p.A.;
- merger by incorporation of VUB Factoring A.S. into VUB Banka A.S.;
- merger by incorporation of Consumer Finance Holding A.S. into VUB Banka A.S. and VUB Leasing A.S.

Finally, please note the capitalisation of overall 3 million euro carried out by Intesa Sanpaolo Holding International S.a. in favour of Intesa Sanpaolo Harbourmaster III S.A..

In relation to transactions in equity investments, the following should be noted:
- the transfer by Intesa Sanpaolo S.p.A. to Intesa Sanpaolo Innovation Center S.c.p.A. (former Servizi Bancari S.c.p.A.) of a business unit pertaining to the "innovation" activities of the related Governance Area of Intesa Sanpaolo S.p.A.. Following the transfer, the demerger of the business unit consisting of the "operations" area pertaining to the original activity of the former Servizi Bancari S.c.p.A. was resolved in favour of Intesa Sanpaolo Group Services S.c.p.A..
  The transaction is aimed at redesigning the business activity of the subsidiary, with a view to exploring new business models and expertise to support the long-term competitiveness of the Group and its customers, acting as an engine and stimulating the new economy in Italy;
- The acquisition by Eurizon Capital SGR S.p.A. of the entire share capital of VUB Asset Management and Eurizon Capital (HK) Limited held by Eurizon Capital S.A.; these transactions are aimed at simplifying the ownership structure which links the lead company Eurizon Capital SGR to the two companies;
- The acquisition by Privredna Banka Zagreb DD of the entire share capital of Veneto Banka DD, currently held by Intesa Sanpaolo S.p.A.. The transaction aims to obtain an instant operating simplification and an alignment with the Group's policies also through the integration with Privredna Banka Zagreb DD, a market leader expressing the best practices in various operation and business areas. The transaction is also in line with the Group's strategies that envisage a rationalisation and optimisation of the presence in the country through the full achievement of commercial, organisational and operating synergies.

Regarding the transactions relating to capital, on 23 February 2018 the Board of Directors authorised a capital increase in favour of Intesa Sanpaolo Provis S.p.A., for a maximum of 220 million euro, to be made in several tranches based on actual needs. On 28 February 2018, the Extraordinary Shareholders' Meeting of Intesa Sanpaolo Provis S.p.A. resolved on the overall increase of a total of 220 million euro (of which 219 million share premium) through the issue of a maximum number of 1,100,000 new shares with no par value at a subscription price of 200 euro per share (1 euro as capital and 199 as share premium); the second tranche of 50 million euro (250,000 euro as capital and 49.75 million euro as premium reserve) was paid on 28 September 2018. The intervention aims to restore an adequate level of capital of the subsidiary for the next three years.

On 10 December 2018, capitalisation was authorised in favour of Intesa Sanpaolo Casa S.p.A. for a total of 5 million euro, to be disbursed in several tranches according to financing requirements, with the aim of allowing, among others, the return to the initial capital situation, as well as supporting the development activities contained in the performance and financial forecasts until 2021. On 20 December 2018, the first capital contribution payment was made for 3 million euro.

The Board of Directors of Intesa Sanpaolo S.p.A. authorised the rationalisation of the Group's operations in Romania, with the integration into Intesa Sanpaolo Romania S.A. of the Romanian network of the former Veneto Banca and the capital increase in the subsidiary to service the integration, estimated on the basis of a maximum additional equity requirement of about 60 million euro, to be disbursed in several tranches during 2018. The capital increase was subscribed by the Parent Company on 15 May and 15 June 2018 for a value of about 41 and 17 million euro, respectively.

Please also note the capitalisation in favour of the subsidiary Pravex Bank Joint-Stock Company Commercial Bank of about 33 million euro, to support the "New Pravex" project, launched in 2017 and aimed at implementing the operating conditions needed to resume the business and improve the effectiveness and efficiency of the subsidiary.

During the year, the capital increase subscriptions in favour of Qingdao Yicai Wealth Management Co. Ltd., for a total of about 30 million euro, were resolved by Intesa Sanpaolo S.p.A., Fideuram-Intesa Sanpaolo Private Banking S.p.A. and Eurizon Capital SGR S.p.A.. On 3 August 2018, the Parent Company, holding 55% of the share capital, subscribed a stake of about 15 million euro. On 3 September 2018, the stakes of Fideuram-Intesa Sanpaolo Private Banking S.p.A. and Eurizon Capital were subscribed, equal to about 7 million euro (corresponding to 25% of the share capital) and about 6 million euro (corresponding to 20% of the share capital), respectively.

Furthermore, mortgage loan portfolios were sold to the vehicle ISP OBG S.r.l. as part of the multi-originator programme for the issue of covered bonds, which will be financed via the disbursement of a subordinated loan; in particular, the transactions involved some banks subject to merger by incorporation into Intesa Sanpaolo S.p.A. for a total of 2.5 billion euro.

Transactions regarding non-performing positions pertained to the companies in the Risanamento Group. Regarding the latter, subsidiaries without management and coordination, please note the participation in the financial initiative to support the development of the Lendlease Project that envisages the consolidation of existing loans and the granting of new loans. The transactions aim at maintaining a positive financial balance of the Risanamento Group and allowing an improved enhancement of the assets owned by the Group, in the interest of the related stakeholders.

Additional information on the Intesa Sanpaolo Group's reorganisation operations is provided in Part G of the Notes to the consolidated financial statements and of the Notes to the Parent Company's financial statements. For more information on investments in associates, reference should be made to Part H of the Consolidated Financial Statements, while for details on the changes in the Parent Company's equity investment portfolio, reference should be made to Section 7 of the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets.

For information on the transactions with the Special Purpose Entities over which the Group exercises control even in the absence of a stake, consolidated line-by-line in accordance with IFRS 10, see the Notes to the Consolidated financial statements - Part E – Information on risks and the relative hedging policies.

Other significant information

With reference to the investments in associates or companies subject to joint control, value adjustments/impairment losses were recognised for 11 million euro (Cassa di Risparmio di Fermo S.p.A., Rainbow, Focus Investments S.p.A., Autostrade Pedemontana Lombarda S.p.A. and other minor companies).
Please refer to Part C – Income Statement – Section 15 of the Parent Company's Financial Statements for more information on the income (loss) of equity investments.
For Pension Funds in which Intesa Sanpaolo is co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the financial statements – Part B – Information on the consolidated Balance Sheet – Liabilities, Post employment defined benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

Other significant subsequent events

Please note that the Bodies of the Parent Company resolved on the projects of merger by incorporation of the companies Intesa Sanpaolo Group Services S.c.p.a., Cassa di Risparmio in Bologna S.p.A., Banca CR Firenze S.p.A., Cassa di Risparmio di Pistoia e della Lucchesia S.p.A., Banca Prossima S.p.A. and Banca Apulia S.p.A..
The transactions will be finalised in the first half of 2019 and are part of the abovementioned simplification process of the corporate structure of the Banca dei Territori Division of the Group.

B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

Pursuant to IAS 24, "key managers" are considered to be the members of the Board of Directors (including members of the Management Control Committee, the Managing Director and CEO), the Manager responsible for preparing the Company's financial reports, the Heads of Business Units and the Heads of Head Office Departments that report directly to the Managing Director and CEO or to the Chairman of the Board of Directors, as well as the Chief Operating Officer and the Heads of the Governance Areas, the Chief Financial Officer, the Chief Risk Officer, the Chief Lending Officer, the Chief Innovation Officer and the Chief Governance Officer.

The following table shows the amounts of the main benefits paid in 2018 to members of the Management and Control Bodies, as well as to other Key Managers who fall within the notion of "related party". This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

	MANAGEMENT BODIES/ CONTROL BODIES[1]		OTHER MANAGERS [2]		TOTAL as at 31.12.2018	
	Amount due	Amount paid	Amount due	Amount paid	Amount due	Amount paid
Short-term benefits [3]	8	8	25	21	33	29
Post-employement benefits [4]	-	-	2	2	2	2
Other long-term benefits [5]	-	-	6	1	6	1
Termination benefits [6]	-	-	3	-	3	-
Share-based payments [7]	-	-	15	-	15	-
Total	**8**	**8**	**51**	**24**	**59**	**32**

(1) Includes 19 members.

(2) Includes 19 members.

(3) Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees.

(4) Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations.

(5) Includes an estimate of provisions for employee seniority bonuses.

(6) Includes benefits due under the employment contract for termination of employment and non-competition agreements.

(7) Includes the cost referring to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through LECOIPs

As previously noted in Part H of the Notes to the consolidated financial statements, detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, is published annually in the "Report on Remuneration", which includes:

- a detailed indication of the compensation paid to the members of the management and control bodies and, in aggregate, the Key Managers, as well as the stock option plans reserved for the members of the Board of Directors and Key Managers;
- the details and the evolution of the stock option plans relative to Key Managers;
- Parent Company's and subsidiary companies' shares held by the members of the management and control bodies, Key Managers and other associated entities.

Part I – Share-based payments

A. QUALITATIVE INFORMATION

Description of share-based payments

Incentive Plan based on financial instruments

The Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy) required, inter alia, that a portion of incentives paid to "Risk Takers" be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 9 October 2015 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro;
- with regard to the results for 2016, and in implementation of the Shareholders' Meeting resolution of 27 April 2017, on 18 September 2017 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,091,160 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.937 euro per share, for a total value of 23,762,245 euro.
- with regard to the results for 2017, and in implementation of the Shareholders' Meeting resolution of 27 April 2018, on 12 September 2018 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 12,686,321 Intesa Sanpaolo ordinary shares (representing approximately 0.07% of the ordinary share capital) at an average purchase price of 2.291 euro per share, for a total value of 29,061,008 euro.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.
The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive system. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the "malus condition" – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group's resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.

There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the "challenge to create value" represented by the Business Plan (LECOIP).
The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
   - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
   - invest them in Co-Investment Plans through long-term financial instruments, the "LECOIP Certificates", with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.
As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.

The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:
- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares ("protected capital") and
- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Subscription to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.

The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Management Board's mandate to:
- increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
- increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.

The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period ended in April 2018.

In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as "equity settled" plans, since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead, the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.
Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 150a "Administrative expenses: personnel expenses", as a balancing entry for an increase in a specific shareholders' equity reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).
For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment in December 2014, as the shares are not subject to accrual conditions (vesting period).
For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.

The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), were recognised during the period of accrual of the benefit and throughout the duration of the Plan.

Long-Term Incentive Plans 2018-2021: POP and LECOIP 2.0

At the time of launching the 2018-2021 Business Plan, two new long-term incentive plans were launched targeting different clusters of employees:
- The Performance-based Option Plan (POP) targeted at the Top Management, Risk Takers and Key Managers;
- The LECOIP 2.0 targeted at Managers and the remaining personnel.

With reference to the Top Management, Risk Takers and Key Managers, which have a direct impact on the Group's results, it was considered necessary to adopt an instrument specifically linked to the achievement of the Business Plan targets and with an adequate risk/return profile in respect of the role held and the levels of ambition and challenge of the new Business Plan.
The POP is based on financial instruments linked to shares (Call Options) and subject to the achievement of the key performance conditions of the Business Plan as well as subordinated to gateway conditions and individual access (compliance breach).
The entire amount accrued will be paid in shares over a 3/5-year time horizon (depending on the sub-cluster of the beneficiary and subject to verification of the malus conditions, defined in a mirrored manner to the gateway conditions, in those years when they are envisaged).
Furthermore, in June the Group signed a novation agreement (accollo liberatorio) with JP Morgan. Under the terms of this agreement, Intesa Sanpaolo transfers to JP Morgan the obligation to deliver to the Intesa Sanpaolo Group employees any ordinary shares that may be due when the POP Options expire, and JP Morgan thereby takes on all the volatility risks associated with the Plan.

Instead with reference to the Managers and the remaining personnel, basically in line with the LECOIP 2014-2017, a LECOIP 2.0 retention plan 2018 – 2021 was introduced.
The LECOIP 2.0, aimed at enabling the sharing of the value created over time, at every level of the organization, as a result of the achievement of the objectives of the Business Plan and fostering the identification (ownership) and the spirit of belonging to Intesa Sanpaolo Group, is assigned as certificates issued by JP Morgan, i.e. share-based financial instruments. In particular, the LECOIP 2.0 includes:

- the assignment, free of charge, to employees, of new Intesa Sanpaolo ordinary shares deriving from a capital increase without payment ("Free Shares");
- the assignment, also free of charge, to employees, of additional new Intesa Sanpaolo ordinary shares deriving from the same capital increase without payment ("Matching Shares") and the subscription by employees to new Intesa Sanpaolo ordinary shares deriving from a capital increase with payment, reserved for employees, through the issue of shares at a discounted price ("Discounted Shares").

The Certificates are divided into two categories, and have different characteristics according to whether they are reserved for Professionals or for Managers employed by the Group in Italy. The Certificates reflect the terms of certain options that have Intesa Sanpaolo ordinary shares as their underlying instruments, and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in Intesa Sanpaolo ordinary shares) that is equal to the original market value of the Free Shares and the Matching Shares with regard to Professionals and 75% of this value with regard to Managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the Free Shares, Matching Shares and Discounted Shares.
The POP and the LECOIP 2.0 were subject to the approval of the ordinary Shareholders' Meeting of 27 April 2018.
With specific reference to the LECOIP 2.0, the extraordinary session of the Shareholders' Meeting resolved on granting a power of attorney to the Board of Directors to increase the share capital pursuant to Article 2443 of the Italian Civil Code, conducive to the implementation of the LECOIP 2.0. These capital increases were carried out on 11 July 2018, at the same time as launching the long-term incentive plans 2018-2021.
Both the long-term incentive plans in question (the POP and the LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.
With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (the gateway conditions and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve.
Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a cash entry. Concerning the right of novation – as this can essentially be considered as the operational method adopted by the Group to fulfil the obligation of physical delivery of the shares deriving from the Plan - the accounting representation is that of an equity instrument, with a balancing entry under shareholders' equity.
With regard to the LECOIP 2.0 Plan, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the shares assigned free of charge and the fair value of the discount for the paid shares) and no longer modified. The Plan envisages the presence of non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and until the expiry. The cost of the plan, so defined, is attributed to the income statement (as labour costs) pro rata temporis along the period of accrual of the benefit, as a balancing entry for a specific shareholders' equity reserve.
Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 Certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a financial asset (the "transferred receivable" representing the Certificates) as a balancing entry in Shareholders' Equity. In particular, the Certificates entered in the Group's financial statements, as part of IFRS 9, are classified among financial assets mandatorily measured at fair value.

B. QUANTITATIVE INFORMATION

Incentive plans based on financial instruments in 2018

	Number of shares	Average strike price (euro)	Residual life
Financial instruments outstanding as at 31 December 2017	8,378,526	-	May 2018 / May 2022
Financial instruments granted during the year (a)	6,552,697	-	May 2020 / May 2023
Financial instruments no longer assignable (b)	1,696	-	-
Financial instruments vested during the year and assigned	2,960,585	-	-
Financial instruments outstanding as at 31 December 2018	11,968,942	-	May 2019 / May 2023
of which: vested and assigned as at 31 December 2018	-	-	-

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

(b) Including shares originating from Corporate Transactions

Moreover, in accordance with the Provisions of the Bank of Italy regarding remuneration and the Remuneration Policies of the Group, during 2018, 1,256,106 shares were assigned with reference to remuneration granted to Risk Takers in the event of early termination (severance).

Breakdown by residual life

Residual life	Number of shares
May - November 2019	3,318,432
May - November 2020	5,123,836
May - November 2021	1,696,515
May - November 2022	1,256,781
May 2023	573,378

Long-term share-based instruments: LECOIP

The economic effects for 2018 connected to the LECOIP Plan amount to about 24.3 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).

This being an equity settled plan, payables for cash settled payments are not recorded.
The following table summarises the changes in the LECOIP Plan from the date of acceptance (December 2014) until 31 December 2018.

	LECOIP PLAN												
	Free Shares at December 2014		Matching Shares at December 2014		Discounted Shares at December 2014		Sell to cover shares at December 2014 (a)		Total number of shares assigned at December 2014	Number of LECOIP Certificates 31.12.2017	Changes in the year (c)	Number of LECOIP Certificates 31.12.2018	Average fair value 31.12.2018
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	10,126,532	2.3205	18,984,007	2.2986	116,442,156	0.3689	20,814,178	2.4007	166,366,873	27,409,968	-144,333	-	-

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been granted to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan

Long-term share-based instruments: LECOIP 2.0 and POP

	LECOIP PLAN 2.0												
	Free Shares at July 2018		**Matching Shares at July 2018**		**Discounted Shares at July 2018**		**Sell to cover shares at July 2018 (a)**		**Total number of shares assigned at July 2018**	**Number of LECOIP Certificates at July 2018 (c)**	Changes in the year (d)	**Number of LECOIP Certificates at 31.12.2018**	**Average fair value 31.12.2018**
	Number of shares	Average unit fair value	Number of shares	Average unit fair value	Number of shares	Average unit fair value (b)	Number of shares	Average unit fair value (b)					
Total employees	15,260,453	2.4750	25,581,801	2.4750	285,895,778	0.3771	52,651,329	2.5416	379,389,361	40,842,254	-636,766	40,205,488	2.4699

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

(c) Number of Certificates subscribed on 11 July 2018 by Group employees who have joined the LECOIP 2.0 Plan

(d) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been granted to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

	PERFORMANCE-BASED OPTION PLAN (POP)				
	POP options as at July 2018 (a)		**Changes during the year (b)**	**POP options as at 31.12.2018**	
	Number of POP options	Average unit fair value		Number of POP options	Average unit fair value
Total Risk Taker	391,768,608	0.3098	-	391,768,608	0.0372

(a) Number of POP options and their average fair value assigned to the beneficiaries (Top Management, Risk Takers and Strategic Managers) on 11 July 2018

(b) Number of POP options for which Intesa Sanpaolo shall take over the rights that would have been granted to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan and other vesting conditions.

Part L – Segment reporting

Segment reporting is provided in the consolidated financial statements.

Certification of the Parent Company's financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
   - the adequacy in relation to the Company's features and
   - the actual application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements during 2018.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements as at 31 December 2018 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems.[27]

3. The undersigned also certify that:

   3.1 The Parent Company's financial statements as at 31 December 2018:
   - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
   - correspond to the results of the books and accounts;
   - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer.

   3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer, together with a description of the main risks and uncertainties.

26 february 2019

Carlo Messina
Managing Director and CEO

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

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

Independent Auditors' Report on the Parent Company's financial statements

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Intesa Sanpaolo S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Intesa Sanpaolo S.p.A. (the "bank"), which comprise the balance sheet at 31 December 2018, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Intesa Sanpaolo S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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20124 Milano MI ITALIA

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Transition to IFRS 9

Notes to the separate financial statements "Part A - Accounting policies": "A.1 – General criteria"

Key audit matter	**Audit procedures addressing the key audit matter**
The new IFRS 9 "Financial instruments", whose application became mandatory in 2018, modified the classification, measurement, impairment and hedge accounting rules for financial instruments compared to those provided for by IAS 39, which was applicable up to 31 December 2017. As a first-time adopter of the new standard, the bank restated its opening balances at 1 January 2018. Specifically, the bank: — reclassified its financial assets into the new captions "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost" and its financial liabilities to the new caption "Financial liabilities at amortised cost"; — restated its financial assets and liabilities in accordance with the measurement requirements of IFRS 9; — retested its financial assets for impairment, in particular loans and receivables with customers, using the rules of the new standard; — recognised the post-tax FTA effects under equity reserves;	Our audit procedures included: — gaining an understanding of the bank's IFRS 9 transition processes and related IT environment in relation to the classification, measurement and impairment of financial instruments; — checking, on a sample basis, that financial assets and liabilities had been correctly classified, by considering the bank's transition procedures, obtaining evidence of the analyses carried out and assessing the consistency of the analyses carried out with the results obtained; — checking, on a sample basis, that financial assets and liabilities had been measured using a model (amortised cost or fair value) consistent with the classification adopted by the bank; — assessing the consistency of the bank's staging rules for financial assets with the requirements of the new standard and checking, on a sample basis, that such rules had been applied correctly; — analysing the main estimates and methods underlying the new impairment models, including checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
— elected to use the practical expedients provided for by IFRS 9 and continued to recognise hedging transactions using the hedge accounting rules of IAS 39; — disclosed the main changes introduced by the new standard, the transition process it followed, its key elections and the effects of FTA of IFRS 9. The application of the new standard led to a reduction of €2,192 million in equity at 1 January 2018, net of the related tax. It also required significant changes to the bank's processes, organisation and measurement of financial assets, which accounted for 88.7% of the bank's total assets at 1 January 2018. The IFRS 9 transition process required extremely complex estimates and factors of a subjective and uncertain nature. For the above reasons, we believe that the transition to IFRS 9 "Financial instruments" is a key audit matter.	— assessing the appropriateness of the disclosures on transition to the new standard in the separate financial statements.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 4 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part C - Information on the Parent Company's income statement": Section 8.1 "Net adjustments for credit risk associated with financial assets measured at amortised cost: breakdown"

Notes to the separate financial statements "Part E - Information on risks and relative hedging policies": Section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost, totalled €255,012 million at 31 December 2018, accounting for 48.2% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €1,832 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments;

Key audit matter	Audit procedures addressing the key audit matter
	— assessing the appropriateness of the disclosures on loans and receivables with customers recognised under financial assets at amortised cost in the separate financial statements.

Classification and measurement of financial assets and liabilities at fair value

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.1 "Financial assets measured at fair value through profit or loss", paragraph A.2.2 "Financial assets measured at fair value through other comprehensive income", paragraph A.2.4 "Hedging transactions", paragraph A.2.13 "Financial liabilities held for trading", paragraph A.2.14 "Financial liabilities designated at fair value", paragraph A.4 "Information on fair value"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Assets": Section 2 "Financial assets measured at fair value through profit or loss", Section 3 "Financial assets measured at fair value through other comprehensive income", Section 5 "Hedging derivatives"

Notes to the separate financial statements "Part B - Information on the Parent Company's balance sheet - Liabilities": Section 2 "Financial liabilities held for trading", Section 3 "Financial liabilities designated at fair value", Section 4 "Hedging derivatives"

Notes to the separate financial statements "Part C - Information on the Parent Company's income statement": Section 4 "Profits (losses) on trading", Section 5 "Fair value adjustments in hedge accounting" and Section 7 "Profit (losses) on other financial assets and liabilities measured at fair value through profit or loss"

Notes to the separate financial statements "Part E - Information on risks and relative hedging policies": Section 2 "Market risks", Section 3 "Derivatives and hedging policies"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the bank's core activities. The separate financial statements at 31 December 2018 include financial assets and financial liabilities at fair value totalling €59,892 million and €21,738 million, respectively. A portion thereof, equal to roughly €28,040 million and €21,140 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The bank's directors have classified	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the trading, classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value

Key audit matter	Audit procedures addressing the key audit matter
them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	levels 2 and 3. We carried out these procedures with the assistance of experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure with the assistance of experts of the KPMG network; — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the separate financial statements.

Responsibilities of the bank's directors and management control committee for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The management control committee is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 10 May 2011, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the management control committee, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a report and a report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 20 March 2019

KPMG S.p.A.

(signed on the original)

Mario Corti
Director of Audit

Attachments to the Parent Company's financial statements

Reconciliation between published financial statements and financial statements according to the new Circular 262

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2017 and the balance sheet as at 31 December 2017 according to the new Circular 262

Reconciliation between the published Intesa Sanpaolo income statement for 2017 and the income statement for 2017 according to the new Circular 262

Reconciliation between the published balance sheet of the merged companies as at 31 December 2017 and the balance sheet as at 31 December 2017 according to the new Circular 262

Reconciliation between the published income statement for 2017 of the merged companies and the income statement for 2017 according to the new Circular 262

Reconciliation between balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between the Intesa Sanpaolo balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between the balance sheet as at 31 December 2017 of the merged companies according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between IFRS 9 financial statements and restated financial statements

Reconciliation between balance sheet as at 1 January 2018 (IFRS 9) and balance sheet as at 1 January 2018

Reconciliation between income statement for 2017 (IFRS 9) and restated income statement for 2017

Restated financial statements

Balance sheet

Restated income statement

Reconciliation between restated financial statements and reclassified financial statements

Reconciliation between balance sheet and reclassified balance sheet

Reconciliation between restated income statement and reclassified income statement

Reconciliation between published financial statements and financial statements according to the new Circular 262

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2017 and the balance sheet as at 31 December 2017 according to the new Circular 262

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Equity investments	110. Property and equipment	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and discontinued operations	150. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	5,750															**5,750**
20.	Financial assets measured at fair value through profit or loss		18,264	322													**18,586**
30.	Financial assets measured at fair value through other comprehensive income				36,912												**36,912**
40.	Financial assets measured at amortised cost					335	157,440	232,693									**390,468**
50.	Hedging derivatives								3,823								**3,823**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-131							**-131**
70.	Equity investments										30,558						**30,558**
80.	Property and equipment											4,400					**4,400**
90.	Intangible assets												2,454				**2,454**
100.	Tax assets													13,013			**13,013**
110.	Non-current assets held for sale and discontinued operations														266		**266**
120.	Other assets															3,278	**3,278**
TOTAL ASSETS		**5,750**	**18,264**	**322**	**36,912**	**335**	**157,440**	**232,693**	**3,823**	**-131**	**30,558**	**4,400**	**2,454**	**13,013**	**266**	**3,278**	**509,377**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	173,710	170,914	82,665										**427,289**
20.	Financial liabilities held for trading				14,580									**14,580**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					9								**9**
40.	Hedging derivatives						5,555							**5,555**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							324						**324**
60.	Tax liabilities								1,285					**1,285**
70.	Liabilities associated with non-current assets held for sale and discontinued operations													**-**
80.	Other liabilities										6,983			**6,983**
90.	Employee termination indemnities											767		**767**
100.	Allowances for risks and charges										212		3,901	**4,113**
TOTAL		**173,710**	**170,914**	**82,665**	**14,580**	**9**	**5,555**	**324**	**1,285**	**-**	**7,195**	**767**	**3,901**	**460,905**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	170. Share premium reserve	180. Share capital	190. Treasury shares (-)	200. Net income (loss)	TOTAL
110.	Valuation reserves	774								**774**
120.	Redeemable shares		-							**-**
130.	Equity instruments			4,103						**4,103**
140.	Reserves				3,843					**3,843**
150.	Share premium reserve					26,164				**26,164**
160.	Share capital						8,732			**8,732**
170.	Treasury shares (-)							-26		**-26**
180.	Net income (loss) (+/-)								4,882	**4,882**
TOTAL		**774**	**-**	**4,103**	**3,843**	**26,164**	**8,732**	**-26**	**4,882**	**48,472**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY										**509,377**

Reconciliation between the published Intesa Sanpaolo income statement for 2017 and the income statement for 2017 according to the new Circular 262 - *(Continued)*

(millions of euro)

2017 new 262 / 2017 published		10. Interest and similar income	20. Interest and similar expense	**30. Interest margin**	40. Fee and commission income	50. Fee and commission expense	**60. Net fee and commission income**	70. Dividend and similar income	80. Profits (Losses) on trading	90. Fair value adjustments in hedge accounting	100. Profits (Losses) on disposal or repurchase of:	a) loans	b) financial assets available for sale	c) investments held to maturity	d) financial liabilities	110. Profits (Losses) on financial assets and liabilities designated at fair value	**120. Net interest and other banking income**	130. Net losses / recoveries on impairment	a) loans	b) financial assets available for sale	c) investments held to maturity	d) other financial activities	**140. Net income from banking activities**	TOTAL
10.	Interest and similar income	6,458																						6,458
20.	Interest and similar expense		-3,647																					-3,647
30.	**Interest margin**			**2,811**																				**2,811**
40.	Fee and commission income				3,794																			3,794
50.	Fee and commission expense					-826																		-826
60.	**Net fee and commission income**						**2,968**																	**2,968**
70.	Dividend and similar income							1,889																1,889
80.	Profits (Losses) on trading								47															47
90.	Fair value adjustments in hedge accounting									-17														-17
100	Profits (Losses) on disposal or repurchase of:										181													181
	a) financial assets measured at amortised cost											-11												-11
	b) financial assets measured at fair value through other comprehensive income												212											212
	c) financial liabilities													-20										-20
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss														2									2
	a) financial assets and liabilities designated at fair value														2									2
	b) other financial assets mandatorily measured at fair value																							0
120.	**Net interest and other banking income**																**7,881**							**7,881**
130.	Net losses/recoveries for credit risks associated with:																	-2,018						-2,018
	a) financial assets measured at amortised cost																		-1,542					-1,542
	b) financial assets measured at fair value through other comprehensive income																			-476				-476
140.	Profits (Losses) on changes in contracts without derecognition																							0
150.	**Net income from banking activities**	**6,458**	**-3,647**	**2,811**	**3,794**	**-826**	**2,968**	**1,889**	**47**	**-17**	**181**	**-11**	**212**	**-20**	**0**	**2**	**7,881**	**-2,018**	**-1,542**	**-476**	**0**	**0**	**5,863**	**5,863**

Reconciliation between the published Intesa Sanpaolo income statement for 2017 and the income statement for 2017 according to the new Circular 262

(millions of euro)

2017 new 262 \ 2017 published		150. Administrative expenses:	a) personnel expenses	b) other administrative expenses	160. Net provisions for risks and charges	170. Net adjustments to / recoveries on property and equipment	180. Net adjustments to / recoveries on intangible assets	190. Other operating expenses (income)	**200. Operating expenses**	210. Profits (Losses) on equity investments	220. Valuation differences on property, equipment and intangible assets measured at fair value	230. Goodwill impairment	240. Profits (Losses) on disposal of investments	**250. Income (Loss) before tax from continuing operations**	260. Taxes on income from continuing operations	**270. Income (Loss) after tax from continuing operations**	280. Income (Loss) after tax from discontinued operations	**290. Net income (loss)**	TOTAL
160.	Administrative expenses:	-6,385																	-6,385
	a) personnel expenses		*-3,775*																*-3,775*
	b) other administrative expenses			*-2,610*															*-2,610*
170.	Net provisions for risks and charges				-818														-818
	a) commitments and guarantees given																		-
	b) other net provisions				*-818*														*-818*
180.	Net adjustments to / recoveries on property and equipment					-123													-123
190.	Net adjustments to / recoveries on intangible assets						-13												-13
200.	Other operating expenses (income)							5,328											5,328
210.	**Operating expenses**								**-2,011**										**-2,011**
220.	Profits (Losses) on equity investments									167									167
230.	Valuation differences on property, equipment and intangible assets measured at fair value										-16								-16
240.	Goodwill impairment											-							-
250.	Profits (Losses) on disposal of investments												77						77
260.	**Income (Loss) before tax from continuing operations**													**4,080**					**4,080**
270.	Taxes on income from continuing operations														802				802
280.	**Income (Loss) after tax from continuing operations**															**4,882**			**4,882**
290.	Income (Loss) after tax from discontinued operations																-		-
300.	**Net income (loss)**	**-6,385**	**-3,775**	**-2,610**	**-818**	**-123**	**-13**	**5,328**	**-2,011**	**167**	**-16**	**-**	**77**	**4,080**	**802**	**4,882**		**-**	**4,882**

Reconciliation between the published balance sheet of the merged companies as at 31 December 2017 and the balance sheet as at 31 December 2017 according to the new Circular 262

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Cash and cash equivalents	20. Financial assets held for trading	30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers	80. Hedging derivatives	90. Fair value change of financial assets in hedged portfolios (+/-)	100. Equity investments	110. Property and equipment	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and discontinued operations	150. Other assets	TOTAL ASSETS
10.	Cash and cash equivalents	745															**745**
20.	Financial assets measured at fair value through profit or loss		260	1	67		35										**363**
30.	Financial assets measured at fair value through other comprehensive income				874												**874**
40.	Financial assets measured at amortised cost						15,609	41,402									**57,011**
50.	Hedging derivatives								219								**219**
60.	Fair value change of financial assets in hedged portfolios (+/-)									-61							**-61**
70.	Equity investments										31						**31**
80.	Property and equipment											258					**258**
90.	Intangible assets												302				**302**
100.	Tax assets													1,078			**1,078**
110.	Non-current assets held for sale and discontinued operations														-		**-**
120.	Other assets															1,421	**1,421**
TOTAL ASSETS		**745**	**260**	**1**	**941**	**-**	**15,644**	**41,402**	**219**	**-61**	**31**	**258**	**302**	**1,078**	**-**	**1,421**	**62,241**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities designated at fair value through profit and loss	60. Hedging derivatives	70. Fair value change of financial liabilities in hedged portfolios (+/-)	80. Tax liabilities	90. Liabilities associated with non-current assets held for sale and discontinued operations	100. Other liabilities	110. Employee termination indemnities	120. Allowances for risks and charges	TOTAL
10.	Financial liabilities measured at amortised cost (IFRS 7 par. 8 letter g))	6,253	48,073	526										**54,852**
20.	Financial liabilities held for trading				173									**173**
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e))					-								**-**
40.	Hedging derivatives						480							**480**
50.	Fair value change of financial liabilities in hedged portfolios (+/-)							136						**136**
60.	Tax liabilities								85					**85**
70.	Liabilities associated with non-current assets held for sale and discontinued operations									-				**-**
80.	Other liabilities										1,087			**1,087**
90.	Employee termination indemnities											231		**231**
100.	Allowances for risks and charges										36		492	**528**
TOTAL		**6,253**	**48,073**	**526**	**173**	**-**	**480**	**136**	**85**	**-**	**1,123**	**231**	**492**	**57,572**

(millions of euro)

31 December 2017 published / 31 December 2017 new 262		130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	170. Share premium reserve	180. Share capital	190. Treasury shares (-)	200. Net income (loss)	TOTAL
110.	Valuation reserves	29								**29**
120.	Redeemable shares		-							**-**
130.	Equity instruments			-						**-**
140.	Reserves				606					**606**
150.	Share premium reserve					904				**904**
160.	Share capital						3,040			**3,040**
170.	Treasury shares (-)							-12		**-12**
180.	Net income (loss) (+/-)								102	**102**
TOTAL		**29**	**-**	**-**	**606**	**904**	**3,040**	**-12**	**102**	**4,669**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY										**62,241**

Reconciliation between the published income statement for 2017 of the merged companies and the income statement for 2017 according to the new Circular 262 - *(Continued)*

(millions of euro)

2017 new 262 \ 2017 published		10. Interest and similar income	20. Interest and similar expense	**30. Interest margin**	40. Fee and commission income	50. Fee and commission expense	**60. Net fee and commission income**	70. Dividend and similar income	80. Profits (Losses) on trading	90. Fair value adjustments in hedge accounting	100. Profits (Losses) on disposal or repurchase of:	a) loans	b) financial assets available for sale	c) investments held to maturity	d) financial liabilities	110. Profits (Losses) on financial assets and liabilities designated at fair value	**120. Net interest and other banking income**	130. Net losses / recoveries on impairment	a) loans	b) financial assets available for sale	c) investments held to maturity	d) other financial activities	**140. Net income from banking activities**	TOTAL
10.	Interest and similar income	1,105																						1,105
20.	Interest and similar expense		-178																					-178
30.	**Interest margin**			**927**																				**927**
40.	Fee and commission income				1,102																			1,102
50.	Fee and commission expense					-62																		-62
60.	**Net fee and commission income**						**1,040**																	**1,040**
70.	Dividend and similar income							3																3
80.	Profits (Losses) on trading								23															23
90.	Fair value adjustments in hedge accounting									-4														-4
100	Profits (Losses) on disposal or repurchase of:										-38													-38
	a) financial assets measured at amortised cost											-8												-8
	b) financial assets measured at fair value through other comprehensive income												-30											-30
	c) financial liabilities													-										0
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss														-									0
	a) financial assets and liabilities designated at fair value																							0
	b) other financial assets mandatorily measured at fair value																							0
120.	**Net interest and other banking income**																**1,951**							**1,951**
130.	Net losses/recoveries for credit risks associated with:																	-421						-421
	a) financial assets measured at amortised cost																		-405					-405
	b) financial assets measured at fair value through other comprehensive income																			-16				-16
140.	Profits (Losses) on changes in contracts without derecognition																							0
150.	**Net income from banking activities**	**1,105**	**-178**	**927**	**1,102**	**-62**	**1,040**	**3**	**23**	**-4**	**-38**	**-8**	**-30**	**0**	**0**	**0**	**1,951**	**-421**	**-405**	**-16**	**0**	**0**	**1,530**	**1,530**

Reconciliation between the published income statement for 2017 of the merged companies and the income statement for 2017 according to the new Circular 262

(millions of euro)

2017 new 262 / 2017 published		150. Administrative expenses:	a) personnel expenses	b) other administrative expenses	160. Net provisions for risks and charges	170. Net adjustments to / recoveries on property and equipment	180. Net adjustments to / recoveries on intangible assets	190. Other operating expenses (income)	**200. Operating expenses**	210. Profits (Losses) on equity investments	220. Valuation differences on property, equipment and intangible assets measured at fair value	230. Goodwill impairment	240. Profits (Losses) on disposal of investments	**250. Income (Loss) before tax from continuing operations**	260. Taxes on income from continuing operations	**270. Income (Loss) after tax from continuing operations**	280. Income (Loss) after tax from discontinued operations	**290. Net income (loss)**	TOTAL
160.	Administrative expenses:	-1,578																	-1,578
	a) personnel expenses		*-905*																*-905*
	b) other administrative expenses			*-673*															*-673*
170.	Net provisions for risks and charges				-34														-34
	a) commitments and guarantees given																		-
	b) other net provisions				*-34*														*-34*
180.	Net adjustments to / recoveries on property and equipment					-15													-15
190.	Net adjustments to / recoveries on intangible assets						-												-
200.	Other operating expenses (income)							197											197
210.	**Operating expenses**								**-1,430**										**-1,430**
220.	Profits (Losses) on equity investments									-									-
230.	Valuation differences on property, equipment and intangible assets measured at fair value										-								-
240.	Goodwill impairment											-							-
250.	Profits (Losses) on disposal of investments												9						9
260.	**Income (Loss) before tax from continuing operations**													**109**					**109**
270.	Taxes on income from continuing operations														-7				-7
280.	**Income (Loss) after tax from continuing operations**															**102**			**102**
290.	Income (Loss) after tax from discontinued operations																-		-
300.	**Net income (loss)**	**-1,578**	**-905**	**-673**	**-34**	**-15**	**-**	**197**	**-1,430**	**0**	**-**	**-**	**9**	**109**	**-7**	**102**	**-**	**102**	

Reconciliation between balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

Reconciliation between the Intesa Sanpaolo balance sheet as at 31 December 2017 according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

(millions of euro)

		TOTAL ASSETS as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition					TOTAL ASSETS as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICA-TIONS	Changes in carrying amounts due to IFRS 9 transition		TOTAL ASSETS 01.01.2018
			30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers		Change in measurement basis	Impairment	
10.	Cash and cash equivalents	5,750	-	-	-	-	-	5,750	-	-	5,750
20.	Financial assets measured at fair value through profit or loss	18,586	-	597	322	-	-	19,505	6,434	-	25,939
30.	Financial assets measured at fair value through other comprehensive income	36,912	-	-597	-322	-	-	35,993	-274	-1	35,718
40.	Financial assets measured at amortised cost	390,468	-	-	-	-	-	390,468	-6,249	-2,205	382,014
50.	Hedging derivatives	3,823	-	-	-	-	-	3,823	-	-	3,823
60.	Fair value change of financial assets in hedged portfolios (+/-)	-131	-	-	-	-	-	-131	-	-	-131
70.	Equity investments	30,558	-	-	-	-	-	30,558	-	-	30,558
80.	Property and equipment	4,400	-	-	-	-	-	4,400	-	-	4,400
90.	Intangible assets	2,454	-	-	-	-	-	2,454	-	-	2,454
100.	Tax assets	13,013	-	-	-	-	-	13,013	27	675	13,715
110.	Non-current assets held for sale and discontinued operations	266	-	-	-	-	-	266	-	-	266
120.	Other assets	3,278	-	-	-	-	-	3,278	-	-	3,278
TOTAL ASSETS		**509,377**	**-**	**-**	**-**	**-**	**-**	**509,377**	**-62**	**-1,531**	**507,784**

(millions of euro)

		TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition 60. Hedging derivatives	 100. Other liabilities	TOTAL LIABILITIES as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICATIONS	 Effect of transition to IFRS9	TOTAL LIABILITIES 01.01.2018
10.	Financial liabilities measured at amortised cost	427,289	-	-	427,289	-	427,289
20.	Financial liabilities held for trading	14,580	90	-	14,670	-	14,670
30.	Financial liabilities designated at fair value	9	-	-	9	-	9
40.	Hedging derivatives	5,555	-90	-	5,465	-	5,465
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	324	-	-	324	-	324
60.	Tax liabilities	1,285	-	-	1,285	53	1,338
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-
80.	Other liabilities	6,983	-	-	6,983	-	6,983
90.	Employee termination indemnities	767	-	-	767	-	767
100.	Allowances for risks and charges	4,113	-	-	4,113	98	4,211
110.	Valuation reserves	774	-62	-	712	148	860
120.	Redeemable shares	-	-	-	-	-	-
130.	Equity instruments	4,103	-	-	4,103	-	4,103
140.	Reserves	3,843	62	-	3,905	-1,892	2,013
150.	Share premium reserve	26,164	-	-	26,164	-	26,164
160.	Share capital	8,732	-	-	8,732	-	8,732
170.	Treasury shares (-)	-26	-	-	-26	-	-26
180.	Net income (loss) (+/-)	4,882	-	-	4,882	-	4,882
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**509,377**	**-**	**-**	**509,377**	**-1,593**	**507,784**

Reconciliation between the balance sheet as at 31 December 2017 of the merged companies according to the new Circular 262 and IFRS 9 balance sheet as at 1 January 2018

(millions of euro)

		TOTAL ASSETS as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition					TOTAL ASSETS as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICATIONS	Changes in carrying amounts due to IFRS 9 transition		TOTAL ASSETS 01.01.2018
			30. Financial assets designated at fair value through profit or loss	40. Financial assets available for sale	50. Investments held to maturity	60. Due from banks	70. Loans to customers		Change in measurement basis	Impairment	
10.	Cash and cash equivalents	745	-	-	-	-	-	745	-	-	745
20.	Financial assets measured at fair value through profit or loss	363	-	5	13	-	-	381	4	-2	383
30.	Financial assets measured at fair value through other comprehensive income	874	-	-5	-13	-	-	856	8	-	864
40.	Financial assets measured at amortised cost	57,011	-	-	-	-	-	57,011	-3	-628	56,380
50.	Hedging derivatives	219	-	-	-	-	-	219	-	-	219
60.	Fair value change of financial assets in hedged portfolios (+/-)	-61	-	-	-	-	-	-61	-	-	-61
70.	Equity investments	31	-	-	-	-	-	31	-	-	31
80.	Property and equipment	258	-	-	-	-	-	258	-	-	258
90.	Intangible assets	302	-	-	-	-	-	302	-	-	302
100.	Tax assets	1,078	-	-	-	-	-	1,078	-2	195	1,271
110.	Non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-
120.	Other assets	1,421	-	-	-	-	-	1,421	-	-	1,421
TOTAL ASSETS		**62,241**	**-**	**-**	**-**	**-**	**-**	**62,241**	**7**	**-435**	**61,813**

(millions of euro)

		TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY as at 31.12.2017 AFTER RECLASSIFICATIONS AS PER NEW CIRC. 262	Financial instruments reclassifications from IFRS 9 transition		TOTAL LIABILITIES as at 31.12.2017 AFTER IFRS 9 FTA RECLASSIFICATIONS	Effect of transition to IFRS9	TOTAL LIABILITIES 01.01.2018
			60. Hedging derivatives	100. Other liabilities			
10.	Financial liabilities measured at amortised cost	54,852	-	-	54,852	-	54,852
20.	Financial liabilities held for trading	173	-	-	173	-	173
30.	Financial liabilities designated at fair value	-	-	-	-	-	-
40.	Hedging derivatives	480	-	-	480	-	480
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	136	-	-	136	-	136
60.	Tax liabilities	85	-	-	85	-	85
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-
80.	Other liabilities	1,087	-	-	1,087	-	1,087
90.	Employee termination indemnities	231	-	-	231	-	231
100.	Allowances for risks and charges	528	-	-	528	20	548
110.	Valuation reserves	29	-	-	29	-9	20
120.	Redeemable shares	-	-	-	-	-	-
130.	Equity instruments	-	-	-	-	-	-
140.	Reserves	606	-	-	606	-439	167
150.	Share premium reserve	904	-	-	904	-	904
160.	Share capital	3,040	-	-	3,040	-	3,040
170.	Treasury shares (-)	-12	-	-	-12	-	-12
180.	Net income (loss) (+/-)	102	-	-	102	-	102
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**62,241**	**-**	**-**	**62,241**	**-428**	**61,813**

Reconciliation between IFRS 9 financial statements and restated financial statements

Reconciliation between balance sheet as at 1 January 2018 (IFRS 9) and balance sheet as at 1 January 2018

(millions of euro)

Assets		1.1.2018 (IFRS9)	Changes							Change in the reference scope	1.1.2018
			Merger of Banco di Napoli	Merger of Banca Nuova	Merger of Cassa dei Risparmi di Forlì e della Romagna	Merger of Cassa di Risparmio del Veneto	Merger of Cassa di Risparmio del Friuli Venezia Giulia	Merger of di Imi Investimenti	Netting of intragroup transactions		
10.	Cash and cash equivalents	5,750	436	42	32	184	51	-	-	745	6,495
20.	Financial assets measured at fair value through profit or loss	25,940	49	87	39	88	18	102	-	383	26,323
	a) financial assets held for trading	*18,925*	*48*	*2*	*35*	*84*	*4*	-	-	*173*	*19,098*
	b) financial assets designated at fair value	*201*	-	-	-	-	-	-	-	-	*201*
	c) other financial assets mandatorily measured at fair value	*6,814*	*1*	*85*	*4*	*4*	*14*	*102*	-	*210*	*7,024*
30.	Financial assets measured at fair value through other comprehensive income	35,718	57	-	21	108	64	614	-	864	36,582
40.	Financial assets measured at amortised cost	382,013	28,627	3,240	4,870	15,039	4,477	127	-21,537	34,843	416,856
	a) due from banks	*157,331*	*8,864*	*1,399*	*1,040*	*2,858*	*1,358*	*83*	*-21,537*	*-5,935*	*151,396*
	b) loans to customers	*224,682*	*19,763*	*1,841*	*3,830*	*12,181*	*3,119*	*44*	-	*40,778*	*265,460*
50.	Hedging derivatives	3,823	164	-	7	31	17	-	-24	195	4,018
60.	Fair value change of financial assets in hedged portfolios (+/-)	-131	-51	-	-	-7	-3	-	-	-61	-192
70.	Equity investments	30,558	-1,774	-115	-264	-1,384	-293	-871	-	-4,701	25,857
80.	Property and equipment	4,400	11	5	48	143	51	-	-	258	4,658
90.	Intangible assets	2,454	167	-	18	95	22	-	-	302	2,756
	of which:										
	- goodwill	859	167	-	18	94	22	-	-	301	1,160
100.	Tax assets	13,715	541	74	127	427	99	3	-	1,271	14,986
	a) current	*2,951*	*64*	*13*	*16*	*50*	*10*	-	-	*153*	*3,104*
	b) deferred	*10,764*	*477*	*61*	*111*	*377*	*89*	*3*	-	*1,118*	*11,882*
110.	Non-current assets held for sale and discontinued operations	266	-	-	-	-	-	-	-	-	266
120.	Other assets	3,278	442	675	40	212	50	2	-761	660	3,938
Total assets		**507,784**	**28,669**	**4,008**	**4,938**	**14,936**	**4,553**	**-23**	**-22,322**	**34,759**	**542,543**

(millions of euro)

	Liabilities and Shareholders' Equity	1.1.2018 (IFRS9)	Changes							Change in the reference scope	1.1.2018
			Merger of Banco di Napoli	Merger of Banca Nuova	Merger of Cassa dei Risparmi di Forlì e della Romagna	Merger of Cassa di Risparmio del Veneto	Merger of Cassa di Risparmio del Friuli Venezia Giulia	Merger of di Imi Investimenti	Netting of intragroup transactions		
10.	Financial liabilities measured at amortised cost	427,289	27,431	3,718	4,850	14,448	4,405	-	-21,537	33,315	460,604
	a) due to banks	*173,710*	*1,023*	*928*	*2,613*	*564*	*1,125*	-	*-20,350*	*-14,097*	*159,613*
	b) due to customers	*170,914*	*26,401*	*2,272*	*2,237*	*13,884*	*3,279*	-	*-58*	*48,015*	*218,929*
	c) securities issued	*82,665*	*7*	*518*	-	-	*1*	-	*-1,129*	*-603*	*82,062*
20.	Financial liabilities held for trading	14,670	45	2	37	85	4	-	-	173	14,843
30.	Financial liabilities designated at fair value	9	-	-	-	-	-	-	-	-	9
40.	Hedging derivatives	5,465	376	-	6	70	28	-	-24	456	5,921
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	324	105	-	2	18	11	-	-	136	460
60.	Tax liabilities	1,338	19	1	12	36	14	3	-	85	1,423
	a) current	*103*	*2*	-	-	*2*	-	-	-	*4*	*107*
	b) deferred	*1,235*	*17*	*1*	*12*	*34*	*14*	*3*	-	*81*	*1,316*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-
80.	Other liabilities	6,983	486	202	51	275	73	-	-664	423	7,406
90.	Employee termination indemnities	767	138	6	14	58	15	-	-	231	998
100.	Allowances for risks and charges	4,211	292	26	28	162	39	1	-97	451	4,662
	a) commitments and guarantees given	*311*	*19*	*1*	*6*	*19*	*10*	-	-	*55*	*366*
	b) post-employment benefits	*883*	*48*	-	*4*	*35*	*2*	-	-	*89*	*972*
	c) other allowances for risks and charges	*3,017*	*225*	*25*	*18*	*108*	*27*	*1*	*-97*	*307*	*3,324*
110.	Valuation reserves	860	-44	-1	-3	19	19	-	-	-10	850
120.	Redeemable shares	-	-	-	-	-	-	-	-	-	-
130.	Equity instruments	4,103	-	-	-	-	-	-	-	-	4,103
140.	Reserves	2,013	-333	91	-37	-234	-60	-30	-	-603	1,410
150.	Share premium reserve	26,164	-	-	-	-	-	-	-	-	26,164
160.	Share capital	8,732	-	-	-	-	-	-	-	-	8,732
170.	Treasury shares (-)	-26	-	-	-	-	-	-	-	-	-26
180.	Net income (loss) (+/-)	4,882	154	-37	-22	-1	5	3	-	102	4,984
	Total liabilities and shareholders' equity	**507,784**	**28,669**	**4,008**	**4,938**	**14,936**	**4,553**	**-23**	**-22,322**	**34,759**	**542,543**

Reconciliation between income statement for 2017 (IFRS 9) and restated income statement for 2017

(millions of euro)

		2017 IFRS 9	Changes							Change in the reference scope	2017 restated
			Dividend elimination	Merger of Cassa di Risparmio del Veneto	Merger of Cassa di Risparmio del Friuli Venezia Giulia	Merger of Imi Investimenti	Merger of Cassa dei Risparmi di Forlì e della Romagna	Merger of Banco di Napoli	Netting of intragroup transactions		
10.	Interest and similar income	6,458	-	249	69	4	88	587	-95	902	7,360
	of which: interest income calculated using the effective interest rate method	*5,744*	-	*247*	*68*	*4*	*88*	*585*	-	*992*	*6,736*
20.	Interest and similar expense	-3,647	-	-35	-9	-	-19	-63	103	-23	-3,670
30.	**Interest margin**	**2,811**	**-**	**214**	**60**	**4**	**69**	**524**	**8**	**879**	**3,690**
40.	Fee and commission income	3,794	-	316	84	-	67	600	-120	947	4,741
50.	Fee and commission expense	-826	-	-15	-7	-	-4	-32	120	62	-764
60.	**Net fee and commission income**	**2,968**	**-**	**301**	**77**	**-**	**63**	**568**	**-**	**1,009**	**3,977**
70.	Dividend and similar income	1,889	-160	-	-	3	-	-	-	-157	1,732
80.	Profits (Losses) on trading	47	-	10	1	-	4	8	-2	21	68
90.	Fair value adjustments in hedge accounting	-17	-	-	-	-	-	-4	-	-4	-21
100.	Profits (Losses) on disposal or repurchase of:	181	-	-9	-2	-	-1	-25	-	-37	144
	a) financial assets measured at amortised cost	*-11*	-	*-1*	-	-	-	*-7*	-	*-8*	*-19*
	b) financial assets measured at fair value through other comprehensive income	*212*	-	*-8*	*-2*	-	*-1*	*-18*	-	*-29*	*183*
	c) financial liabilities	*-20*	-	-	-	-	-	-	-	-	*-20*
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	2	-	-	-	-	-	-	-	-	2
	a) financial assets and liabilities designated at fair value	*2*	-	-	-	-	-	-	-	-	*2*
	b) other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-	-	-	-
120.	**Net interest and other banking income**	**7,881**	**-160**	**516**	**136**	**7**	**135**	**1,071**	**6**	**1,711**	**9,592**
130.	Net losses/recoveries for credit risks associated with:	-2,018	-	-151	-25	-2	-71	-124	-	-373	-2,391
	a) financial assets measured at amortised cost	*-1,542*	-	*-144*	*-24*	*-2*	*-71*	*-119*	-	*-360*	*-1,902*
	b) financial assets measured at fair value through other comprehensive income	*-476*	-	*-7*	*-1*	-	-	*-5*	-	*-13*	*-489*
140.	Profits (Losses) on changes in contracts without derecognition	-	-	-	-	-	-	-	-	-	-
150.	**Net income from banking activities**	**5,863**	**-160**	**365**	**111**	**5**	**64**	**947**	**6**	**1,338**	**7,201**
160.	Administrative expenses:	-6,385	-	-452	-123	-3	-103	-798	74	-1,405	-7,790
	a) personnel expenses	*-3,775*	-	*-270*	*-76*	*-2*	*-61*	*-438*	-	*-847*	*-4,622*
	b) other administrative expenses	*-2,610*	-	*-182*	*-47*	*-1*	*-42*	*-360*	*74*	*-558*	*-3,168*
170.	Net provisions for risks and charges	-818	-	-7	-2	-	-2	-10	-	-21	-839
	a) commitments and guarantees given	-	-	-	-	-	-	-	-	-	-
	b) other net provisions	*-818*	-	*-7*	*-2*	-	*-2*	*-10*	-	*-21*	*-839*
180.	Net adjustments to / recoveries on property and equipment	-123	-	-6	-2	-	-2	-3	-	-13	-136
190.	Net adjustments to / recoveries on intangible assets	-13	-	-	-	-	-	-	-	-	-13
200.	Other operating expenses (income)	5,328	-	65	19	1	11	83	-80	99	5,427
210.	**Operating expenses**	**-2,011**	**-**	**-400**	**-108**	**-2**	**-96**	**-728**	**-6**	**-1,340**	**-3,351**
220.	Profits (Losses) on equity investments	167	-	-	-	-	-	-	-	-	167
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-16	-	-	-	-	-1	-	-	-1	-17
240.	Goodwill impairment	-	-	-	-	-	-	-	-	-	-
250.	Profits (Losses) on disposal of investments	77	-	8	-	-	-	-	-	8	85
260.	**Income (Loss) before tax from continuing operations**	**4,080**	**-160**	**-27**	**3**	**3**	**-33**	**219**	**-**	**5**	**4,085**
270.	Taxes on income from continuing operations	802	-	26	2	-	11	-65	-	-26	776
280.	**Income (Loss) after tax from continuing operations**	**4,882**	**-160**	**-1**	**5**	**3**	**-22**	**154**	**-**	**-21**	**4,861**
290.	Income (Loss) after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-
300.	**Net income (loss)**	**4,882**	**-160**	**-1**	**5**	**3**	**-22**	**154**	**-**	**-21**	**4,861**

Restated financial statements

Balance sheet

(millions of euro)

Assets		31.12.2018	1.1.2018	Changes amount	Changes %
10.	Cash and cash equivalents	7,363	6,495	868	13.4
20.	Financial assets measured at fair value through profit or loss	25,878	26,323	-445	-1.7
	a) financial assets held for trading	*18,020*	*19,098*	*-1,078*	*-5.6*
	b) financial assets designated at fair value	*198*	*201*	*-3*	*-1.5*
	c) other financial assets mandatorily measured at fair value	*7,660*	*7,024*	*636*	*9.1*
30.	Financial assets measured at fair value through other comprehensive income	31,136	36,582	-5,446	-14.9
40.	Financial assets measured at amortised cost	409,602	416,856	-7,254	-1.7
	a) due from banks	*154,591*	*151,396*	*3,195*	*2.1*
	b) loans to customers	*255,011*	*265,460*	*-10,449*	*-3.9*
50.	Hedging derivatives	2,878	4,018	-1,140	-28.4
60.	Fair value change of financial assets in hedged portfolios (+/-)	77	-192	269	
70.	Equity investments	26,258	25,857	401	1.6
80.	Property and equipment	4,598	4,658	-60	-1.3
90.	Intangible assets	2,768	2,756	12	0.4
	of which:			-	
	- goodwill	1,160	1,160	-	-
100.	Tax assets	14,335	14,986	-651	-4.3
	a) current	*2,997*	*3,104*	*-107*	*-3.4*
	b) deferred	*11,338*	*11,882*	*-544*	*-4.6*
110.	Non-current assets held for sale and discontinued operations	672	266	406	
120.	Other assets	2,988	3,938	-950	-24.1
Total assets		**528,553**	**542,543**	**-13,990**	**-2.6**

(millions of euro)

Liabilities and Shareholders' Equity		31.12.2018	1.1.2018	Changes amount	Changes %
10.	Financial liabilities measured at amortised cost	447,143	460,604	-13,461	-2.9
	a) due to banks	*161,719*	*159,613*	*2,106*	*1.3*
	b) due to customers	*208,532*	*218,929*	*-10,397*	*-4.7*
	c) securities issued	*76,892*	*82,062*	*-5,170*	*-6.3*
20.	Financial liabilities held for trading	14,560	14,843	-283	-1.9
30.	Financial liabilities designated at fair value	1,821	9	1,812	
40.	Hedging derivatives	5,358	5,921	-563	-9.5
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	382	460	-78	-17.0
60.	Tax liabilities	1,447	1,423	24	1.7
	a) current	*76*	*107*	*-31*	*-29.0*
	b) deferred	*1,371*	*1,316*	*55*	*4.2*
70.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	
80.	Other liabilities	6,352	7,406	-1,054	-14.2
90.	Employee termination indemnities	845	998	-153	-15.3
100.	Allowances for risks and charges	3,434	4,662	-1,228	-26.3
	a) commitments and guarantees given	*350*	*366*	*-16*	*-4.4*
	b) post-employment benefits	*223*	*972*	*-749*	*-77.1*
	c) other allowances for risks and charges	*2,861*	*3,324*	*-463*	*-13.9*
110.	Valuation reserves	1,081	850	231	27.2
120.	Redeemable shares	-	-	-	
130.	Equity instruments	4,103	4,103	-	-
140.	Reserves	4,370	1,410	2,960	
150.	Share premium reserve	24,926	26,164	-1,238	-4.7
160.	Share capital	9,085	8,732	353	4.0
170.	Treasury shares (-)	-40	-26	-14	-53.8
180.	Net income (loss) (+/-)	3,686	4,984	-1,298	-26.0
Total liabilities and shareholders' equity		**528,553**	**542,543**	**-13,990**	**-2.6**

Restated income statement

(millions of euro)

		2018	2017 Restated	Changes amount	Changes %
10.	Interest and similar income	7,036	7,360	-324	-4.4
	of which: interest income calculated using the effective interest rate method	*7,245*	*6,736*	*509*	*7.6*
20.	Interest and similar expense	-2,785	-3,670	-885	-24.1
30.	**Interest margin**	**4,251**	**3,690**	**561**	**15.2**
40.	Fee and commission income	4,929	4,741	188	4.0
50.	Fee and commission expense	-913	-764	149	19.5
60.	**Net fee and commission income**	**4,016**	**3,977**	**39**	**1.0**
70.	Dividend and similar income	3,491	1,732	1,759	
80.	Profits (Losses) on trading	-80	68	-148	
90.	Fair value adjustments in hedge accounting	-22	-21	1	4.8
100.	Profits (Losses) on disposal or repurchase of:	101	144	-43	-29.9
	a) financial assets measured at amortised cost	*-64*	*-19*	*45*	
	b) financial assets measured at fair value through other comprehensive income	*215*	*183*	*32*	*17.5*
	c) financial liabilities	*-50*	*-20*	*30*	
110.	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	281	2	279	
	a) financial assets and liabilities designated at fair value	*30*	*2*	*28*	
	b) other financial assets mandatorily measured at fair value	*251*	*-*	*251*	*-*
120.	**Net interest and other banking income**	**12,038**	**9,592**	**2,446**	**25.5**
130.	Net losses/recoveries for credit risks associated with:	-1,821	-2,391	-570	-23.8
	a) financial assets measured at amortised cost	*-1,822*	*-1,902*	*-80*	*-4.2*
	b) financial assets measured at fair value through other comprehensive income	*1*	*-489*	*490*	
140.	Profits (Losses) on changes in contracts without derecognition	-16	-	16	-
150.	**Net income from banking activities**	**10,201**	**7,201**	**3,000**	**41.7**
160.	Administrative expenses:	-7,016	-7,790	-774	-9.9
	a) personnel expenses	*-3,670*	*-4,622*	*-952*	*-20.6*
	b) other administrative expenses	*-3,346*	*-3,168*	*178*	*5.6*
170.	Net provisions for risks and charges	-40	-839	-799	-95.2
	a) commitments and guarantees given	*10*	*-*	*10*	*-*
	b) other net provisions	*-50*	*-839*	*-789*	*-94.0*
180.	Net adjustments to / recoveries on property and equipment	-125	-136	-11	-8.1
190.	Net adjustments to / recoveries on intangible assets	-15	-13	2	15.4
200.	Other operating expenses (income)	518	5,427	-4,909	-90.5
210.	**Operating expenses**	**-6,678**	**-3,351**	**3,327**	**99.3**
220.	Profits (Losses) on equity investments	127	167	-40	-24.0
230.	Valuation differences on property, equipment and intangible assets measured at fair value	-6	-17	-11	-64.7
240.	Goodwill impairment	-	-	-	-
250.	Profits (Losses) on disposal of investments	1	85	-84	-98.8
260.	**Income (Loss) before tax from continuing operations**	**3,645**	**4,085**	**-440**	**-10.8**
270.	Taxes on income from continuing operations	41	776	-735	-94.7
280.	**Income (Loss) after tax from continuing operations**	**3,686**	**4,861**	**-1,175**	**-24.2**
290.	Income (Loss) after tax from discontinued operations	-	-	-	-
300.	**Net income (loss)**	**3,686**	**4,861**	**-1,175**	**-24.2**

Reconciliation between restated financial statements and reclassified financial statements

Reconciliation between balance sheet and reclassified balance sheet

(millions of euro)

Assets		31.12.2018	01.01.2018
Due from banks		**154,291**	**148,473**
Caption 40a (partial)	*Financial assets measured at amortised cost - Due from banks*	*154,289*	*148,458*
Caption 20a (partial)	*Financial assets held for trading - Due from banks*	*-*	*-*
Caption 20c (partial)	*Other financial assets mandatorily measured at fair value - Due from banks*	*2*	*15*
Loans to customers		**251,870**	**263,142**
Loans to customers measured at amortised cost		***246,040***	***257,537***
Caption 40b (partial)	*Financial assets measured at amortised cost - Loans to customers*	*241,171*	*252,051*
Caption 40b (partial)	*Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)*	*4,869*	*5,486*
Loans to customers at fair value through other comprehensive income and through profit or loss		***5,830***	***5,605***
Caption 20a (partial)	*Financial assets held for trading – Loans to customers*	*13*	*-*
Caption 20b (partial)	*Financial assets designated at fair value through profit or loss – Loans to customers*	*-*	*-*
Caption 20c (partial)	*Other financial assets mandatorily measured at fair value through profit or loss – Loans to customers*	*5,798*	*5,605*
Caption 30 (partial)	*Financial assets at fair value through other comprehensive income – Loans to customers*	*19*	*-*
Financial assets measured at amortised cost which do not constitute loans		**9,273**	**10,861**
Caption 40a (partial)	*Financial assets measured at amortised cost - Debt securities with banks*	*302*	*2,938*
Caption 40b (partial)	*Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)*	*8,971*	*7,923*
Financial assets at fair value through profit or loss		**20,066**	**20,703**
Caption 20a (partial)	*Financial assets held for trading*	*18,008*	*19,098*
Caption 20b (partial)	*Financial assets designated at fair value - Debt securities*	*198*	*201*
Caption 20c (partial)	*Other financial assets mandatorily measured at fair value*	*1,860*	*1,404*
Financial assets at fair value through other comprehensive income		**31,117**	**36,582**
Caption 30 (partial)	*Financial assets measured at fair value through other comprehensive income*	*31,117*	*36,582*
Equity investments		**26,258**	**25,857**
Caption 70	*Equity investments*	*26,258*	*25,857*
Property, equipment and intangible assets		**7,366**	**7,414**
Caption 80	*Property and equipment*	*4,598*	*4,658*
Caption 90	*Intangible assets*	*2,768*	*2,756*
Tax assets		**14,335**	**14,986**
Caption 100	*Tax assets*	*14,335*	*14,986*
Non-current assets held for sale and discontinued operations		**672**	**266**
Caption 110	*Non-current assets held for sale and discontinued operations*	*672*	*266*
Other assets		**13,305**	**14,259**
Caption 10	*Cash and cash equivalents*	*7,363*	*6,495*
Caption 50	*Hedging derivatives*	*2,877*	*4,018*
Caption 60	*Fair value change of financial assets in hedged portfolios (+/-)*	*77*	*-192*
Caption 120	*Other assets*	*2,988*	*3,938*
Total assets		**528,553**	**542,543**

(millions of euro)

Liabilities		31.12.2018	01.01.2018
Due to banks at amortised cost		**161,719**	**159,613**
Caption 10 a)	*Financial liabilities measured at amortised cost - Due to banks*	*161,719*	*159,613*
Due to customers at amortised cost and securities issued		**285,424**	**300,991**
Caption 10 b)	*Financial liabilities measured at amortised cost - Due to customers*	*208,532*	*218,929*
Caption 10 c)	*Financial liabilities measured at amortised cost - Securities issued*	*76,892*	*82,062*
Financial liabilities held for trading		**14,560**	**14,843**
Caption 20	*Financial liabilities held for trading*	*14,560*	*14,843*
Financial liabilities designated at fair value		**1,821**	**9**
Caption 30	*Financial liabilities designated at fair value*	*1,821*	*9*
Tax liabilities		**1,447**	**1,423**
Caption 60	*Tax liabilities*	*1,447*	*1,423*
Liabilities associated with non-current assets held for sale and discontinued operations		**-**	**-**
Caption 70	*Liabilities associated with non-current assets held for sale and discontinued operations*	*-*	*-*
Other liabilities		**12,092**	**13,787**
Caption 40	*Hedging derivatives*	*5,358*	*5,921*
Caption 50	*Fair value change of financial liabilities in hedged portfolios (+/-)*	*382*	*460*
Caption 80	*Other liabilities*	*6,352*	*7,406*
Allowances for risks and charges		**4,279**	**5,660**
Caption 90	*Employee termination indemnities*	*845*	*998*
Caption 100 a)	*Allowances for risks and charges - Loan commitments and guarantees given*	*350*	*366*
Caption 100 b)	*Allowances for risks and charges - Post-employment benefits*	*223*	*972*
Caption 100 c)	*Allowances for risks and charges - Other allowances*	*2,861*	*3,324*
Share capital		**9,085**	**8,732**
Caption 160	*Share capital*	*9,085*	*8,732*
Reserves		**29,256**	**27,548**
Caption 140	*Reserves*	*4,370*	*1,410*
Caption 150	*Share premium reserve*	*24,926*	*26,164*
Caption 170	*Own shares*	*-40*	*-26*
Valuation reserves		**1,081**	**850**
Caption 110	*Valuation reserves*	*1,081*	*850*
Equity instruments		**4,103**	**4,103**
Caption 130	*Equity instruments*	*4,103*	*4,103*
Net income (loss)		**3,686**	**4,984**
Caption 180	*Net income (loss) (+/-)*	*3,686*	*4,984*
Total Liabilities and Shareholders' Equity		**528,553**	**542,543**

Reconciliation between restated income statement and reclassified income statement

(millions of euro)

Captions		2018	2017 Restated
Net interest income		**4,224**	**4,120**
Caption 30	Interest margin	4,251	3,690
- Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	101	-22
+ Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	-128	-
- Caption 20 (partial)	Interest and similar expense (Cost of funding of discontinued operations)	16	-
+ Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	480
+ Caption 160 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	-13	-28
+ Caption 170 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	-3	-
Net fee and commission income		**3,986**	**3,950**
Caption 60	Net fee and commission income	4,017	3,977
+ Caption 160 b) (partial)	Other administrative expenses (Recovery of other expenses)	-31	-27
Profits (Losses) on financial assets and liabilities designated at fair value		**564**	**342**
Caption 80	Profits (Losses) on trading	-80	68
Caption 90	Fair value adjustments in hedge accounting	-22	-21
Caption 110 a)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (a) financial assets and liabilities designated at fair value	30	2
Caption 110 b)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss	251	-
- Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss	57	-
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions	-10	-
Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income	215	217
- Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Voluntary Scheme of the National Interbank Deposit Guarantee Fund)	-	64
- Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	-5	-
Caption 100 c)	Profits (Losses) on disposal or repurchase of financial liabilities	-50	-20
+ Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	50	32
- Caption 80 (partial)	Components of profits (losses) on trading relating to net interest	128	-
+ Caption 160 b) (partial)	Other administrative expenses (storage costs)	-	-
Other operating income (expenses)		**3,514**	**1,793**
Caption 70	Dividend and similar income	3,491	1,732
Caption 200	Other operating expenses (income)	518	5,435
- Caption 70 (partial)	Dividend and similar income on equity instruments held for trading, designated at fair value through profit or loss or for which the option has been exercised of their designation at fair value through other comprehensive income (including dividends on UCIs)	-50	-32
- Caption 200 (partial)	Other operating expenses (income) (Extraordinary operating expenses and income of the Aggregate Set)	-	-4,793
- Caption 200 (partial)	Other operating expenses (income) (Recovery of expenses and indirect taxes)	-451	-460
- Caption 200 (partial)	Other operating expenses (income) (Charges for integration)	6	-89
Operating income		**12,288**	**10,205**

Reconciliation between restated income statement and reclassified income statement *(Continued)*

(millions of euro)

Captions		2018	2017 Restated
Personnel expenses		**-3,619**	**-3,506**
Caption 160 a)	Personnel expenses	-3,670	-4,622
- Caption 160 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	38	1,088
- Caption 160 a) (partial)	Personnel expenses (Time value employee termination indemnities and other)	13	28
Other administrative expenses		**-2,533**	**-2,431**
Caption 160 b)	Other administrative expenses	-3,346	-3,168
- Caption 160 b) (partial)	Other administrative expenses (Charges for integration and exit incentives)	66	70
- Caption 160 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	265	181
- Caption 160 b) (partial)	Other administrative expenses (Recovery of other expenses)	31	26
+ Caption 200 (partial)	Other operating expenses (income) (Recovery of expenses and indirect taxes)	451	460
Adjustments to property, equipment and intangible assets		**-131**	**-144**
Caption 180	Net adjustments to / recoveries on property and equipment	-125	-136
Caption 190	Net adjustments to / recoveries on intangible assets	-15	-13
- Caption 190 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	9	5
Operating costs		**-6,283**	**-6,081**
Operating margin		**6,005**	**4,124**
Net adjustments to loans		**-1,827**	**-2,431**
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans	-76	-97
Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-1	1
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Loans	-1,836	-1,851
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Other	4	-
- Caption 130 a) (partial)	Net losses/recoveries on impairment of loans (Time value loans)	-	-484
Caption 140	Profits/losses from changes in contracts without derecognition	-16	-
Caption 170 a)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	20	-
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	78	-
Other net provisions and net impairment losses on other assets		**-89**	**-171**
Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	10	-51
- Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	-	48
Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities	1	-480
- Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	472
Caption 170 b)	Net provisions for risks and charges - Other net provisions	-50	-839
- Caption 170 b) (partial)	Net provisions for risks and charges (Time value allowances for risks and charges)	3	-
+ Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions for charges related to the sale of NTV	10	-
+ Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions for the solidarity fund for the reimbursement of subordinated bondholders	13	-
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Acquired Aggregate Set)	-	726
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions (Charges for integration and exit incentives, including Vivaldi project)	-49	-
Caption 170 a) (partial)	Net provisions for risks and charges for credit risk related to commitments and guarantees given	-10	-
- Caption 220 (partial)	Profits (Losses) on equity investments (impairment of non-controlling interests)	-225	-31
+ Caption 230	Valuation differences on property, equipment and intangible assets measured at fair value	-6	-16
+ Caption 220 (partial)	Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	214	-

Reconciliation between restated income statement and reclassified income statement *(Continued)*

(millions of euro)

Captions		2018	2017 Restated
Other income (expenses)		**412**	**4,112**
Caption 220	Profits (Losses) on equity investments	127	167
Caption 230	Valuation differences on property, equipment and intangible assets measured at fair value	-6	-
- Caption 230	Valuation differences on property, equipment and intangible assets measured at fair value	6	-
Caption 250	Profits (Losses) on disposal of investments	1	77
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)	13	78
- Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	-10	-
+ Caption 20 (partial)	Interest and similar expense (Cost of funding of discontinued operations)	-16	-
+ Caption 220 (partial)	Profits (Losses) on equity investments (impairment of non-controlling interests)	213	-
+ Caption 200 (partial)	Other operating income (expenses) (Public contribution for the Acquired Aggregate Set)	-	3,500
- Caption 220 (partial)	Profits (Losses) on equity investments (Adjustments/recoveries due to impairment of associates)	-214	-
- Caption 220 (partial)	Profits (Losses) on equity investments (impairment of controlling interests)	298	290
Income (Loss) from discontinued operations		-	-
Caption 290	Income (Loss) after tax from discontinued operations	-	-
Gross income (loss)		**4,501**	**5,634**
Taxes on income		**-148**	**-90**
Caption 270	Taxes on income from continuing operations	41	776
- Caption 270 (partial)	Taxes on income from continuing operations (Charges for integration)	-20	-378
- Caption 270 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	-57	6
- Caption 270 (partial)	Taxes on income from continuing operations (Profits (Losses) on equity investments - Impairment of controlling interests)	-2	-
- Caption 270 (partial)	Taxes on income from continuing operations (National Interbank Deposit Guarantee Fund CARIGE)	-22	-
- Caption 270 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	-86	-72
+ Caption 270 (partial)	Taxes on income from continuing operations - net provisions for risks and charges - Other net provisions for the solidarity fund for the reimbursement of subordinated bondholders	-5	-229
- Caption 270 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	3	-193
Charges (net of tax) for integration and exit incentives		**-50**	**-247**
+ Caption 160 a) (partial)	Personnel expenses (Charges for integration and exit incentives)	-38	-1,088
+ Caption 160 b) (partial)	Other administrative expenses (Charges for integration and exit incentives)	-66	-70
+ Caption 170 b) (partial)	Net provisions for risks and charges (Charges for integration and exit incentives, including Vivaldi project)	49	-726
- Caption 170 b) (partial)	Net provisions for risks and charges - Other net provisions for the solidarity fund for the reimbursement of subordinated bondholders	-13	-
+ Caption 270 (partial)	Taxes on income from continuing operations - net provisions for risks and charges - Other net provisions for the solidarity fund for the reimbursement of subordinated bondholders	5	229
+ Caption 220 (partial)	Profits (Losses) on equity investments (Loss on the sale of SEC SERVIZI)	-1	-
+ Caption 200 (partial)	Other operating expenses (income) (Recovery of costs from Group companies)	-6	1,028
+ Caption 270 (partial)	Taxes on income from continuing operations (Charges for integration)	20	380
Effect of purchase price allocation (net of tax)		**-117**	**368**
+ Caption 30 (partial)	Interest margin (Effect of purchase price allocation)	-101	22
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets available for sale (Acquired Aggregate Set)	-	2
+ Caption 100 d) (partial)	Profits (Losses) on disposal or repurchase of financial liabilities (Effect of purchase price allocation)	-	1
+ Caption 190 (partial)	Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)	-9	-5
Caption 80 (partial)	Profits (Losses) on trading (Effect of purchase price allocation)	5	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	-78	-
+ Caption 100 a) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost (Effect of purchase price allocation)	9	-
+ Caption 200 (partial)	Other operating expenses (income) (Aggregate Set)	-	354
+ Caption 270 (partial)	Taxes on income from continuing operations (Effect of purchase price allocation)	57	-6

Reconciliation between restated income statement and reclassified income statement

(millions of euro)

Captions		2018	2017 Restated
Levies and other charges concerning the banking industry (net of tax)		**-217**	**-545**
Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss - ATLANTE FUND 1 and ATLANTE FUND 2	8	-29
- Caption 270 (partial)	Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)	-3	193
+ Caption 100 b) (partial)	Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income (Voluntary Scheme of the National Interbank Deposit Guarantee Fund)	-	-73
Caption 110 b) (partial)	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) financial assets mandatorily measured at fair value through profit or loss (National Interbank Deposit Guarantee Fund CARIGE)	-65	-
+ Caption 270 (partial)	Taxes on income from continuing operations (National Interbank Deposit Guarantee Fund Carige)	22	-
+ Caption 130 a) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others)	-	-48
+ Caption 130 b) (partial)	Net losses/recoveries for credit risk associated with financial assets measured at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)	-	-472
+ Caption 160 b) (partial)	Other administrative expenses (Resolution fund and deposit guarantee scheme)	-265	-187
+ Caption 270 (partial)	Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)	86	71
Impairment (net of tax) of goodwill and other intangible assets		**-283**	**-259**
Caption 240	Goodwill impairment	-	-
+ Caption 220 (partial)	Profits (Losses) on equity investments (impairment of controlling interests)	-298	-259
- Caption 220 (partial)	Profits (Losses) on equity investments	13	-
+ Caption 270 (partial)	Taxes on income from continuing operations (Profits (Losses) on equity investments)	2	-
Net income (loss)		**3,686**	**4,861**

Other attachments

Fees for auditing and services other than auditing pursuant to Article 149-duodecies of Consob Regulation 11971

(millions of euro)

Type of service	INTESA SANPAOLO		GROUP COMPANIES(*)	
	KPMG	KPMG Network	KPMG	KPMG Network
Independent audit (**)	9.14	-	12.98	-
Release of attestations (***)	1.56	-	2.81	-
Other services:				
agreed audit procedures	*0.26*	-	*0.75*	-
consolidated non-financial statement	*0.12*	-	*0.06*	-
TOTAL	**11.08**	**-**	**16.60**	**-**

(*) Group companies and other consolidated subsidiaries.

(**) Including costs for statutory audit and voluntary audit. Costs for audit of non-consolidated funds for about 8 million euro are not included

(***) Including audit costs, on a voluntary basis, for "Pillar 3" disclosure

Amounts net of VAT and reimbursed expenses and Consob contribution

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

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

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

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

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

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

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

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

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

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

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

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

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

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

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

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

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

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

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

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

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

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

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

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand” is used in accounting 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.

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

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

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

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.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
“Past due exposures” are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank’s risk appetite.

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

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.

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets

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

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

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

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.

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 derivative contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

ERP (equity risk premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

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

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.
Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

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

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

FIFO: First In First Out –
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See “Forwards”.

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income –
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders’ equity) and not through profit or loss.

FVTPL: Fair Value Through Profit and Loss –
Method of recognition of changes in the fair value of financial assets through profit or loss

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

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).
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.

Significant increase in credit risk "SICR"
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:
- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;
- exposures are more than 30 days past due, used as a backstop rather than a primary driver

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

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

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

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

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

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

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

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

Junior
In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.
Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

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

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

LCRE: Low Credit Risk Exemption –
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

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.

Expected credit losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Lifetime expected loss
Expected credit losses that result from all possible default events over the expected life of a financial instrument

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – *Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3*

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See "Syndicated lending".

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.
Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

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

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

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

Indirect customer deposits
The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

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.

Risk Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

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

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

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

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

SPE/SPV
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).

SPPI TEST
One of the two classification drivers (the other is the "business model") that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as "basic lending arrangements" in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.

Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

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

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

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

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

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

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

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

Wealth management
See "Asset management".

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.
Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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Financial calendar

Approval of the Interim Statement as at 31 March 2019:	7 May 2019
Approval of the half-yearly report as at 30 June 2019:	31 July 2019
Approval of the Interim Statement as at 30 September 2019:	5 November 2019

Prepress and printing: Agema® S.p.A.

GALLERIE D'ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d'Italia, 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, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.
Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza exhibits works of eighteenth-century Veneto art and a collection of Attic and Magna Graecia pottery. Moreover, one of the most important collections of Russian icons in the West is safeguarded here.

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:

ANGELO INGANNI
(Brescia, 1807 - 1880)
Piazza della Scala under the snow, seen from the Gallery 1874
oil on canvas, 65,5 x 55,5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

Angelo Inganni's vedute are fine works offering a valuable insight into the urban transformations that Milan experienced during the 19th century. In *Piazza della Scala under the snow, seen from the Gallery*, the artist depicts Teatro alla Scala before the square it faces was opened, which involved the demolition of a housing block next to the Palazzo Marino, and subsequently led to the construction of the Galleria Vittorio Emanuele II and the erection of the Leonardo da Vinci monument.

Despite the structural balance of the work, the resulting image - created with free and vibrant brushstrokes with no concern for defined outlines - seems somewhat random, almost like a snapshot of the path running between the snowy square and the Galleria.

The work is part of the permanent collection at the **Gallerie d'Italia**, Intesa Sanpaolo's museum complex located in **Piazza Scala, Milan**. The exhibition dedicated principally to 19th century art opens with Neoclassical works and continues through to the turn of the 20th century, with a century's worth of Italian paintings depicting historical events, battles of the Risorgimento (the Italian Unification), vedute and landscapes, as well as genre paintings and masterpieces of Symbolism.