

PRESS RELEASE

INTESA SANPAOLO: CONSOLIDATED RESULTS AS AT 31 DECEMBER 2018

RESULTS FOR 2018 REFLECT THE GROUP'S SUSTAINABLE PROFITABILITY, DERIVING FROM A SOLID CAPITAL BASE AND A STRONG LIQUIDITY POSITION AND FROM ITS BUSINESS MODEL. THIS BUSINESS MODEL IS BOTH RESILIENT AND WELL DIVERSIFIED, WITH WEALTH MANAGEMENT & PROTECTION BEING THE FOCUS, FINANCIAL ACTIVITIES PROVIDING NATURAL HEDGING AGAINST THE IMPACTS OF MARKET VOLATILITY ON FEE-BASED REVENUES, STRATEGIC FLEXIBILITY IN MANAGING OPERATING COSTS, AND EFFECTIVE PROACTIVE CREDIT MANAGEMENT.

2018 RESULTS SHOW THAT THE GROUP IS FIRMLY ON TRACK TO DELIVER ON ITS TARGETS. THEY ALSO HIGHLIGHT THE GROUP'S CONTINUED SUPPORT TO THE ECONOMY IN THE COUNTRIES WHERE THE GROUP OPERATES, SPECIFICALLY IN ITALY, WHERE MOREOVER THE GROUP IS COMMITTED TO BECOMING A REFERENCE MODEL ON SOCIAL AND CULTURAL RESPONSIBILITY.

NET INCOME FOR 2018 WAS €4,050 MILLION. PROPOSED CASH DIVIDENDS AMOUNT TO €3,449 MILLION, WHICH IS MORE THAN THE €3,419 MILLION IN CASH DIVIDENDS PAID FOR 2017 AND CORRESPONDS TO THE PAYOUT RATIO OF 85% INDICATED IN THE BUSINESS PLAN FOR 2018.

THE CAPITAL POSITION WAS SOLID AND WELL ABOVE REGULATORY REQUIREMENTS, EVEN UNDER THE ADVERSE SCENARIO OF THE 2018 EBA/ECB STRESS TEST: PRO-FORMA FULLY LOADED COMMON EQUITY TIER 1 RATIO WAS 13.6%, TAKING THE DIVIDENDS PROPOSED FOR 2018 INTO ACCOUNT.

OPERATING MARGIN ROSE 4.8% ON 2017, WITH OPERATING INCOME UP 0.2% AND OPERATING COSTS DOWN 3.6%.

CREDIT QUALITY IMPROVED. GROSS NPLs WERE REDUCED AT NO EXTRAORDINARY COST TO SHAREHOLDERS, WITH STOCK DOWN 29.9% ON YEAR-END 2017, ALREADY ACHIEVING, IN 2018, OVER 60% OF THE TARGET SET IN THE 2018-2021 BUSINESS PLAN. GROSS NPL RATIO STOOD AT 8.8% AND NET NPL RATIO AT 4.2%. NET ADJUSTMENTS TO LOANS WERE DOWN 27.7% ON 2017 AND COST OF RISK DECREASED TO 61 BASIS POINTS.

INTESA SANPAOLO CONTINUES TO OPERATE AS AN ACCELERATOR FOR GROWTH IN THE REAL ECONOMY IN ITALY. IN 2018, MEDIUM/LONG-TERM NEW LENDING GRANTED BY THE GROUP TO ITALIAN HOUSEHOLDS AND BUSINESSES AMOUNTED TO AROUND €50 BILLION. IN 2018, THE GROUP FACILITATED THE RETURN TO PERFORMING STATUS OF AROUND 20,000 COMPANIES, THUS SAFEGUARDING AROUND 100,000 JOBS – BRINGING THE TOTAL TO AROUND 93,000 COMPANIES WITH OVER 460,000 JOBS SAFEGUARDED, SINCE 2014.

INTESA SANPAOLO IS THE ENGINE OF THE ITALIAN SOCIAL ECONOMY: THE DIVIDENDS DISTRIBUTED BY THE BANK HAVE ENABLED THE FOUNDATIONS THAT ARE AMONG ITS SHAREHOLDERS TO GRANT MORE THAN HALF OF THE TOTAL FUNDS GRANTED BY ALL ITALIAN BANKING FOUNDATIONS.

IN 2018, THE GROUP'S SOCIAL AND CULTURAL RESPONSIBILITY TRANSLATED, IN ITALY, INTO: INITIATIVES TO REDUCE CHILD POVERTY AND SUPPORT PEOPLE IN NEED, DELIVERING AROUND 9,000 MEALS A DAY, 7,900 DORMITORY BEDS A MONTH, 4,000 MEDICINE PRESCRIPTIONS A MONTH, AND 3,000 CLOTHES A MONTH; SUPPORT TO FAMILIES WHO WERE VICTIMS OF NATURAL DISASTERS, BY FORGIVING OR ALLOWING *MORATORIA* OF MORTGAGES FOR OVER €15 MILLION IN ADDITION TO AROUND €200 MILLION SUBSIDISED LOANS GRANTED IN 2018 AND OVER €140 MILLION GRANTED IN 2015-2017; SUPPORT TO FAMILIES AND BUSINESSES AFFECTED BY THE GENOA BRIDGE COLLAPSE, MAKING AVAILABLE A €4.5 MILLION PLAFOND FOR MORTGAGE FORGIVENESS AND A €50 MILLION PLAFOND FOR RECONSTRUCTION; ACTIVATION OF THE FUND FOR IMPACT WITH THE LAUNCH OF THE FIRST LINE OF CREDIT WITHOUT COLLATERAL, DEDICATED TO ALL ITALIAN UNIVERSITY STUDENTS; ACTIVATION OF THE €5 BILLION CIRCULAR ECONOMY CREDIT PLAFOND TO SUPPORT SUSTAINABLE DEVELOPMENT; OPENING OF THE FIRST ITALIAN LABORATORY FOR THE CIRCULAR ECONOMY; LAUNCH OF SEVEN "START-UP INITIATIVES" WITH AROUND 520 START-UPS PARTICIPATING; LAUNCH OF THE PARTNERSHIP WITH GENERATION, AIMED AT INTRODUCING 5,000 YOUNG PEOPLE TO THE ITALIAN LABOUR MARKET; 14 MAJOR ART EXHIBITIONS HELD AT THE GROUP'S MUSEUMS, WITH AROUND 500,000 VISITORS, 140 ARTWORKS FROM THE CORPORATE COLLECTION ON LOAN AND OVER 100 ART HISTORIANS WORKING FULL TIME AT *GALLERIE D'ITALIA*, WHICH ARE AMONG THE TOP MUSEUMS IN ITALY BY NUMBER OF VISITORS.

• **ROBUST NET INCOME:**

- €1,038M IN Q4 2018 VS €833M IN Q3 2018
- €4,050M IN 2018 VS €3,816M IN 2017 (*)

• **GROWTH IN GROSS INCOME:**

- UP 11% ON 2017 (*)

• **GROWTH IN OPERATING MARGIN:**

- UP 4.8% ON 2017

• **GROWTH IN OPERATING INCOME:**

- UP 0.2% ON 2017

• **REDUCTION IN OPERATING COSTS:**

- DOWN 3.6% ON 2017

• **IMPROVEMENT IN THE CREDIT QUALITY TREND:**

- **DECREASE IN NPLs, ACHIEVED AT NO EXTRAORDINARY COST TO SHAREHOLDERS**
 - **GROSS NPL REDUCTION: AROUND €16BN IN 2018 AND AROUND €29BN SINCE SEPTEMBER 2015; AROUND €5BN AND AROUND €18BN, RESPECTIVELY, EXCLUDING THE SALE TO INTRUM FINALISED IN Q4 2018**
 - **NPL STOCK DOWN 29.9% GROSS ON YEAR-END 2017, AND DOWN 26.4% NET ON YEAR-END 2017 RECALCULATED AFTER THE IFRS 9 IMPACT; NPL TO TOTAL LOAN RATIO OF 8.8% GROSS AND 4.2% NET**
- **NET ADJUSTMENTS TO LOANS DOWN 27.7% ON 2017**
- **2018 COST OF RISK DOWN TO 61 BASIS POINTS**

• **SOLID CAPITAL POSITION, WELL ABOVE REGULATORY REQUIREMENTS:**

- **COMMON EQUITY TIER 1 RATIO AS AT 31 DECEMBER 2018, TAKING €3,449M OF DIVIDENDS PROPOSED FOR 2018 INTO ACCOUNT, OF**
 - **13.6% PRO-FORMA FULLY LOADED (1) (2)**
 - **13.5% PHASED-IN (2) (**)**
- **COMMON EQUITY TIER 1 RATIO UNDER THE 2018 EBA/ECB STRESS TEST**
 - **9.7% FULLY LOADED UNDER THE ADVERSE SCENARIO FOR 2020, 10.3% TAKING INTO ACCOUNT THE CAPITAL INCREASE TO SERVE THE INCENTIVE PLAN AND THE CONVERSION OF THE SAVINGS SHARES, BOTH FINALISED IN Q3 2018, AND 11.4% CALCULATED ON A PRO-FORMA BASIS (***)**

(*) Excluding from Q2 2017 the non-taxable public cash contribution of €3.5bn to offset the impact on the capital ratios of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca ("Aggregate Set").

(1) Estimated by applying the fully loaded parameters to the financial statements as at 31 December 2018, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

(2) After the deduction of dividends proposed for 2018 and the coupons accrued on the Additional Tier 1 issues.

(**) Equal to 12% excluding the mitigation of the impact of the first time adoption of IFRS 9. This would be 12.5% when taking into account the Danish compromise (under which insurance investments are risk weighted instead of being deducted from capital), in respect of which the process of recognition has been launched.

(***) Also taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

HIGHLIGHTS:

OPERATING INCOME:	Q4 2018 2018	-1.9% +0.2%	€4,190M FROM €4,269M IN Q3 2018 €17,875M FROM €17,840M IN 2017
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OPERATING COSTS:	Q4 2018 2018	+10.8% -3.6%	€2,554M FROM €2,306M IN Q3 2018 €9,470M FROM €9,823M IN 2017
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OPERATING MARGIN:	Q4 2018 2018	-16.7% +4.8%	€1,636M FROM €1,963M IN Q3 2018 €8,405M FROM €8,017M IN 2017
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GROSS INCOME:	Q4 2018 2018	€1,374M €6,348M	FROM €1,421M IN Q3 2018 FROM €5,718M IN 2017 (*)
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NET INCOME:	Q4 2018 2018	€1,038M €4,050M	FROM €833M IN Q3 2018 FROM €3,816M IN 2017 (*)
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CAPITAL RATIOS:	COMMON EQUITY TIER 1 RATIO AFTER PROPOSED DIVIDENDS:		
	13.6%	PRO-FORMA FULLY LOADED ⁽³⁾ ⁽⁴⁾ ;	
	13.5%	PHASED-IN ⁽⁴⁾ (**)	

(*) Excluding from Q2 2017 the non-taxable public cash contribution of €3.5bn to offset the impact on the capital ratios of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca ("Aggregate Set").

(3) Estimated by applying the fully loaded parameters to the financial statements as at 31 December 2018, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

(4) After the deduction of dividends proposed for 2018 and the coupons accrued on the Additional Tier 1 issues.

(**) Equal to 12% excluding the mitigation of the impact of the first time adoption of IFRS 9. This would be 12.5% when taking into account the Danish compromise (under which insurance investments are risk weighted instead of being deducted from capital), in respect of which the process of recognition has been launched.

Turin - Milan, 5 February 2019 – At its meeting today, the Board of Directors of Intesa Sanpaolo approved both parent company and consolidated results for the year ended 31 December 2018 ⁽⁵⁾.

Results for 2018 reflect the Group's **sustainable profitability**, deriving from a **solid capital base and a strong liquidity position** and from a **resilient and well-diversified business model** characterised by:

- a **focus on the Wealth Management & Protection** business driven by a **client-centric approach**, and **financial activities providing natural hedging** against the impacts of market volatility on fee-based revenues;
- **strategic flexibility in managing operating costs**;
- **effective proactive credit management at no extraordinary cost to shareholders**.

Results for 2018 show that the Group is firmly on track to deliver on its targets. They also highlight **the Group's continued support to the country**, which includes its commitment to **become a reference model on social and cultural responsibility**:

- **net income at €4,050m in 2018** versus €3,816m in 2017 ⁽⁶⁾, of which **€1,038m in Q4 2018** versus €833m in Q3 2018 and €1,428m in Q4 2017;
- **gross income up 11%** on 2017 ⁽⁶⁾;
- **operating margin up 4.8%** on 2017;
- **operating income up 0.2%** on 2017, in the presence of net flow of customer financial assets directed, in 2018, towards an allocation limiting the exposure to the high market volatility, with **AuM net inflow of around €8bn and household sight deposits up by around €11bn**;
- **high efficiency**, highlighted by a **cost/income of 53%** – a figure that places Intesa Sanpaolo in the top tier of its European peers;
- **operating costs down 3.6%** on 2017;
- **net adjustments to loans down 27.7%** on 2017;
- 2018 **cost of risk down to 61bps** versus the 81bps of full-year 2017;

(5) Methodological note on the scope of consolidation on page 21.

(6) Excluding from Q2 2017 the non-taxable public cash contribution of €3.5bn to offset the impact on the capital ratios of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca ("Aggregate Set").

- **improving credit quality** due to an **effective proactive credit management approach**, at no **extraordinary cost to shareholders**, in an improving economic environment:
 - gross NPLs were reduced by around €16bn in 2018 and around €29bn since September 2015. The reduction was of around €5bn and around €18bn, respectively, **excluding the bad-loan sale to Intrum** finalised in Q4 2018.
 - **in December 2018, gross NPL stock was down 29.9% on December 2017. This brought to achieve 61% of the 2018-2021 Business Plan NPL deleveraging target already in 2018. Net NPL stock was down 26.4% on December 2017 recalculated to take into account the first time adoption of IFRS 9 effective from 1 January 2018.**
 - **NPL to total loan ratio was 8.8% gross and 4.2% net** in December 2018;
- **sizeable NPL coverage**:
 - **NPL cash coverage ratio of 54.5%** at the end of December 2018, **with a cash coverage ratio of 67.2% for the bad loan component**;
 - **robust reserve buffer on performing loans** amounting to around 0.6% at the end of December 2018;
- **very solid capital position**, with capital ratios well above regulatory requirements. As at 31 December 2018, the **pro-forma fully loaded Common Equity Tier 1 ratio** came in at **13.6%** ^{(7) (8)} – **one of the highest levels amongst major European banks** – and the phased-in Common Equity Tier 1 ratio at 13.5% ^{(8) (9)} after the deduction of €3,449m of proposed dividends. The aforementioned ratios compare with the SREP requirement for 2018, comprising Capital Conservation Buffer, O-SII Buffer and Countercyclical Capital Buffer ⁽¹⁰⁾, which set the fully loaded Common Equity Tier 1 ratio at 9.33% and the phased-in Common Equity Tier 1 ratio at 8.125%. Under the adverse scenario of the 2018 EBA/ECB stress test for 2020, the Common Equity Tier 1 ratio stands at 9.7%, calculated on the basis of the balance sheet date as at 31 December 2017, taking the impact of the first time adoption of IFRS 9 into account; it would stand at 10.3% 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, and at 11.4% calculated on a pro-forma basis ^{(***).}

(7) Estimated by applying the fully loaded parameters to the financial statements as at 31 December 2018, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

(8) After the deduction of dividends proposed for 2018 and the coupons accrued on the Additional Tier 1 issues.

(9) Equal to 12% excluding the mitigation of the impact of the first time adoption of IFRS 9. This would be 12.5% when taking into account the Danish compromise (under which insurance investments are risk weighted instead of being deducted from capital), in respect of which the process of recognition has been launched.

(10) *Countercyclical Capital Buffer* 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 to the 2018-2020 period, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for 2018 and the first quarter of 2019).

(***) Also taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

- **strong liquidity position and funding capability**, with **liquid assets of €175bn** and **available unencumbered liquid assets of €89bn at the end of December 2018**. **The Basel 3 Liquidity Coverage Ratio and Net Stable Funding Ratio requirements have been complied with**. The Group's refinancing operations with the ECB to optimise the cost of funding and to support businesses in their investment amounted to an average of €60.5bn in Q4 2018 (an average of €61bn in Q3 2018, €62.3bn in Q2 2018, €63.6bn in Q1 2018, €60.8bn in 2017 including for the full year the components deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca). These refinancing operations consisted entirely of the TLTRO with a four-year maturity.
- **support to the real economy**, with around **€60bn of medium/long-term new lending** in 2018. **Loans amounting to around €50bn were granted in Italy**, of which around **€42bn was granted to households and SMEs**. **In 2018, the Group facilitated the return from non-performing to performing status of around 20,000 Italian companies, thus safeguarding around 100,000 jobs** – bringing the total to around **93,000 companies with over 460,000 jobs safeguarded, since 2014**.
- **support to the social economy: Intesa Sanpaolo is the engine of the Italian social economy**. The dividends distributed by the Bank have enabled the foundations that are among its shareholders to grant more than half of the total funds granted by all Italian banking foundations.
- **social and cultural responsibility** which, in the presence of solid financials, translated into the actions shown below, carried out by the Group in Italy in 2018:
 - initiatives to **reduce child poverty and support people in need**, delivering around **9,000 meals a day** (over 90% of the commitment made in the 2018-2021 Business Plan), around **7,900 dormitory beds a month** (around 130% of the Plan's commitment), around **4,000 medicine prescriptions a month** (around 130% of the Plan's commitment) and around **3,000 clothes a month** (100% of the Plan's commitment);
 - **support to families affected by earthquakes and other natural disasters, by forgiving or allowing moratoria in respect of mortgages** on damaged properties, for an amount of more than €15m, in addition to around €200m subsidised loans granted in 2018 and more than €140m subsidised loans granted in the 2015-2017 period;
 - **support to families and businesses affected by the Genoa bridge collapse**, making available a €4.5m plafond for mortgage forgiveness and a €50m plafond for reconstruction;
 - **activation of the Fund for Impact**, enabling lending of around €1.2bn to categories that otherwise would have difficulties in accessing credit, despite their potential, with the launch of the first line of credit without collateral, dedicated to all Italian university students studying in Italy or abroad (*Per Merito*);
 - activation of the **€5bn Circular Economy credit Plafond** for the 2018-2021 period, to support **sustainable development**;
 - opening of the **first Italian laboratory for the Circular Economy** dedicated to corporate clients;
 - launch of **seven "start-up initiatives"**, with the participation of around **520 start-ups** and involving more than 770 potential investors;
 - launch of a partnership with **Generation**, a global project to **reduce youth unemployment**, aimed at training and **introducing 5,000 young people to the Italian labour market** over the next three years;

- around **500,000 visitors** to *Gallerie d'Italia*, the Group's museums, **14 major exhibitions**, **140 artworks** from the corporate collection **on loan** to Italian and international museums and more than 100 art historians working full time at *Gallerie d'Italia*, which are among the top museums in Italy by number of visitors;
- **cash dividends of €3,449m**, which is more than the €3,419m in cash dividends paid for 2017 and corresponds to the payout ratio of 85% indicated in the Business Plan for 2018. The Board of Directors, at its meeting today, has adopted a proposal, to be submitted at the next Ordinary Shareholders' Meeting, regarding **the distribution of 19.7 euro cents per share**, before tax. Specifically, the proposal envisages the distribution of a total amount of €3,449,367,762.32, deriving from 19.7 euro cents on each of the 17,509,481,027 ordinary shares ^(°). No distribution will be made to own shares held by the Bank at the record date. The dividend payment, if approved at the Shareholders' Meeting, will take place from 22 May 2019 (with coupon presentation on 20 May and record date on 21 May). The dividend yield is 10% and is based on the reference price recorded by the Intesa Sanpaolo stock on 4 February 2019.
- **implementation of Business Plan initiatives**, specifically:
 1. **Significant de-risking at no extraordinary cost to shareholders:**
 - finalised strategic partnership with **Intrum**;
 - created an internal unit ("**Pulse**") dedicated to early delinquency management of retail loans;
 - strengthening of proactive credit portfolio management specifically through **Restructuring Farm 2.0** and **Active Credit Portfolio Steering**, with major transactions already executed;
 2. **Cost reduction through further simplification of the operating model:**
 - **around 5,000 voluntary exits** (including around 1,500 voluntary exits at the end of 2017), **around 450 professionals hired** and around **1,000 people already being reskilled** and redeployed to priority initiatives;
 - branch optimisation in Italy with **462 retail branches closed** and expansion of **Banca 5** in terms of network;
 - proactive management of the **real estate portfolio** with a **reduction of around 322,000 square meters** in Italy (of which around 304,000 from branch closure);
 - reduction of legal entities with the **mergers of five subsidiaries into the Parent Company** already completed and the mergers of the remaining seven subsidiaries under way, five of which already approved by the Board of Directors;

(°) The number of shares on which the total amount of dividends has been calculated includes the shares that will be issued to serve the merger of Cassa di Risparmio di Pistoia e della Lucchesia, effective to third parties from 25 February 2019.

3. Revenue growth capturing new business opportunities:

- **P&C Insurance:** enhancement of commercial reach and effectiveness in the Banca dei Territori Division through the introduction of around **220 P&C specialists and a dedicated training plan** (around **30,000 employees** obtained IVASS certificate and around 9,000 completed advanced training); strengthening of **post-sales management; rebranding** of branches as *Banca Assicurazione*;
- **Private Banking:** integration of newly acquired Banque Morval Group into Intesa Sanpaolo Private Bank Suisse, followed by the merger of the two entities and the setting up of **Intesa Sanpaolo Private Bank (Suisse) Morval**, and strengthening of international branches; **hired around 280 private bankers and financial advisors**, of which 25 abroad;
- **Asset Management:** joint development with the Banca dei Territori Division of the **advanced advisory platform *Valore Insieme*** for Retail and Personal clients (around 26,000 contracts and more than €9bn of assets under management);
- **Wealth Management in China: Type 1 license (“Dealing in securities”)** obtained from Hong Kong Monetary Authority to enable the distribution of mutual funds by Eurizon Capital (HK).

4. People and digital as key enablers:

- **people: more than 80%** of the Group’s people have subscribed to the capital increase reserved for employees under the 2018-2021 LECOIP 2.0 **Long-term Incentive Plan**; **9.1m training hours delivered** (+38% on 2017); around **11,500 people adhering to smart working** (around 3,500 more on 2017);
- **completion of digital transformation: the leading multichannel bank in Italy**, with around **85% of products available via multichannel platforms**, around **8.3m multichannel clients** (versus 7.3m in 2017) out of a total of around 12m clients (equal to 70%) and around **47,800 products sold by the Online Branch**; further strengthening of digitalisation with around **18% of activities digitalised** (versus 10% in 2017) and around **15.7m paperless transactions** in 2018 (around 40m since the start of the initiative); **17 legal entities of the Group already integrated into the Intesa Sanpaolo Cybersecurity Model**; **introduction of new innovative product/service solutions** for clients (e.g., Apple pay, Milan Metro contactless payment, SME electronic invoicing) **and for internal process optimisation** (e.g., blockchain for secured authentication).

The income statement for the fourth quarter of 2018

The consolidated income statement for Q4 2018 recorded **net interest income** of €1,738m, down 5.7% from €1,844m in Q3 2018 and 5.4% from €1,837m in Q4 2017.

Net fee and commission income amounted to €1,959m, up 1.8% from €1,924m in Q3 2018. Specifically, commissions on commercial banking activities were up 4.1% and commissions on management, dealing and consultancy activities were down 3.5%. The latter, which include portfolio management, distribution of insurance products, dealing and placement of securities, etc., recorded decreases of 16.8% in dealing and placement of securities, 6% in distribution of insurance products and 0.2% in portfolio management (performance fees contributed €12m in Q4 2018 and zero in Q3 2018). Net fee and commission income for Q4 2018 was down 9% from the €2,153m of Q4 2017. Specifically, commissions on commercial banking activities were up 4.1% and those on management, dealing and consultancy activities were down 18.9%. The latter recorded decreases of 58.2% in dealing and placement of securities, 11.2% in distribution of insurance products and 11.4% in portfolio management (performance fees contributed €72m in Q4 2017).

Income from insurance business amounted to €238m from €271m in Q3 2018 and €183m in Q4 2017.

Profits on financial assets and liabilities at fair value amounted to €273m from €242m in Q3 2018. Contributions from customers increased from €78m to €121m, those from capital markets decreased from €60m to €16m, those from trading and treasury increased from €105m to €130m and those from structured credit products were positive €6m versus a negative balance of €1m. Profits on financial assets and liabilities at fair value of €273m for Q4 2018 compare with profits of €538m in Q4 2017, a quarter which recorded contributions of €252m from customers, €169m from capital markets, €114m from trading and treasury and €3m from structured credit products.

Operating income amounted to €4,190m, down 1.9% from €4,269m in Q3 2018 and 11.2% from €4,720m in Q4 2017.

Operating costs amounted to €2,554m, up 10.8% from €2,306m in Q3 2018, attributable to increases of 7% in personnel expenses, 17.9% in administrative expenses and 13.1% in adjustments. Operating costs for Q4 2018 were reduced by 4.7% from the €2,681m of the same quarter in 2017, attributable to decreases of 5.3% in personnel expenses, 4.7% in administrative expenses and 0.9% in adjustments.

As a result, **operating margin** amounted to €1,636m, down 16.7% from the €1,963m of Q3 2018 and 19.8% from the €2,039m of Q4 2017. The cost/income ratio for Q4 2018 was 61% versus 54% in Q3 2018 and 56.8% in Q4 2017.

Net adjustments to loans amounted to €698m from €519m in Q3 2018 and €1,229m in Q4 2017.

Net provisions and net impairment losses on other assets amounted to €76m from €25m in Q3 2018 and €134m in Q4 2017.

Other income amounted to €512m (including the capital gain of €443m deriving from the partnership with Intrum) versus €2m in Q3 2018 and €861m in Q4 2017 (including the capital gain of €811m from the sale of the Allfunds stake).

Income (Loss) from discontinued operations was zero, the same as in Q3 2018 and Q4 2017.

Gross income amounted to €1,374m versus €1,421m in Q3 2018 and €1,537m in Q4 2017.

Consolidated net income for the quarter amounted to €1,038m, after accounting:

- taxes on income of €174m;
- charges (net of tax) for integration and exit incentives of €54m;
- effect of purchase price allocation (net of tax) of €49m;
- levies and other charges concerning the banking industry (net of tax) of €59m, deriving from the following pre-tax charges: €2m in relation to contributions to the Italian deposit guarantee scheme, €4m in relation to contributions to the deposit guarantee scheme concerning the international network and €80m in relation to the National Interbank Deposit Guarantee Fund Voluntary Scheme. In Q3 2018, this caption amounted to €81m, deriving from the following pre-tax figures: charges of €123m in relation to contributions to the Italian deposit guarantee scheme and €4m in relation to contributions to the deposit guarantee scheme concerning the international network, and positive fair value differences of €7m in relation to the *Atlante* fund. In Q4 2017, this caption recorded a recovery of €3m deriving from the following pre-tax figures; recovery of €15m in relation to contributions to the Italian deposit guarantee scheme, and charges of €4m in relation to contributions to the deposit guarantee scheme concerning the international network and €7m in relation to the National Interbank Deposit Guarantee Fund Voluntary Scheme.
- no minority interests.

Net income of €1,038m in Q4 2018 compares with the €833m of Q3 2018 and €1,428m in Q4 2017.

The income statement for 2018

The consolidated income statement for 2018 recorded **operating income** of €17,875m, up 0.2% from €17,840m in 2017.

As part of it, in 2018 **net interest income** amounted to €7,276m, down 2.2% from €7,436m in 2017.

Net fee and commission income amounted to €7,887m, down 2.1% from €8,057m in 2017. Specifically, commissions on commercial banking activities were up 4.3% and commissions on management, dealing and consultancy activities were down 5.1%. The latter, which include portfolio management, distribution of insurance products, dealing and placement of securities, etc., recorded decreases of 20.3% in dealing and placement of securities, 3.1% in distribution of insurance products and 2.2% in portfolio management (performance fees contributed €18m, compared with €93m in 2017).

Income from insurance business amounted to €1,084m from €933m in 2017.

Profits on financial assets and liabilities at fair value amounted to €1,609m (including the positive effect of €264m deriving from the fair value measurement and the subsequent sale of the NTV investment) from €1,283m in 2017. Contributions from customers decreased from €644m to €432m, those from capital markets increased from €232m to €458m (including the aforementioned positive effect contribution from NTV), those from trading and treasury increased from €379m to €708m and those from structured credit products decreased from €28m to €10m.

Operating costs amounted to €9,470m, down 3.6% from the €9,823m of 2017, attributable to decreases of 3.3% in personnel expenses, 5.1% in administrative expenses and 0.1% in adjustments.

As a result, **operating margin** amounted to €8,405m, up 4.8% from the €8,017m of 2017. The cost/income ratio for 2018 was 53% versus 55.1% in 2017.

Net adjustments to loans amounted to €2,394m from €3,311m in 2017.

Net provisions and net impairment losses on other assets amounted to €187m from €234m in 2017.

Other income amounted to €524m (including the capital gain of €443m deriving from the partnership with Intrum) versus €4,746m in 2017. The figure for 2017 included €3.5bn related to the public cash contribution to offset the impact on the capital ratios deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, the positive effect of €299m due to the sale of a stake in NTV and the fair value measurement following the reclassification of both the remaining investment held in NTV and the investment in Bank of Qingdao, which are no longer included among companies subject to significant influence, and €811m deriving from the sale of the Allfunds stake .

Income (Loss) from discontinued operations recorded a zero balance, the same as in 2017.

Gross income amounted to €6,348m versus €9,218m in 2017; the figure for 2017 would be €5,718m excluding the aforementioned public contribution.

Consolidated net income for 2018 amounted to €4,050m, after accounting:

- taxes on income of €1,659m;
- charges (net of tax) for integration and exit incentives of €120m;
- effect of purchase price allocation (net of tax) of €157m;
- levies and other charges concerning the banking industry (net of tax) of €340m, deriving from the following pre-tax figures: charges of €277m in relation to contributions to the resolution fund, charges of €125m in relation to contributions to the Italian deposit guarantee scheme, charges of €20m in relation to contributions to the deposit guarantee scheme concerning the international network, charges of €80m in relation to the National Interbank Deposit Guarantee Fund Voluntary Scheme, and positive fair value differences of €8m in relation to the *Atlante* fund. In 2017, this caption amounted to €678m, deriving from pre-tax charges of €206m in relation to the contribution to the resolution fund, €108m in relation to contributions to the Italian deposit guarantee scheme, €19m in relation to contributions to the deposit guarantee scheme concerning the international network, €449m in relation to impairment losses on the *Atlante* fund, €166m in relation to impairment losses regarding the National Interbank Deposit Guarantee Fund Voluntary Scheme and €48m in relation to impairment losses following the compulsory administrative liquidation of Banca Popolare di Vicenza and Veneto Banca.
- minority interests of €22m.

Net income of €4,050m in 2018 compares with €7,316m in 2017, and €3,816m excluding the aforementioned public contribution.

Balance sheet as at 31 December 2018

As regards the consolidated balance sheet figures, as at 31 December 2018 **loans to customers** amounted to €394bn, down 1.5% from the figure as at year-end 2017 recalculated to take into account the first time adoption of the IFRS 9 effective from 1 January 2018 (down 1.3% on Q3 2018 and up 3.8% on 2017 when taking into account quarterly and yearly average volumes ⁽¹¹⁾). Total **non-performing loans** (bad, unlikely-to-pay, and past due) amounted - net of adjustments - to €16,591m, down 26.4% from the €22,528m of year-end 2017 after the IFRS 9 impact. In detail, bad loans decreased to €7,138m from €10,562m as at year-end 2017 after the IFRS 9 impact, with a bad loan to total loan ratio of 1.8% (2.6% as at year-end 2017 after the IFRS 9 impact), and a cash coverage ratio of 67.2% (69.1% as at year-end 2017 after the IFRS 9 impact). Unlikely-to-pay loans decreased to €9,101m from €11,592m as at year-end 2017 after the IFRS 9 impact. Past due loans amounted to €352m from €374m as at year-end 2017 after the IFRS 9 impact.

Customer financial assets amounted to €912bn, down 3.6% on year-end 2017. Under customer financial assets, **direct deposits from banking business** amounted to €415bn, down 2% on year-end 2017. **Direct deposits from insurance business and technical reserves** amounted to €149bn, down 2% on year-end 2017. Indirect customer deposits amounted to €496bn, down 4.8% on year-end 2017. **Assets under management** amounted to €331bn, down 2.6% on year-end 2017. As for bancassurance, in 2018 the new business for life policies amounted to €18.2bn. Assets held under administration and in custody amounted to €165bn, down 8.8% on year-end 2017.

Capital ratios as at 31 December 2018, calculated by applying the transitional arrangements for 2018 and taking €3,449m of dividends proposed for 2018 into account, were as follows:

- Common Equity Tier 1 ratio ⁽¹²⁾ at 13.5% (13% at year-end 2017 ⁽¹³⁾),
- Tier 1 ratio ⁽¹²⁾ at 15.2% (14.9% at year-end 2017 ⁽¹³⁾),
- total capital ratio ⁽¹²⁾ at 17.7% (17.7% at year-end 2017 ⁽¹³⁾).

(11) Excluding the loan to the banks in compulsory administrative liquidation (former Banca Popolare di Vicenza and Veneto Banca).

(12) After the deduction of dividends proposed for 2018 and the coupons accrued on the Additional Tier 1 issues. Excluding the mitigation of the impact of the first time adoption of IFRS 9, capital ratios are 12% for the Common Equity Tier 1 ratio, 13.8% for the Tier 1 ratio and 16.5% for the total capital ratio. These would be 12.5%, 14.2% and 17.1%, respectively, when taking into account the Danish compromise (under which insurance investments are risk weighted instead of being deducted from capital), in respect of which the process of recognition has been launched.

(13) Taking the impact of the first time adoption of IFRS 9 into account and in accordance with the transitional arrangements for 2018. Excluding the mitigation of the impact of the first time adoption of IFRS 9, capital ratios are 11.9% for the Common Equity Tier 1 ratio, 13.8% for the Tier 1 ratio and 17% for the total capital ratio.

The estimated pro-forma Common Equity Tier 1 ratio for the Group on a **fully loaded basis** was 13.6% (13% at year-end 2017 after the IFRS 9 impact). It was calculated by applying the fully loaded parameters to the financial statements as at 31 December 2018, taking into account the total absorption of deferred tax assets (DTAs) related to goodwill realignment, loan adjustments, the first time adoption of IFRS 9 and the non-taxable public cash contribution of €1,285m covering the integration and rationalisation charges relating to the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, as well as the expected absorption of DTAs on losses carried forward.

* * *

As a result of the strategic decisions taken, **Intesa Sanpaolo** has maintained its position as **one of the most solid international banking Groups**. In addition to the asset quality and level of capital ratios commented on above, the Group has continued to build on its key strengths: **robust liquidity and low leverage**.

Specifically, with regard to the components of the Group's **liquidity**:

- the high level of available unencumbered liquid assets (including eligible assets with Central Banks received as collateral and excluding eligible assets currently used as collateral) amounted to €89bn at the end of December 2018;
- the high level of liquid assets (comprising available unencumbered liquid assets, excluding eligible assets received as collateral, and eligible assets currently used as collateral) amounted to €175bn at the end of December 2018;
- refinancing operations with the ECB to optimise the cost of funding and to support businesses in their investment amounted to an average of €60.5bn in Q4 2018 (an average of €61bn in Q3 2018, €62.3bn in Q2 2018, €63.6bn in Q1 2018 and €60.8bn in 2017 including, for the full year, the components deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca). These refinancing operations consisted entirely of the TLTRO with a four-year maturity.
- the sources of funding were stable and well diversified, with retail funding representing 75% of direct deposits from banking business (including securities issued);
- the medium/long-term funding was around €12.7bn in 2018, of which €6.6bn was wholesale funding;
- medium/long-term wholesale issues in 2018 included benchmark transactions of €1bn covered bonds and senior of U.S.\$2.5bn, JPY46.6bn and €2.25bn (around 89% were placed with foreign investors).

The Group's **leverage ratio** as at 31 December 2018 was 6.3% applying the transitional arrangements for 2018 and 5.5% fully loaded, both best in class among major European banking groups.

* * *

As at 31 December 2018, the Intesa Sanpaolo Group's **operating structure** had a total network of 5,302 branches, consisting of 4,217 branches in Italy and 1,085 abroad, and employed 92,117 people.

* * *

Breakdown of results by business area

The **Banca dei Territori** Division comprises:

- Retail customers (individual customers with financial assets up to €100,000 and businesses/companies with low-complexity needs)
- Personal customers (individual customers with financial assets between €100,000 and €1m)
- SME customers, including companies whose group turnover is below €350m.

The division includes 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. Moreover, the division includes Banca Prossima operating at the service of non-profit entities through the Group’s branches with regional centres and a team of specialists, and Mediocredito Italiano which is the SME Finance Hub.

In the fourth quarter of 2018, the Banca dei Territori Division recorded:

- operating income of €2,275m, -0.4% versus €2,283m in Q3 2018;
- operating costs of €1,364m, +3.3% versus €1,320m in Q3 2018;
- operating margin of €911m, -5.4% versus €963m in Q3 2018;
- a cost/income ratio of 60% versus 57.8% in Q3 2018;
- net provisions and adjustments of €312m, versus €328m in Q3 2018;
- gross income of €598m, -5.7% versus €635m in Q3 2018;
- net income of €378m, -4.2% versus €394m in Q3 2018.

In 2018, the Banca dei Territori Division recorded:

- operating income of €9,306m, -1.1% versus €9,407m in 2017, contributing approximately 52% of the consolidated operating income (53% in 2017);
- operating costs of €5,361m, -6.1% versus €5,710m in 2017;
- operating margin of €3,945m, +6.7% versus €3,697m in 2017;
- a cost/income ratio of 57.6% versus 60.7% in 2017;
- net provisions and adjustments of €1,483m versus €1,251m in 2017;
- gross income of €2,462m, +0.7% versus €2,446m in 2017;
- net income of €1,547m, +7.2% versus €1,443m in 2017.

The **Corporate and Investment Banking** Division includes:

- Global Corporate, which manages the relationship with corporate clients with a turnover higher than €350m and national public entities, grouped, in accordance with a sector-based model, in the following nine industries: Automotive & Industrials; Basic Materials & Healthcare; Food & Beverage and Distribution; Retail & Luxury; Infrastructure & Real Estate Partners; Public Finance; Energy; Telecom, Media & Technology; Business Solutions
- International Department, which ensures the development of the division and is responsible for foreign branches, representative offices and foreign subsidiaries carrying out corporate banking (Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Brasil and Banca Intesa in the Russian Federation)
- Financial Institutions, which is responsible for relationships with financial institutions
- Global Transaction Banking, which is responsible for management of transaction banking services
- Banca IMI, which operates in investment banking (M&A and advisory), structured finance, capital markets and primary markets (equity and debt capital market).

The division also comprises the management of the Group's proprietary trading.

In the fourth quarter of 2018, the Corporate and Investment Banking Division recorded:

- operating income of €812m, -2.2% versus €830m in Q3 2018;
- operating costs of €302m, +21.2% versus €249m in Q3 2018;
- operating margin of €510m, -12.2% versus €582m in Q3 2018;
- a cost/income ratio of 37.1% versus 30% in Q3 2018;
- net provisions and adjustments of €96m versus €31m in Q3 2018;
- gross income of €414m, -25.2% versus €553m in Q3 2018;
- net income of €284m, -24.9% versus €378m in Q3 2018.

In 2018, the Corporate and Investment Banking Division recorded:

- operating income of €3,748m, +9.3% versus €3,428m in 2017, contributing approximately 21% of the consolidated operating income (19% in 2017);
- operating costs of €1,060m, +1.7% versus €1,042m in 2017;
- operating margin of €2,688m, +12.7% versus €2,386m in 2017;
- a cost/income ratio of 28.3% versus 30.4% in 2017;
- net provisions and adjustments of €146m versus €206m in 2017;
- gross income of €2,543m, +12.3% versus €2,265m in 2017;
- net income of €1,798m, +12.5% versus €1,598m in 2017.

The **International Subsidiary Banks** Division is responsible for operations on international markets through commercial banking subsidiaries and associates, and provides guidelines, coordination and support for the Group's subsidiaries. It is responsible for defining the Group's development strategy related to its direct presence abroad, including exploring and analysing new growth opportunities in markets where the Group already has a presence, as well as in new ones. This division also coordinates operations of international subsidiary banks and their relations with the Parent Company's head office departments and the Corporate and Investment Banking Division's branches and offices abroad. The division is in charge of the Group's operations in the following geographical areas: i) South-Eastern Europe, through Privredna Banka Zagreb in Croatia, Banca Intesa Beograd in Serbia, Intesa Sanpaolo Banka Bosna i Hercegovina in Bosnia and Herzegovina, Intesa Sanpaolo Bank Albania and Intesa Sanpaolo Bank Romania; ii) Central-Eastern Europe, through Intesa Sanpaolo Bank in Slovenia, VUB Banka in Slovakia and CIB Bank in Hungary; iii) CIS and South Mediterranean, through Pravex Bank in Ukraine, Eximbank in Moldova and Bank of Alexandria in Egypt.

In the fourth quarter of 2018, the International Subsidiary Banks Division recorded:

- operating income of €492m, +1.8% versus €483m in Q3 2018;
- operating costs of €253m, +3.2% versus €245m in Q3 2018;
- operating margin of €239m, +0.3% versus €238m in Q3 2018;
- a cost/income ratio of 51.4% versus 50.7% in Q3 2018;
- net provisions and adjustments of €97m versus €39m in Q3 2018;
- gross income of €146m, -28% versus €203m in Q3 2018;
- net income of €123m, -23% versus €159m in Q3 2018.

In 2018, the International Subsidiary Banks Division recorded:

- operating income of €1,942m, +1.1% versus €1,920m in 2017, contributing approximately 11% of the consolidated operating income (11% in 2017 as well);
- operating costs of €975m, +2% versus €956m in 2017;
- operating margin of €967m, +0.3% versus €964m in 2017;
- a cost/income ratio of 50.2% versus 49.8% in 2017;
- net provisions and adjustments of €158m versus €160m in 2017;
- gross income of €819m, -19.5% versus €1,018m in 2017 (-1.1%, excluding the impact from the Bank of Qingdao reclassification);
- net income of €648m, -21.9% versus €830m in 2017 (+0.5%, excluding the impact from the Bank of Qingdao reclassification).

The **Private Banking** Division serves the top customer segment (Private and High Net Worth Individuals) through Fideuram and its subsidiaries Fideuram Investimenti, Intesa Sanpaolo Private Banking, SIREF Fiduciaria, Intesa Sanpaolo Private Bank (Suisse), Banque Morval and Fideuram Asset Management Ireland. At the beginning of 2019, Intesa Sanpaolo Private Bank (Suisse) and Banque Morval merged to form Intesa Sanpaolo Private Bank (Suisse) Morval.

In the fourth quarter of 2018, the Private Banking Division recorded:

- operating income of €465m, +0.9% versus €461m in Q3 2018;
- operating costs of €169m, +13.8% versus €148m in Q3 2018;
- operating margin of €296m, -5.3% versus €313m in Q3 2018;
- a cost/income ratio of 36.3% versus 32.2% in Q3 2018;
- net recoveries of €5m versus net provisions and adjustments of €2m in Q3 2018;
- gross income of €302m, -3.6% versus €313m in Q3 2018;
- net income of €179m, -14.6% versus €209m in Q3 2018.

In 2018, the Private Banking Division recorded:

- operating income of €1,878m, -2.5% versus €1,927m in 2017, contributing approximately 11% of the consolidated operating income (11% in 2017 as well);
- operating costs of €597m, +1.9% versus €586m in 2017;
- operating margin of €1,281m, -4.5% versus €1,341m in 2017;
- a cost/income ratio of 31.8% versus 30.4% in 2017;
- net provisions and adjustments of €8m versus €27m in 2017;
- gross income of €1,284m, -2.9% versus €1,322m in 2017;
- net income of €849m, -4.5% versus €889m in 2017.

The **Asset Management** Division develops asset management solutions targeted at the Group's customers, commercial networks outside the Group and the institutional clientele through Eurizon Capital. Eurizon Capital controls Eurizon Capital SA (Luxembourg), a company specialising in managing Luxembourg mutual funds with low tracking error, and VUB Asset Management (Slovakia), which heads up the Hungarian company CIB IFM and the Croatian company PBZ Invest (the asset management hub in Eastern Europe). Eurizon Capital also controls Epsilon Associati SGR - a company specialising in active management and, specifically, in quantitative and multi-strategy management with total-return investment aims - which is owned 51% by Eurizon Capital and 49% by Banca IMI. Eurizon Capital owns 49% of the Chinese asset management company Penghua Fund Management. Moreover, Eurizon Capital owns 20% of the Chinese wealth management company Yi Tsai, which is owned 25% by Fideuram and 55% by the Parent Company Intesa Sanpaolo.

In the fourth quarter of 2018, the Asset Management Division recorded:

- operating income of €172m, -1.9% versus €175m in Q3 2018;
- operating costs of €37m, +1.5% versus €36m in Q3 2018;
- operating margin of €135m, -2.8% versus €138m in Q3 2018;
- a cost/income ratio of 21.6% versus 20.9% in Q3 2018;
- net recoveries of €2m versus no net provisions and adjustments in Q3 2018;
- gross income of €136m, -1.6% versus €138m in Q3 2018;
- net income of €113m, +2.2% versus €110m in Q3 2018.

In 2018, the Asset Management Division recorded:

- operating income of €717m, -8.7% versus €785m in 2017, contributing approximately 4% of the consolidated operating income (4% in 2017 as well);
- operating costs of €151m, -3.8% versus €157m in 2017;
- operating margin of €566m, -9.9% versus €628m in 2017;
- a cost/income ratio of 21.1% versus 20% in 2017;
- net recoveries net provisions and adjustments of €2m versus no net provisions and adjustments in 2017;
- gross income of €568m, -9.6% versus €628m in 2017;
- net income of €455m, -7.7% versus €493m in 2017.

The **Insurance** Division develops insurance products tailored for the Group's clients and coordinates the operations of Intesa Sanpaolo Vita (which controls Intesa Sanpaolo Assicura) and Fideuram Vita.

In the fourth quarter of 2018, the Insurance Division recorded:

- operating income of €221m, -16.8% versus €266m in Q3 2018;
- operating costs of €56m, +21.1% versus €46m in Q3 2018;
- operating margin of €165m, -24.8% versus €219m in Q3 2018;
- a cost/income ratio of 25.4% versus 17.4% in Q3 2018;
- net provisions and adjustments of €2m versus €1m in Q3 2018;
- gross income of €163m, -25.7% versus €219m in Q3 2018;
- net income of €108m, -28.9% versus €152m in Q3 2018.

In 2018, the Insurance Division recorded:

- operating income of €1,106m, +3.7% versus €1,067m in 2017, contributing approximately 6% of the consolidated operating income (6% in 2017 as well);
- operating costs of €187m, +5.1% versus €178m in 2017;
- operating margin of €919m, +3.4% versus €889m in 2017;
- a cost/income ratio of 16.9% versus 16.7% in 2017;
- net provisions and adjustments of €5m versus €2m in 2017;
- gross income of €914m, +3% versus €887m in 2017;
- net income of €648m, +5.7% versus €613m in 2017.

The outlook for 2019

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.

* * *

For consistency purpose, the income statement and balance sheet figures for the first three quarters of 2017 were restated following the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca (Aggregate Set). The related items were consolidated line by line (on the basis of management accounts) and the corresponding net income/loss was included under minority interests (the restatement does not include subsidiary Eximbank - Moldova, which entered the scope of consolidation of the Intesa Sanpaolo Group at the end of the first quarter of 2018). Income statement and balance sheet figures for the four quarters of 2017 relating to the business areas were restated and included the relevant components of the Aggregate Set.

Moreover, the income statement and balance sheet figures for the four quarters of 2017 and the first quarter of 2018 were restated following the acquisition of the Morval Vonwiller group. The related items were consolidated line by line and the corresponding net income was included under minority interests.

* * *

In order to present more complete information on the results generated as at 31 December 2018, the reclassified consolidated income statement and the reclassified consolidated balance sheet approved by the Board of Directors are attached. Please note that the auditing firm is completing the auditor review of the financial statements, as well as the activities for the issue of the statement in accordance with art. 26 (2) of Regulation EU n. 575/2013 and with ECB Decision no. 2015/656. The parent company draft financial statements and the consolidated financial statements as at 31 December 2018 will be submitted for approval at the meeting of the Board of Directors scheduled for 26 February 2019. The parent company draft financial statements and the consolidated financial statements as at 31 December 2018 will be submitted for examination of the auditing firm in charge of auditing the annual report and will be made available for shareholders and the market by 22 March 2019. The parent company financial statements will be submitted for the approval of shareholders at the Ordinary Meeting scheduled for 30 April 2019.

* * *

The manager responsible for preparing the company's financial reports, Fabrizio Dabbene, declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records.

* * *

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This press release 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 statements, 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.

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Intesa Sanpaolo Group

Reclassified consolidated statement of income

	(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.

Intesa Sanpaolo Group

Quarterly development of the reclassified consolidated statement of income

	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

(millions of euro)

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

Intesa Sanpaolo Group

Quarterly development of the reclassified consolidated statement of income - 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.

Intesa Sanpaolo Group

Reclassified consolidated balance sheet

Assets	31.12.2018	01.01.2018	(millions of euro)	
			Changes amount	%
Due from banks	68,723	71,685	-2,962	-4.1
Loans to customers	393,550	399,539	-5,989	-1.5
<i>Loans to customers measured at amortised cost</i>	392,945	399,152	-6,207	-1.6
<i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i>	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

Liabilities	31.12.2018	01.01.2018	(millions of euro)	
			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
<i>of which allowances for commitments and financial guarantees given</i>	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

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

Intesa Sanpaolo Group

Quarterly development of the reclassified consolidated balance sheet

Assets	(millions of euro)									
	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	
<i>Loans to customers measured at amortised cost</i>	392,945	394,700	399,238	400,501	399,152	411,978	399,999	405,235	402,817	
<i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i>	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 <i>of which allowances for commitments and financial guarantees given</i>	6,254 510	6,565 490	6,876 473	7,241 503	7,427 535	7,219 327	7,043 399	7,018 440	5,444 547	
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	

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

Intesa Sanpaolo Group

Breakdown of financial highlights by business area

(millions of euro)

Income statement (millions of euro)	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance
Operating income						
2018	9,306	3,748	1,942	1,878	717	1,106
2017	8,717	3,401	1,907	1,909	785	1,067
2017 Aggregate	9,407	3,428	1,920	1,927	785	1,067
Operating costs						
2018	-5,361	-1,060	-975	-597	-151	-187
2017	-4,864	-1,039	-926	-581	-157	-178
2017 Aggregate	-5,710	-1,042	-956	-586	-157	-178
Operating margin						
2018	3,945	2,688	967	1,281	566	919
2017	3,853	2,362	981	1,328	628	889
2017 Aggregate	3,697	2,386	964	1,341	628	889
Net income (loss)						
2018	1,547	1,798	648	849	455	648
2017	1,564	1,585	861	880	493	613
2017 Aggregate	1,443	1,598	830	889	493	613

Balance sheet (millions of euro)	Banca dei Territori	Corporate and Investment Banking	International Subsidiary Banks	Private Banking	Asset Management	Insurance
Loans to customers						
31.12.2018	212,278	110,742	31,538	9,530	228	-
01.01.2018	212,433	114,317	28,610	7,988	361	22
Direct deposits from banking business						
31.12.2018	191,588	102,449	39,384	32,103	6	-
01.01.2018	191,976	107,148	35,862	31,410	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.